

Bloomberg

# **Practical Implications of T+1 for Buy-Side e-FX Traders**

Foreign Exchange Contact Group ECB Frankfurt am  
Main, 16 November 2023

# What elements of their existing e-FX trading processes should Buy-Side Traders review, to ensure readiness for T+1?

1. Operational Risks - Are counterparties, vendors, custodians and settlement and clearing service providers adequately prepared to support T+1 e-FX trading?
2. e-FX-Trading Setup – Are existing “onboarding” processes fast enough to enable clients to trade T+1 related FX on new accounts without taking on additional T+1 settlement risk?
3. Pre-Trade Netting of FX Orders - Are changes needed to existing pre-trade netting processes?
4. Bulk Transactions - Are changes needed to mitigate settlement risk?
  - a) Transact a series of “sweep trades” through the day to clear most FX exposures more quickly.
  - b) Process one bulk FX trade on T+1, then a “true up” trade on T+0.
  - c) Pre-Fund FX for T+1 transactions.
5. Program Trading - Do program trades need to be completed earlier in the day to ensure T+1 settlement?

# What elements of their existing e-FX trading processes should Buy-Side Traders review, to ensure readiness for T+1?

1. WM / BFIX Benchmark Trades - Are any changes needed in terms of timing and processing of fixing orders?
2. FX Rollovers - Does the rollover of FX positions have to be carried out earlier (i.e. so that any P&L can be reinvested in the underlying securities on the same day)?
3. Post Trade Allocations (PTA) - Are changes needed to the PTA process (i.e. to split up T+1 vs T+2 transactions or to PTA trades based on counterparty / custodian capabilities)?
4. Cancellation and Correction - Are post trade correction and cancellation processes through existing e-FX trading venues and internal Order Management Systems robust enough to mitigate potential T+1 settlement issues?
5. Documentation – Does documentation require updating (internal / external) to describe changes to e-FX trading processes that must be adopted in readiness for T+1?

# T+1 SETTLEMENT

---

November 2023

THIS DOCUMENT IS FOR THE EXCLUSIVE USE OF INVESTORS ACTING ON THEIR OWN ACCOUNT AND CATEGORISED EITHER AS “ELIGIBLE COUNTERPARTIES” OR “PROFESSIONAL CLIENTS” WITHIN THE MEANING OF MARKETS IN FINANCIAL INSTRUMENTS DIRECTIVE 2014/65/EU (EU MIFID) AND THE AMENDED, ONSHORED VERSION OF EU MIFID AND ITS ACCOMPANYING REGULATION UNDER THE EU (WITHDRAWAL) ACT 2018 AND THE MARKETS IN FINANCIAL INSTRUMENTS (AMENDMENT) (EU EXIT) REGULATIONS 2018 (COLLECTIVELY, UK MIFID). IT CANNOT BE DISCLOSED TO YOUR CLIENTS OR ANY OTHER THIRD PARTY.

**THE FUTURE  
IS YOU**  **SOCIETE  
GENERALE**

# FX EXECUTION & SETTLEMENT TIMELINE

## Equity Trade Date

## Equity Settlement Date

NY CLOSE

Start of CLS Settlement

GBP and EUR  
Settlement cut-off

Clients should execute  
ON transactions before  
15:40 CET (depending on  
custodian cut-off)

Big part of the volumes is executed  
just before US cut-off

Trade Date T

T+1 - 00:00 CET

13:00 CET

T - 22:00CET  
/16:00ET

T+1 - 7:00 CET

16:40 CET

US equity trade execution

Reconciliation  
Confirmation  
Matching

"witching hour"  
very scarce FX  
liquidity

CLS Cut-Off

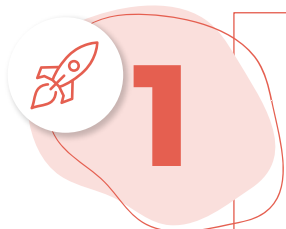
Initial pay-in schedule issued  
In/out swap process

FX Liquidity Peak

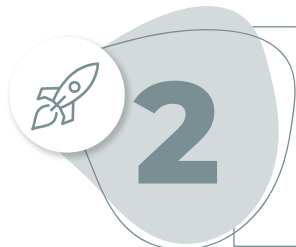
Asia, Europe and US are  
active at the same time

# FX HEDGING ALTERNATIVES

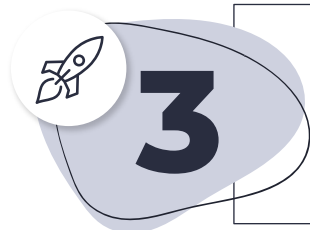
---



Execute T+1 FX deals early enough to settle in CLS  
Depending on the execution time, investors may see an increase in costs  
Investors may consider the possibility to have an operational set-up in the U.S.



Execute T+1 (after CLS Cut off would ) or T+0 FX deals  
Increase of Settlement risk  
Potential impact on the Delivery limit usage on banks and clients' side



Prefund the security transactions: Investors keep executing FX during the best liquidity hours then adjust any discrepancy  
Investors could externalise their FX need to their custodian to reduce their settlement risk

# TALKING POINTS

## FX Liquidity

- Could we see FX liquidity improvement during NY afternoon?
- Could the FX spot convention switch to T+1 ? (on MDPs, Order books...)



## Streaming

- Would AM continue to use WMR 4PM fixing orders ?
- WMR 1PM?



## Documentation

- Some institutions consider T+1 and T+0 as derivatives that needs ISDA and CVar/RDL. Investors could have smaller liquidity pool ?



## Pre-Funding Securities

- Will prefunding add operational complexity ?  
Additional costs ?



## Banks Funding

- Trades executed close to CLS cut off may be challenging to hedge, could they trigger intraday limits ? USD funding ?



## EU Securities

- Should Europe profit from the lessons learnt on the US securities moves before extending the change to EU securities ?



# DISCLAIMER

---

The contents of this document are given for purely indicative purposes and have no contractual value.

Authorisation: Societe Generale is a French credit institution (bank) that is authorised and supervised by the European Central Bank (ECB) and the Autorité de Contrôle Prudentiel et de Résolution (ACPR) (the French Prudential Control and Resolution Authority) and regulated by the Autorité des marchés financiers (the French financial markets regulator) (AMF).

No offer to contract: This document does not constitute an offer, or an invitation to make an offer, from Societe Generale to purchase or sell a product.

Prior to investing in the product, investors should seek independent financial, tax, accounting and legal advice.

Confidentiality: This document is confidential and may be neither communicated to any third party (with the exception of external advisors on the condition that they themselves respect this confidentiality undertaking) nor copied in whole or in part, without the prior written consent of the Issuer and/or Societe Generale.

The accuracy, completeness or relevance of the information which has been drawn from external sources is not guaranteed although it is drawn from sources reasonably believed to be reliable. Subject to any applicable law, neither Societe Generale nor the Issuer shall not assume any liability in this respect.

The market information displayed in this document is based on data at a given moment and may change from time to time.

As a consequence of the current geopolitical turmoil involving Russia and Ukraine financial markets are going through a severe market downturn marked by distressed asset valuations, increased volatility and high uncertainty on potential future evolutions. In these troubled market conditions investors should thoroughly analyze the risks and benefits of their financial decisions, taking into consideration all potential implications of the particular current situation.

For any complaint you may have, please contact us using the following link: <https://wholesale.banking.societegenerale.com/en/compliance-regulatory-information/useful-information/client-claim/>

If this Document is distributed by SG London Branch: Societe Generale London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request.

SG London Branch: Societe Generale Corporate And Investment Banking. One Bank Street, Canary Wharf, E14 4SG London, UNITED KINGDOM. Website: [www.sgcib.com](http://www.sgcib.com) – Tel: +44 (0)20 7676 6000

Société Générale Global Banking and Investor Solutions  
17 cours Valmy - 92987 Paris - La Défense Cedex  
Siège Social : 29 Bd Haussmann, 75009 Paris  
552 120 222 RCS Paris - APE : 651C - SIRET : 552 120 222 000 13  
Société anonyme au capital de 1 025 947 048,75 euros  
Société Générale est un établissement de crédit (banque) agréé par l'ACPR.