Tokyo Foreign Exchange Market Committee

Report on U.S. T+1 Settlement（February 2024）
＜Summary＞

＜Background＞

- U.S. securities standard settlement cycle will shorten from T+2 to T+1 effective May 28, 2024. With this shift, market participants need to review their related FX trades processes.
- If market participants execute related FX trades after required amount of USD gets fixed, there is potential for increased “T+0 FX trades” in Japan.
- “T+0 FX trades” may amplify (1) inefficiency of price formation in FX markets, (2) operational risk, and (3) FX settlement risk.

＜Tokyo FX Committee’s work on T+1 issues＞

- T+1 Working Group was formed in August 2023.
- Readiness Survey of how Japan’s market participants are preparing for T+1 was conducted in November 2023.

  (12 and 152 responses from sell-side / buy-side respectively)
- Report by the Working Group was published in February 2024.

＜Executive Summary of the Readiness Survey Result＞

- Buy-side firms plan to avoid huge uptick in “T+0 FX trades” by using pre-funding etc.
- Sell-side firms are able to accept “T+0 FX trades” up to a certain amount. However, limited firms plans to enhance capabilities for such trades.

＜Analysis of Responses and Indicated Related Risk＞

(1) Deterioration of market liquidity & inefficiency of price formation in FX markets

- Survey results show it is not expected that there will be a rapid surge of “T+0 FX trades” volume.
- For buy-side firms, estimated amount of “T+0 FX trades” is unpredictable. The uncertainty of FX trades settled T+0 should be paid attention to.

(2) Operational Risk

- The number of “T+0 FX trades” is likely to increase, which could lead to expanding operational burden among market participants.
- Sell-side firms set instructions for “T+0 FX trades”, such as (a) pre notice from Buy-side firms , (b) JPY trade execution cut-off time in the morning Tokyo time, (c) a cap on the number of orders.
- Sell-/Buy-side firms are expected to work on further optimizing and enhancing settlement operations in a medium-/long-term perspective. It is the matter of importance for all market participants to narrow the perception gap on availability of “T+0 FX trades”.

(3) FX Settlement Risk

- Time constrains for “T+0 FX trades” makes it difficult to use CLS settlement in Japan, which could lead to increased FX settlement risk.
- In addition to operational risk, measures towards FX settlement risk needs to be considered as well.