Shortening Fund Settlement Cycles: Chatham House Summary

Industry Trends and Regulatory Context

- The session began by highlighting the significant shift to shorter settlement cycles (from T+2 to T+1) as a key transformation for the investment industry, paralleling the changes last seen in 2014.
- While regulatory mandates directly apply to securities markets, funds are expected to follow suit by industry consensus and strong regulator recommendations, targeting October 2027 for alignment.
- Recent surveys indicate overwhelming engagement and planning across firms, with most aiming for compliance ahead of the deadline. Exceptions are only anticipated for funds with illiquid assets or those where shorter cycles present operational hardship for clients.

Operational Complexities and Global Jurisdictions

- Offshore funds face particular challenges around time zones, especially affecting Asian investors and Pacific currencies. Even advanced global servicing models experience tight settlement windows in these markets.
- UK-domiciled funds generally find the transition feasible—especially those with digitalised processes and Western European investors. However, funds reliant on manual operations or retail check payments encounter greater barriers.

The Role of Automation and Technology

- The transition to shorter cycles requires automation; maintaining legacy, manual processes has proved unsustainable, as evidenced by increased operational costs during similar transitions elsewhere.
- Automation efforts should prioritize streamlining contract note generation, trade matching, and cash or FX management. Robust systems already exist

and are in use, demonstrating that technological solutions are well within reach for those ready to implement them.

Strategic Implementation and Transition Planning

- Rather than synchronize fund and securities transitions on the same day, most firms are now considering staggered or phased approaches to reduce risk and avoid operational bottlenecks.
- Early coordination with Transfer Agents (TAs) is essential, as simultaneous transitions across multiple clients could exceed operational capacity.
- The process involves updating systems, documentation, and close coordination with distribution partners. Past experience suggests that thorough planning, lead assignment, and cross-departmental working groups are crucial.

Policy, Capacity, and Future Directions

- Questions were raised about capacity planning for TAs and the legislative environment affecting fund setups. Ongoing legal and regulatory reforms may eventually facilitate more flexibility, but timelines remain uncertain.
- The prospect of future technology such as tokenization, atomic settlement, or digital cash was acknowledged, though current cost and infrastructure barriers mean these are longer-term considerations.

Key Recommendations

- Start engagement with automation and third-party solution providers immediately.
- Appoint internal leadership for the transition program and clarify documentation requirements.
- Map out investor bases and operational hotspots where manual processing or time zones create risk.
- Communicate proactively with TAs and distributors to secure a suitable transition window and avoid last-minute capacity crunches.
- Approach the transition as a multi-disciplinary initiative, leveraging ongoing feedback and industry collaboration to drive best practices.

Please see link here to the Investment Association Survey Results:
https://theia.visme.co/view/op6m10z7-the-ia-t-1-fund-settlement-cycle-survey-results