

Move to T+2 Settlement in Japan

Summary of the Interim Report of the WG on Shortening the Stock Settlement Cycle

In July 2015, the Japan Dealers Securities Association (JSDA), Tokyo Stock Exchange (TSE), and Japan Securities Clearing Corporation (JSCC) set up the Working Group on Shortening the Stock Settlement Cycle (WG) taking the role of its secretariat. The WG is a forum to advance discussions among market participants and other related parties to study requirements to shorten the stock settlement cycle in Japan (towards T+2). On December 29, 2015, the WG published the "Interim Report of the Working Group on Shortening the Stock Settlement Cycle", which describes the results of the discussions in the WG thus far and lays out the roadmap to changing the settlement cycle to T+2.

The following is a summary of the interim report.
The abstract of the interim report is also available on the JSDA website.

▶ <http://www.jsda.or.jp/en/index.html>

Background of the study

In response to moves in major overseas markets to shorten the stock trading settlement cycle (towards T+2), the WG started its discussions for realizing T+2 in Japan. Under the WG, two sub-working groups (street-side sub-WG and customer-side sub-WG) consisting of working-level personnel were set up to study practical issues for implementing T+2.

Items discussed at the WG

I. TRANSACTIONS WITH NON-RESIDENTS

- The WG will widely disseminate information about the T+2 initiative in order to facilitate market participants' preparation for ensuring faster and more accurate settlement orders for transactions with non-residents, and taking prompt measures in cases such as when there are matching discrepancies.
- Flexible measures, such as switching to non-DVP settlement after the cut-off time for settlement matching, will continue to be examined by the study group on settlement failure under the customer-side sub-WG (by May 2016).

II. ACCELERATING LOAN TRANSACTIONS

- The following items will be considered by the study group on stock-lending under the customer-side sub-WG (by May 2016).
 - » Flow for handling stock lending T+1 & T+0 transactions.
 - » Cut-off time for stock lending T+1 & T+0 transactions.
 - » Price used for calculating the collateral.

III. RULES ON SETTLEMENT FAILURE

Revision of rules on settlement failure between JSCC settlement participants

- » JSCC will establish the “Guidance for Clearing Members for Addressing Settlement Failures that Occur on a Record Date.” This guidance describes the standard order of operations for handling settlement failures that may occur on a record date (to be finalized by June 2016).
- » While the current rate of the ordinary settlement failure charge is to be maintained, the level of the charge related to settlement failures on a record date will be assessed.
- » The method for calculating the settlement failure charge is to be changed from business day to calendar day basis.
- » The buy-in schedule is to be shortened by 1 business day. (Buy-in execution day: Buy-in request day + 2 business days)

Revision of rules on settlement failure with customers

- » In line with the previously described JSCC Guidance, the study group on settlement failure under the customer-side sub-WG will consider establishing rules concerning settlement failure in transactions with customers (by May 2016).

IV. REVISION OF CUT-OFF TIMES IN THE CLEARING & SETTLEMENT INFRASTRUCTURES

- The WG maintains a basic thought that the various settlement cut-off times should remain as they are now. Nevertheless, if the need to extend the cut-off times is identified for specific operations, the WG is to consider the extension.
 - The deadline for error reports on stock exchange transactions is to be delayed from 13:00 to 14:00. The data distribution schedule released by JSCC is also to be optimized accordingly.
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Roadmap to implementing T+2

Although it is difficult to set the specific date of implementation at this time, sharing the roadmap to implementing T+2 among the concerned parties will allow for smoother and more effective preparations. The roadmap is set as follows.

I. TARGET DATE FOR IMPLEMENTING T+2

- The target date should be the “earliest possible date in 2019.”
- The target date should be revised if the need to do so arises.

II. ITEMS CONSIDERED IN SETTING THE ROADMAP

(1) Necessary procedures and lead time to implement T+2

- » WG discussion on remaining tasks and report of results (by June 2016)
- » Preparation by concerned parties (market participants and infrastructures) (approximately 2 years)
- » Implementation of a comprehensive running test (approximately 6 months)

(2) Confirming stable operation of JGB T+1, which is scheduled to be introduced during the first half of the FY2018 (April to March), to ensure settlement stability of entire markets.

(3) T+2 operations in major overseas markets

Tasks lying ahead

I. STUDIES ON REMAINING TASKS

- The WG will continue studies on the remaining tasks for implementing T+2 and issue the final report by June 2016.

II. PROMOTING THE USE OF THE SETTLEMENT INFRASTRUCTURES

- The industry will continue to promote the use of systems that support STP settlement, such as the JASDEC pre-settlement matching system, non-exchange DVP, and lending DVP, etc.