IMA T+2 READINESS SURVEY - MAY 2014

The survey invited feedback on five key issues:

1. What further clarification is required regarding the scope of T+2?
2. In which countries (EU/EEA and Switzerland) does the firm envisage difficulties in meeting the same-day affirmation and T+1 settlement instruction timeframes necessary to facilitate settlement on T+2, and why?
3. In which countries (EU/EEA and Switzerland) does the firm intend to press brokers for T+3 settlement of client-side trades?
4. In which countries (EU/EEA and Switzerland) does the firm feel strongly that the settlement cycles for domestic OTC bond trades should remain unchanged, ie. not align with T+2?
5. Whether the firm believes the default settlement cycle for the international bond markets should align with T+2 or remain at T+3?

Nineteen firms responded to the survey.

ANALYSIS OF RESPONSES

1. What further clarification is required regarding the scope of T+2 and from whom?

Ten of the respondents indicated that they had sufficient clarity regarding the scope of T+2. The other nine commented as follows:

(a) Confirmation of the complete list of countries and their respective timing to move to T+2. We anticipate this will be received from our global custodian and expect them to receive information from the respective regulatory authority.

(b) As an industry, we currently place settlement cycles on instrument types; this regulation places the emphasis on where the trades are executed so requires a different mind-set - something our legacy systems are not set up to deal with. It would be useful if there was a 'translator' provided which could map the instruments to exchanges and therefore settlement cycles.

(c) Has there been clear direction on the asset classes that this will apply to equity and fixed income products?

(d) Given that OTFs are not due to be live until 2016+, do we still think Eurobonds and UK gilts will be in scope?

(e) We need clarification as to in-scope fixed income securities. What instruments will be in scope e.g. corps, govts? What exactly will determine whether or not a fixed income trade will be in scope? The wording of the regulation is not clear, so the clarification required will probably have to be established by industry consensus.

(f) A date we can expect to receive details on the charging structure of late settlement, as we hear conflicting speculation from the broker community on charges being implemented from 1 Jan

2015 to Q2 2015. Either way, we need to have this information and would expect to receive it from our custodians.

(g) What are the impacts of T+2 on securities lending?

What are the CSD regulations on discouraging settlement fails? Could we have a summary of these and when they will be in force?

Wiill there be tighter deadlines on instructing local agents or will they remain the same?

(h) Equities - Will there be a grace period for the expected increase in failed trades and buy-in's around the October implementation date. Will there be any change to buy-in rules once the markets move to T+2. How will these changes be communicated to the market? With regards to stock lending, will the accountability for the changes caused by the move to T+2 fall upon the agents?

Fixed income - Although non-mandatory, will OTC bond markets move to T+2 as well. If so, will these follow the same timelines as the equity markets in these countries? Will electronic platforms such as Bloomberg, Market Access and TradeWeb automatically update their systems to reflect these changes?

(i) We require a more granular in scope/out of scope list of products and clarification regarding the nuances of settling non-European securities on a European ICSD and European securities on non-European ICSDs.

2 - 4. Country-by-country analysis

Eighteen of the nineteen responses are included below; the nineteenth is considered separately afterwards.

	Concerned about readiness for T+2?	Seeking T+3 for client-side trades?	Preference for domestic bonds to stay at T+3
Austria		*	3
Belgium		*	3
Bulgaria		*	2
Croatia		*	2
Cyprus		*	2
Czech Republic		*	2
Denmark		*	2
Estonia		*	2
Finland		*	2
France		*	3
Germany		*	3
Greece	2	*	1
Hungary		*	2
Iceland		*	2
Ireland		*	2
Italy	1	*	3
Latvia		*	2
Liechtenstein		*	2
Lithuania		*	2

Luxembourg		*	3
Malta		*	1
Netherlands		*	3
Norway		*	2
Poland	2	*	2
Portugal		*	2
Romania	2	*	2
Slovakia		*	2
Slovenia		*	2
Spain	1	*	4
Sweden		*	2
Switzerland		*	2
United Kingdom		*	2

* see 3. below

2. <u>General T+2 capability</u>

As can be seen above, few of the <u>eighteen</u> firms included identified widespread concerns regarding their ability to meet the processing timeframes necessary to facilitate settlement on T+2. Moreover, the comments below indicate that not all of those that flagged concern in the first column were worried specifically about the ability to settle on T+2.

Greece	(a) The first firm does not envisage problems arising from its own processes, but is dependent on broker performance in the trade confirmation process. (b) The second firm, again, does not envisage problems arising from its own processes, but noted a concern regarding the strict buy-in regime in Greece.
Italy	The firm commented that Italy has the lowest same-day affirmation.
Poland	(a) The first firm commented that brokers confirm manually and have no access to confirmation platforms. (b) The second firm does not envisage problems arising from its own processes, but noted that Poland is a "pre-matching market" where the process occurs typically on settlement date.
Romania	(a) As with Poland, the first firm commented that brokers confirm manually and have no access to confirmation platforms. (b) The second firm commented that funding is undertaken through third party FX trades, which have very tight deadlines due to the market in Romania.
Spain	(a) As with Greece, the first firm does not envisage problems arising from its own processes, but is dependent on broker performance in the trade confirmation process. (b) The second firm, again, does not envisage problems arising from its own processes, but commented that registration processes typically take place on T+1 in Spain.

3. T+3 with brokers?

Seventeen of the eighteen firms covered indicated no intention to seek an extended settlement period for the client-side trade for equities trades.

One firm (*), however, commented that it would seek T+3 when trading fixed income products regardless of whether they were traded OTC or on a regulated market, MTF etc.

4. Domestic OTC bond markets

There was some appetite to retain T+3 as the default settlement cycle across all domestic OTC bond markets in Europe, albeit from a limited number of the eighteen respondents.

The "nineteenth" response

The final firm was unique among the respondents, in that although it does not envisage any difficulty in meeting the necessary deadlines, it believes nonetheless that it may need to seek T+3 settlement across the board with its brokers when trading for its pooled fund clients, due to the nature of the funds and the timing of their cash inflows.

It noted that this would be the case as long as T+3 remained the settlement cycle in non-European markets such as the US, Japan and Australia.

5. Whether the firm believes the default settlement cycle for the international bond markets should align with T+2 or remain at T+3?

In slight contrast with the response regarding domestic bond markets, six of the nineteen respondents indicated a preference to the default settlement cycle for international bonds to remain at T+3.

Two of the six provided additional comments:

The first indicated that they were ready for T+2, but would still press for extended settlement in cases where the client/fund was likely either to be taken overdrawn by a significant amount or on a recurring basis (ie. the fund is expanding and the inflows exceed the cash maintained in the portfolio).

The second suggested that reducing the settlement cycle posed funding issues given that it lacked a real time cash management system and might not have sufficient time in the event of an error to raise additional cash for settlement on T+2, thus exposing the firm/client to borrowing cost.