Macro

01 What are the major differences between the US versus Canada and Mexico transition if any? Are there major special considerations when preparing for the T+1 among North American settlements.

A close integration between Mexican and American data for T+1 is on the horizon. Mexico is moving towards T+1 simultaneously with other North American markets, though regulatory approval is pending. This transition entails an FX component involving the peso, the US dollar, and the Canadian dollar, which may pose liquidity challenges. Clients should seek suitable partners, either in the capital market or custodian sectors, to address these challenges.

Both buy and sell teams will require on-site operations teams to resolve potential issues overnight and also need liquidity partners for support. All markets (US, Mexico, Canada) are aligned and interconnected. Cash, FX funding, lending, and the ability to transact within shortened timeframes will be crucial.

Local investors, such as those in the US, won't face significant issues, as they already deal in US dollars and send trades by the close of business. The challenges will be with inbound clients, particularly those investing in these markets, who may have concerns regarding timing, especially when it comes to international time zones. Clients need partners with the scale and infrastructure to support, along with the ability to accommodate the accelerated trade date timelines.

While the trade lifecycle in the US and Canadian markets is fundamentally the same, the challenge lies in compressing the timeline, with the CSA having a 3:59 am cutoff and the DTCC a 9pm cutoff. The key challenge is ensuring that allocation, confirmation, and affirmation processes are completed within these tighter timelines. Different groups offer various tools, such as DTCC's "match to instruct" process, and TMX is preparing a stock loan recall functionality in the Canadian market. These tools may differ, but the fundamental challenge remains the same: streamlining trade date activities for quicker and more efficient processing.

02 Is Mexico moving to T+1 and if so when? Are there other South/Central American and/or Carribean countries moving to T+1?

Mexico is in the process of transitioning to a T+1 settlement cycle, along with other North American markets, though regulatory approval is still pending. Bermuda is also considering the move, but being a free payment market, it's less critical. Brazil anticipates the transition by 2025, while Peru, Chile, and Colombia are undergoing stock exchange consolidation, expected to conclude in 2025. Many Latin American markets quickly adjusted to the shift from T+3 to T+2, but the move to T+1 may be more disjointed, even though it's expected to happen. Additionally, both the UK and the EU have launched initiatives to explore shortening the settlement cycle.

03 What is the benefit to the market of this change? Why are the US and Canadian authorities doing this now?

The objective is to minimize risk within the system and, consequently, lower the financing and collateral demands for market participants. Central clearing firms determine margin requirements based on factors like trade volume and volatility, with one adjustable factor being the time to settlement. Reducing the time to settlement results in diminished risk calculations and, subsequently, decreases the collateral needed by central clearing firms. Ultimately, this initiative offers market participants the advantages of reduced financing expenses and more efficient capital utilization.

04 Are Euroclear securities in scope? Is the deadline for Canadian affirmations changing to 3:59 a.m. ET on TD+1?

The settlement timeline depends on the platform or venue used. If the platform is in Europe, it follows T+2, but if the security is dual-listed (e.g., GDR or ADR) and traded in the US, it aligns with T+1. Similarly, if the platform is US-based, it adheres to T+1, but if it routes to Euroclear, it remains at T+2. Regarding the Canadian affirmation process, some firms are attempting to condense their existing 48-hour operations into 24 hours, which can lead to challenges and additional labor costs. The affirmation process is crucial for Straight Through Processing (STP) and technological innovation to expedite operations. Negative affirmations are useful when matches occur, but it's essential to consider the timeframe in which this occurs. Pre-trade setups with Master Confirmation Agreements (MCA) can be improved by including more trading instruments with counterparties you trust, moving toward an affirmation process, and even negative affirmations. There are various bilateral approaches firms can explore. Innovation and adjustments to legal agreements can help address concerns about cut-off times in the Canadian market, reducing the reliance on manual labor.