# SIA Foreign Exchange Subcommittee T+1 White Paper

***Executive Summary***
***July 2002***

The current process for cross-border securities trading requires a spot foreign exchange (FX) transaction to fund the securities transaction in U.S. dollars. FX spot transactions settle in two days (T+2) and U.S. securities currently settle in three days (T+3). Therefore, today, foreign investors can concurrently transact securities and FX trades knowing that the U.S. currency will be delivered in time for the security transaction to be settled. However, if the U.S. securities settlement cycle moved to next-day settlement (T+1), this would no longer be the case. In a concurrent transaction, the securities trade would be scheduled to settle before the spot FX transaction settles.

To accommodate this settlement mismatch, foreign investors would be required to either 1) pre-fund securities transactions, 2) tap the T+1 (Tom Next) FX market or the T+0 (Tom) market, or 3) borrow dollars until the spot FX transaction can be completed. Each of these alternatives places foreign investors at an economic and operational disadvantage relative to their U.S. peers. In addition, such alternatives are not universally available to all foreign investors.

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Foreign exchange trades are typically traded on a T+2 basis for many reasons. Primarily, the time differential between trading regions dictates the need for trades to be settled one to two days after the trade date. For example, Asian and North American business hours do not overlap. Consequently, trades between Asian and North American counterparties cannot be transacted, confirmed, and settled in a single day. Same-day settlement (T+0) or T+1 settlement for such trades would require running twenty-four-hour operations and highly automated trade, confirmation, and settlement systems.

Although twenty-four-hour operations schedules are unlikely at this time, the subcommittee found that there is room for improvement in the automation of trades. Confirmation and settlement practices were examined and the following areas were found to inhibit full straight-through processing for foreign exchange trades:

- lack of a centralized database for standard settlement instructions
- manual confirmation processes by some market participants
- delayed transmission of trade allocations by investment managers
- manual processes for establishing new accounts, and
- limited infrastructure for trading on a T+0 or T+1 basis on electronic trading platforms.

The study concludes with a list of recommendations for automating the trade, confirmation, and settlement phases of the transaction. These recommendations are illustrated by a number of process flow diagrams and charts that readers may find useful. A full version of the paper can be viewed on the SIA's web site <http://www.sia.com/stp/pdf/Foreign_Exchange_White_Paper_v6.0.pdf> or on the Foreign Exchange Committee's public web site <http://www.newyorkfed.org/fxc/2002/fxc0207.pdf>.