Accelerating the U.S. Securities Settlement Cycle to T+1

Background

- T+1 is intended to reduce risk and strengthen / modernize securities settlement in the U.S.

- Origin of T+1 in the U.S.:
  - Move to T+2
  - Market volatility
  - DTCC Whitepaper – February 2011
  - Role of Securities Industry and Financial Markets Association (SIFMA) and the Investment Company Institute (ICI)
  - Role of Deloitte
  - Creation of an Industry Steering Committee
  - Creation of an Industry Working Group

- Interaction with U.S. Regulators

- Why not T+0

T+1 Settlement Recommendations

No.	Topic	Recommendation
1	Allocations and Affirmations	• Encourage allocations by 7:00 PM ET on trade date (T) to ensure that firms have sufficient time to process affirmations by 9:00 PM ET on T • Change the affirmation deadline from 11:30 AM ET on T+1 to 9:00 PM ET on T • Adopt technology (e.g., DTCC's ITP Central trade matching system (CTM) and/or messaging protocols (e.g., FIX and SWIFT) to automate the communication of allocations and CTM's Match to Instruct to facilitate more timely trade affirmation
2	Trade documentation	• Advocate for and promote the broad scale adoption of e-delivery as the default receipt method for trade documentation (e.g., trade confirmations, prospectuses) with the option for clients to request paper documentation post-settlement • Remove rule references that trigger the Electronic Signatures in Global and National Commerce Act (ESIGN) and therefore inhibit clients from receiving e-delivery of investor documents
3	Global settlement implications and FX markets	• Promote and socialize new T+1 settlement trade processing timelines in the U.S. and among international investors to reduce settlement issues, including Foreign Exchange (FX) conversion transactions and allocations • Request that wholesale FX market participants conduct their own analysis related to their internal operating models and present-day global practices to identify changes and enhancements that would need to be implemented in order to facilitate T+1 FX where needed for U.S. T+1 settlement
4	Corporate actions	• Coordinate with regulators and exchanges to align the ex-date with the record date for regular-way corporate actions • Adopt SWIFT messaging, or other automated means, across the corporate actions lifecycle to increase efficient communication by industry participants related to corporate action events • Industry to evaluate whether the cover/protect period should be eliminated
5	Prime brokerage	• The SEC should change the required deadline specified in the Prime Brokerage (PB) No Action letter for executing brokers to inform the prime broker of trade details from the morning of the next business day after trade date (which would be too late to effect settlement in CNS on T+1) to a time on the evening of trade date that would meet the National Securities Clearing Corporation (NSCC) evening cutoff time for matched and affirmed trades to flip into T+1 settlement in NSCC's Continuous Net Settlement (CNS) • Prime brokers, executing self-clearing firms, and clearing firms of an introducing broker acting as an executing broker should identify and implement amendments to their existing contracts regarding the prime brokerage arrangement (e.g., including standardized documents, such as the Form 150), to reflect any necessary changes to timing for trade notification and affirmation, and should consider whether any changes are necessary to disaffirmation deadlines in light of the T+1 environment

T+1 Settlement Recommendations - Continued

6	Securities lending	• The current timing for recall issuances (e.g., as late as 3.00 PM ET on T+1), will have to be reconsidered to mitigate an increase in fail rates. The more notice broker-dealers have to return securities, the more likely they will be returned in time for settlement • Promote the widespread adoption and utilization of tools to streamline the recall, contract compare, corporate action, buy-ins, and rebate interest collection processes • The SEC should update existing interpretive guidance about the required cutoff time for a securities lender to recall loaned shares in order to mark its sell trade “long”
7	Settlement errors and fails	• Promote greater adoption of Standard Settlement Instructions (SSIs) • Encourage market participants to identify key drivers for settlement fails and to address those where appropriate through automation • Encourage market participants to: – Adopt policies and procedures for timely updates to SSI reference data prior to settlement – Repair errors at the root cause to avoid future settlement issues
8	Exchange Traded Fund (ETF) creation and redemption	• Authorized Participants (APs) should use real time messages coming out of Universal Trade Capture (UTC), to mitigate issues with the new proposed timing of the CNS exemption cutoff at 10:30 PM ET • Adopt the use of collateral processing tools, such as NSCC’s collateral process and other automated tools, to centralize the collateral process for global components
9	Equity and debt offerings	• Retain the exception in Rule 15c6-1(c) but shorten the applicable period to T+2 • Retain the exception in Rule 15c6-1(d) to allow debt and other offerings to have the ability to opt for extended settlement
10	Regulatory impacts	• Continue to engage the regulatory community to ensure that rules and regulations that identify regular way settlement as greater than T+1 be changed, including the Securities Exchange Commission (SEC) capstone rule 15c6-1(a) of the Securities Exchange Act of 1934 (the “Exchange Act” and the associated rules derived from it, to create regulator certainty for market participants

Proposed Industry Migration Timeline