

T+0: A Much-Needed FIX for the Post-Trade Landscape

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For buy-side firms, the move to T+1 is among the most anticipated – and the most welcome – items of regulation on the horizon. Over the past two years, multiple instances of market turbulence have combined to underscore the longtime position that shortening the settlement cycle will reduce risk. As a result, there is now significant industry-wide momentum around a T+1 settlement cycle, with the SEC voting in February to approve corresponding rule changes.

Now that a framework and timeline are in place, the real work must begin. An evolution of the post-trade landscape means that technology must evolve in kind – and for buy-side firms, that means leveling up their matching systems.

To manage this transition, the FIX protocol just might be the most important item in the buy-side technologist's toolbox. By enabling bilateral communication in real time between managers and brokers, FIX demonstrates how technology has outpaced the settlement cycle in terms of innovation, empowering managers to effectively skip the T+1 milestone and move to a T+0 model. The benefits span disparate job functions, asset classes and more.

Let's explore the shortened settlement cycle in more detail – the challenges and benefits it presents, and how the right technology can help asset managers move beyond even this improved state of play.

THE ACCELERATION IMPERATIVE

Shortening the settlement cycle has been a longstanding, if intermittent, priority for market participants and the regulators that oversee them. In 1993, the SEC shortened the period from T+5 to T+3, and in 2017, it moved to T+2, where it remains today.

Now the industry is calling for further reduction, and the reason is the same as it was in these previous instances: the longer it takes for trades to settle, the more risk market participants are exposed to. Though NYFIX Matching is able to transmit settlement instructions on T+0 to settle the trade, the industry has a ways to go to be able to achieve T+0.

When settlement occurs on T+1, it compresses the timeline for any trade breaks to be rectified. This dynamic is especially pronounced for entities that are active in the markets globally, such as US hedge funds trading in Asia, for whom the time zone difference and foreign exchange processing apply further pressure. For a truly efficient market, brokers must have the most accurate and up-to-date information so they can fully account for margin for error, which will always exist in some form.

While meeting this need for speed, buy-side firms must be able to accommodate the strategic priorities and workflow considerations that define today's trading landscape. The pressure for buy-side firms to be multi-asset is greater than ever, as is the need for flexible solutions that can work alongside the many tools that comprise the modern front- and middle-office workflow.

It all adds up to an environment in which having the right technology in place is more critical than ever. And NYFIX Matching, Broadridge's FIX-based central post-trade solution developed in partnership with longtime partner Alpha Omega, is the ideal solution.



FIX: A KEY DRIVER OF SUCCESS...

...ACROSS THE TRADE LIFECYCLE

The FIX protocol is the key to achieving a rapid settlement cycle. FIX-based matching serves as a natural extension of the buy-side trading platform, using the same bilateral communication method as the front-office. That means orders contain the same instructions and unique identifiers, which can be exchanged in real time, from origination to settlement, enabling true straight-through processing.

Contrast that with the legacy workflow, in which buy-side firms must leverage three different platforms for trading, middle-office and settlement, with each step increasing risk, inefficiency and cost. This painful process has created a natural opportunity for FIX, which has already proven its ability to handle massive volumes in the front office.

Through an innovative FIX-based approach, NYFIX Matching delivers tools that work hand-in-hand with the post-trade process itself, enabling a seamless trade lifecycle that can occur as fast as a T+0 basis.

...ACROSS ASSET CLASSES

Today, the same fragmentation that has created inefficiencies between trading, middle-office and settlement has also posed challenges across different markets. In many cases, buy-side firms are forced to leverage different platforms not just for each function, but each asset class as well. This workflow has always created pain points, but with the electrification of various non-equity asset classes and the greater availability of relevant data increasing industry momentum toward multi-asset trading, these challenges have been magnified.

This is another example of the value of NYFIX Matching's FIX-based approach. In addition to equities, FIX supports fixed income, repos, swaps, futures, options, and FX, providing a truly comprehensive post-trade solution. Buy-side firms gain the functionality and connectivity they need to efficiently support all their trading today, as well as a foundation for multi-asset innovation in the future.

NYFIX Matching also comes with the modularity and flexibility that defines all Broadridge Trading and Connectivity solutions, with seamless integration with both proprietary and third-party systems. That means that regardless of the unique workflow in question, NYFIX Matching can enhance it by driving automation across the trade lifecycle, integration among disparate asset classes or any combination of the two, helping enable a seamless shift to T+1 and, ultimately, T+0.

CONCLUSION: THE RIGHT REGULATION REQUIRES THE RIGHT APPROACH

Powered by the broad capabilities of FIX, NYFIX Matching serves as the ultimate cure for the fragmentation that defines today's post-trade landscape. This was the vision when Alpha Omega partnered with NYFIX years ago, and now, with the backing of Broadridge, the solution is even better equipped to help market participants navigate accelerating workflows and future innovation.

If the T+0 settlement cycle that NYFIX Matching enables is the ultimate goal, then T+1 is a crucial stepping stone to getting there. The industry is making steady progress, but ultimately, all changes of this nature take time and require a measured approach. Crucially, the systems relied upon by market participants must be well-tested and provide a clear, easily attainable path to timely settlement.

Because of the reasons outlined above – seamless FIX-based communication, powerful centralization across job functions and asset classes, and meaningful cost savings – we believe NYFIX Matching is the ideal solution to shepherd the industry through its current evolution and, eventually, to a T+0 future.

Explore how FIX is transforming the post-trade processing, download the latest ebook here: <https://www.broadridge.com/intl/ebook/capital-markets/transforming-post-trade-processing-with-fix>



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