T+1 Update

Tom Price, SIFMA
Anthony Macchiarulo, SIFMA
GFMA
SEC Rule 15c6-1

On February 15, the SEC approved their rule proposal mandating T+1 settlement in the United States. The transition date in the final rule is May 28, 2024, over the Memorial Day Weekend. Although the industry was seeking a September 3rd, 2024, Labor Day Weekend transition, and 2 Commissioners voted against the rule proposal for the shortened compliance time, the industry still received more time for testing than what was in the original proposal as Q1 2024. Additionally, Canada has stated that they will transition one day earlier than the United States on May 27, 2024.

SEC Rule 15c6-2

The Commission modified proposed SEC Rule 15c6-2 to enable a broker-dealer either to (1) enter into written agreements or (2) establish, maintain, and enforce reasonably designed written policies and procedures to ensure completion of the allocation, confirmation, affirmation, or any combination thereof, for a transaction as soon as technologically practicable and no later than the end of the day on trade date, in such form as necessary to achieve settlement. The rule provides a set of criteria that firms may use to create internal “policies and procedures” and provides that FINRA Rule 11860 can be used a guide to increase compliance with the 15c6-2.
Policies & Procedures

Policies and procedures should be reasonably designed to:

First, (b)(1): identify and describe any technology systems, operations, and processes that the broker-dealer uses to coordinate with other relevant parties, including investment advisers and custodians, to ensure completion of the allocation, confirmation, or affirmation process for the transaction.

Second, (b)(2): set target time frames on trade date for completing the allocation, confirmation, and affirmation for the transaction.

Third, (b)(3): describe the procedures that the broker-dealer will follow to ensure the prompt communication of trade information, investigate any discrepancies in trade information, and adjust trade information to help ensure that the allocation, confirmation, and affirmation can be completed by the target time frames on trade date.

Fourth, (b)(4): describe how the broker-dealer plans to identify and address delays if another party, including an investment adviser or a custodian, is not promptly completing the allocation or affirmation for the transaction, or if the broker-dealer experiences delays in promptly completing the confirmation.

Fifth, (b)(5): measure, monitor, and document the rates of allocations, confirmations, and affirmations completed within the target time frames established under [ ] (b)(2) of the rule, as well as the rates of allocations, confirmations, and affirmations completed as soon as technologically practicable and no later than the end of trade date.
• Most firms reported they are on track to meet the U.S. T+1 transition deadline of May 28, 2024.
• Respondents suggested they believe counterparties and third parties will be ready. There is concern around smaller third parties and counterparties.
• There are still concerns around same day affirmation and SEC Rule 15c6-2, increased fails, and testing schedules.
• There are also concerns around nightly batch and DTCC file assignment, FX funding and liquidity, and prime brokerage files.
• In building a comprehensive no-go/go confirmation process, firms should be mindful of global and infrastructure readiness. Firms do not want to see a significant lag resulting for non-U.S. firms.
• Respondents believe SIFMA should focus on policies & procedures and SEC Rule 15c6-2, securities lending recalls, and settlement misalignment issues around ETFs and ADRs.
• Respondents believe SIFMA should help the industry prepare for potential worsening fail rates on Day 1 of the T+1 transition.
T+1 settlement implications for FX

- U.S. Securities settlement will move from T+2 to T+1 effective May 28th, 2024
  - U.S. have commenced work on the migration; securities include cash equities, corporate debt and unit investment trusts (US Treasuries already settle T+1)
  - Part of the global shift towards T+1 and shortened settlement cycle. Other countries are migrating or considering move to T+1. India (January 2023) Canada (May 2024) Europe & UK are reviewing

- GFXD drafting a paper “FX Considerations for T+1 U.S. Securities Settlement” to assist broader financial market participants’ understanding of the key considerations for FX

- T+1 raises the risk that transaction funding dependent on FX settlement may not occur in time

- Scale of any issues not yet understood – but foreign investment in US securities is significant

2022 Total foreign holders of US securities $24.9 tri (19.6%)
Equities = $12.2tri (16% of US market)

Source: Dept of US Treasury “Foreign Portfolio Holdings of U.S. Securities June 30,2022” (May23)
**T+1 settlement implications for FX**

- T+1 is not an issue for FX, but knock on challenges occur because of the need to *execute the securities transaction followed by the related FX transaction* with compressed remediation time available.

- Key considerations for both sell side and buy side:
  - The timing of FX and security trades needs to occur as close to each other as possible.
    - T+1 FX settlement is already in practice - reprioritization of the FX execution within the security trade lifecycle is required to ensure timely settlement can be completed for *both* the FX and security trades.
    - Challenging for Asian-based investors; local markets may have closed before US security can be transacted.
  - There is potential for increased Settlement Risk as shortened securities settlement cycle may cause risk of missing CLS cut-off for the related FX transaction.
  - Operational risk may increase - enhanced pre-trade vigilance is required to ensure smooth straight-through-processing, e.g., supporting institutional block trading/new account set-up.
  - Awareness needed of RTGS, local and correspondent bank cut-off times, holiday schedules and currency restrictions.
  - Capability gaps may require buy-side to investigate solutions, e.g., establishing US trading and operations, pre-funding or increasing trade automation of both FX and security trades through multi-asset trading platforms.
  - New operational processes may increase costs, risks and errors. Cost considerations include pre-funding, late payment fees and system enhancements.
Questions?