

# Moving from T+1 to T+0 to Tokenized Assets Roundtable Report



## ISITC roundtable – Moving from T+1 to T+0 to Tokenised Assets

The aim of the roundtable was to see how digital markets developments and T+0 settlement ambitions might or should be included in T+1 planning.

The key themes from the discussion were:

- **Legacy:** firms need to focus on delivering T+1 in the current legacy environment
- **Future model:** there are a lot of issues that need to be resolved, particularly around trust and protection. But when they are – and they will be – the world could move very quickly
- **Market solutions:** the revenue opportunities from digital markets are huge. There are going to be a lot of innovative market solutions

Firms need to understand how their business might need to change quickly. They need to understand and track progress on the issues that need to be resolved, follow market solution development, and be prepared to react quickly. Delivering a successful T+1 project, including high levels of automation and real-time processing, will give the platform to support this change.

“Digital markets give the ability to operate 24/7 and move assets around the world whenever you want. Light the touch paper when the investor protection solution is in place”

### Legacy environment

The legacy environment has strengths and weaknesses. Huge transaction volumes and values are processed with high levels of trust, certainty, and efficiency. However there are also huge challenges, including legacy systems, data quality and timeliness, a lack of standards, and a reliance on batch and manual processing.

Aside from the need to focus on delivering T+1 in the current legacy environment, specific points made in the round table were:

- Reference data is the biggest challenge today – lack of consistency, multiple versions, errors. The solution needs to include data standards
- Legacy will be around for a long time, especially with asset managers
- Asset / wealth manager speed of movement plus reliance on headcount means that it is going to be hard for them to support T+1
- Two-day settlement cycles for FX enables 99% netting in CLS. \$7tn traded becomes \$70bn netted
- T+1 doesn't have a business case but the regulatory need to change to support it is a catalyst for change
- We can't throw out what we have today. Traditional ways of operating will be around for a long time
- The market won't be very different in 5 years

## Future Model

A clearly defined future model would make planning a lot easier. Unfortunately there are a lot of complex issues that need to be resolved and what the future model looks like depends heavily on how and when they are resolved and who resolves them. Most of these issues aren't about technology. Points made in the round table are shown in the table below:

Theme	Description
Winners	<ul style="list-style-type: none"> <li>• HKMA and other Asian and Middle Eastern markets are leading the way with digital assets and are being very progressive. Characteristics are that the markets aren't as big, the regulators are being very prescriptive, including the use of standards, and they are comfortable dealing with new technology</li> <li>• Capital markets are increasingly going to the US. If Trump solves the digital challenges then this will accelerate rapidly</li> <li>• Firms should be thinking about, and lobbying for, an international model, targeting trading. For most firms this is what's important, not where the primary listing is</li> <li>• It will be easier to compete by remaining open</li> <li>• There is a lot of protectionist lobbying going on</li> <li>• Digital issuance is not the priority. The challenge is to get 24/7 access to existing assets – custodise the assets and lend against them. For example, tokenise gold and build rails to the BofE</li> </ul>
Legal / jurisdiction	<ul style="list-style-type: none"> <li>• Transatlantic common ledger or other cross-border solutions identify big jurisdictional issues. For example, a stablecoin can be used internationally but the fiat stays local. What happens when there is a default in a different jurisdiction?</li> <li>• The bigger and more complex the market the more challenges there are. The US is using the NY State framework as the basis for the GS (Government Securities) Act which means a loss of decision-making power for other states</li> </ul>
Regulatory	<ul style="list-style-type: none"> <li>• The ESMA regulatory route is better than the UK Code of Conduct</li> <li>• MiFID is an example of European regulation that wasn't standard because of local implementation</li> <li>• ESMA is now driving EU regulation. MiCAR is a new regulation, built from the ground up. The UK and US approach is adapting existing regs, this is more likely to create problems</li> <li>• The regulator should be focused on maintaining stability and protecting consumers</li> <li>• Lack of consistency in regulators' advice. For example, a cash ISA has no disclaimer on interest rates being lower than inflation but a securities' ISA has multiple warnings that prices might go down</li> <li>• There is a lack of continuity in regulators' thinking. Things are constantly changing. They need to think about things strategically and in the round</li> <li>• Regulatory divergence is increasing in Europe with less joined-up thinking</li> </ul>
Shared	<ul style="list-style-type: none"> <li>• There is a need for a model</li> <li>• There is a big focus on technology solving problems, but problems are Legal, Jurisdiction, Processing (how we do things today)</li> <li>• Shareholder ownership means difficult for firms to invest in strategic solutions that help the industry. Who is going to fund bringing people together?</li> <li>• HMT and BoE are becoming more proactive in encouraging firms to think from a market-wide perspective</li> <li>• New global markets and assets need an equivalent to the Common Demain Model. How is this going to be developed and how will the underlying regulators regulate it?</li> </ul>

Theme	Description
Trust / certainty	<ul style="list-style-type: none"> <li>Trust is key</li> <li>Common utilities depend on trust. Nordics blockchain for KYC, AML works because countries and firms trust each other so willing to share data.</li> <li>Digital needs settlement finality and needs a CSD</li> <li>Solutions for providing trust vary according to the size of transactions. Institutional solutions need central bank money</li> <li>There is a need for same day institutional FX trading with PvP safety</li> </ul>
T+1	<ul style="list-style-type: none"> <li>Inventory management is a big T+1 issue</li> <li>Lack of confidence in Europe's ability to deliver T+1 by Oct 27 is an issue</li> <li>US T+1 was bad for Japan's asset managers as it means they need to hold more assets in US</li> <li>T+1 benefits day-traders</li> </ul>
Standards	<ul style="list-style-type: none"> <li>There is a need for clear standards</li> </ul>
Other	<ul style="list-style-type: none"> <li>TO is not necessarily real-time and can become a funding call - I'll fail until it is worth settling</li> <li>Savings and Investment Union (SIU) / Capital Markets Union (CMU) encouraging move from UCITS to ETFs to give greater accessibility</li> <li>There is an overlap between thematic ETFs and funding large infrastructure projects through tokenisation</li> <li>Traceability is key</li> </ul>

## Market Solutions

The revenue opportunities from digital markets are huge. Specific points made in the roundtable were:

- Innovative companies will come up with a way of getting into new markets
- Recent years have not seen real innovation. Innovation has been driven by fear. This has changed and innovation is now being driven by opportunity
- Market will expand from 24/7 in retail crypto to add in securities and will figure out how to make this efficient
- Market will expand to provide solutions for tokenisation. Tokens can move independently of the underlying assets
- Driver is never "will be easier for back office". Driver is always making money
- Need for retail education about finance generally and digital markets in particular. Need to avoid over-complication and encourage people to invest in appropriate products
- Tokenising allows people to be put into infrastructure projects with reliable interest streams. This could build confidence in digital assets
- A lot of what traditional markets want is available in digital markets
- Digital markets give the ability to operate 24/7 and move assets around the world whenever you want. Light the touch paper when the investor protection solution is in place