T+1 Settlement Affirmation Models Guide

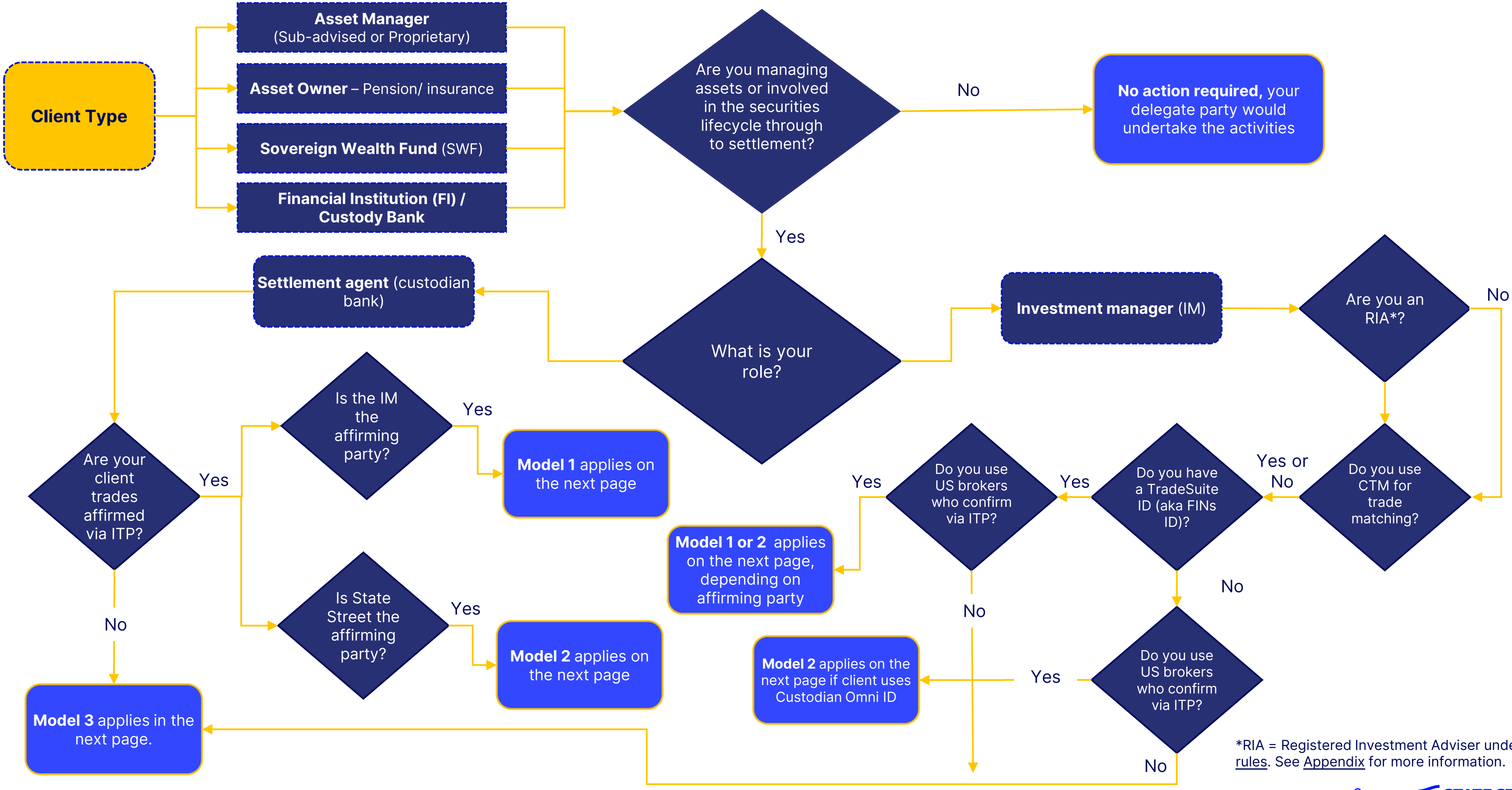
Introduction

US securities that settle through the Depository Trust & Clearing Corporation (DTCC) follow a trade affirmation process whereby counterparties verify and affirm the details of the trade before submitting it for settlement. Trade affirmation is supported by the DTCC Institutional Trade Processing's (ITP) TradeSuite ID™ service which enables institutions to affirm Broker confirmations in an automated manner.

In Canada there is no affirmation step, but a similar pre-settlement process exists to ensure that the buyer and the seller agree on the details of the transaction. This is called trade matching (National Instrument 24-101—Institutional Trade Matching and Settlement).

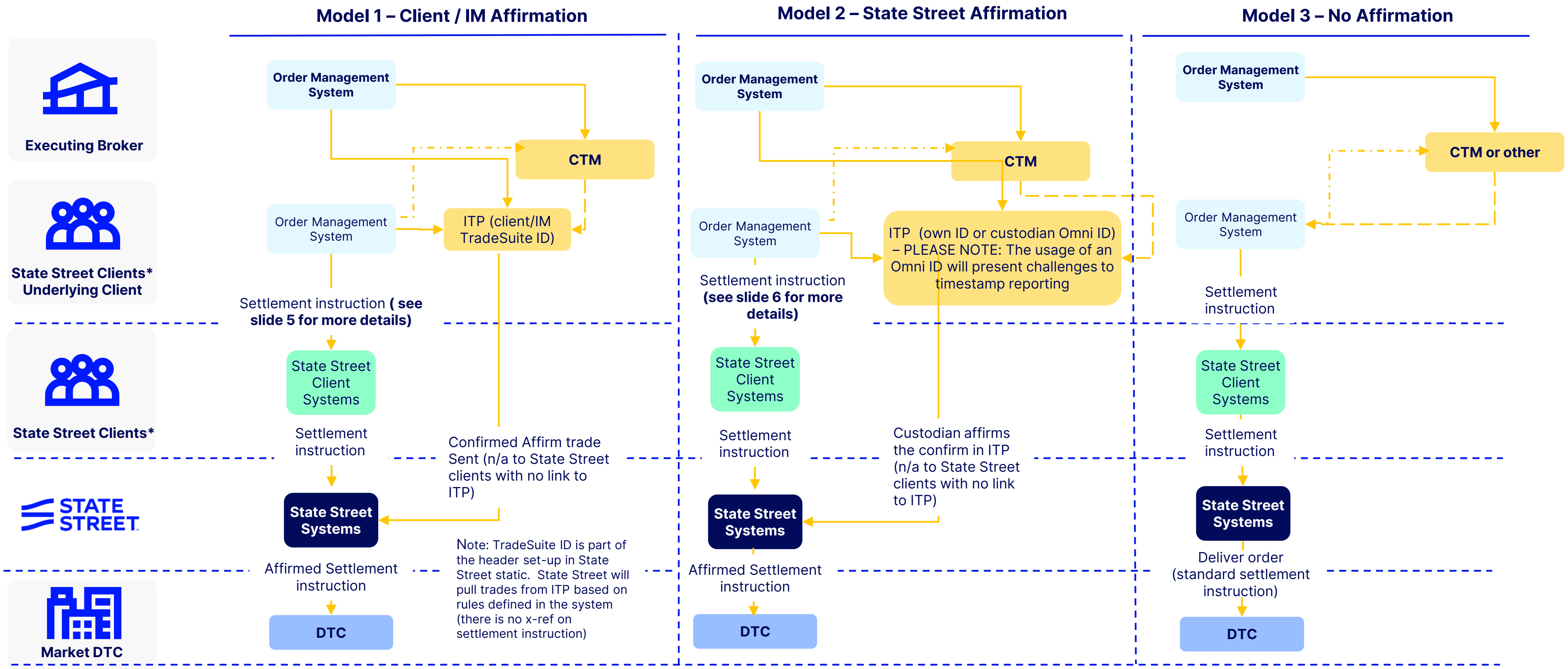
This guide is intended to direct State Street clients on US affirmation models available to them and the key considerations when preparing for the T+1 environment.

Client Decision Flow for T+1 Affirmation Model Options



*RIA = Registered Investment Adviser under US SEC rules. See Appendix for more information.

T+1 Affirmation Models Available to Clients



Considerations

Model 1 & 2 is applicable if:

- ✓ Model 1: Settlement instruction is not required. State Street (State Street) as the designated settling bank is notified that the confirmation has been affirmed and creates a settlement instruction on its record keeping system. (Clients can send settlement instructions if they wish to.)
- ✓ Model 2: Where State Street is the affirming party, settlement instruction must be sent to State Street.
- ✓ Affirmation cut-offs apply (20:45 ET on TD- model 1/ 20:30 ET on TD for model 2).
- ✓ To use DTCC tools M2i/CTM, clients need to have their own TradeSuite ID (aka FINs ID)
- ✓ Model 2: When a broker is EMEA/APAC based but issues a confirm under their TradeSuite ID, and if this is notified to their custodian (as delegate to affirm)
- ✓ FX: if clients are doing their own FX they need to meet funding of USD by cash cut-off deadline (clients need to meet cash cut off of 20:30/20:45 ET)

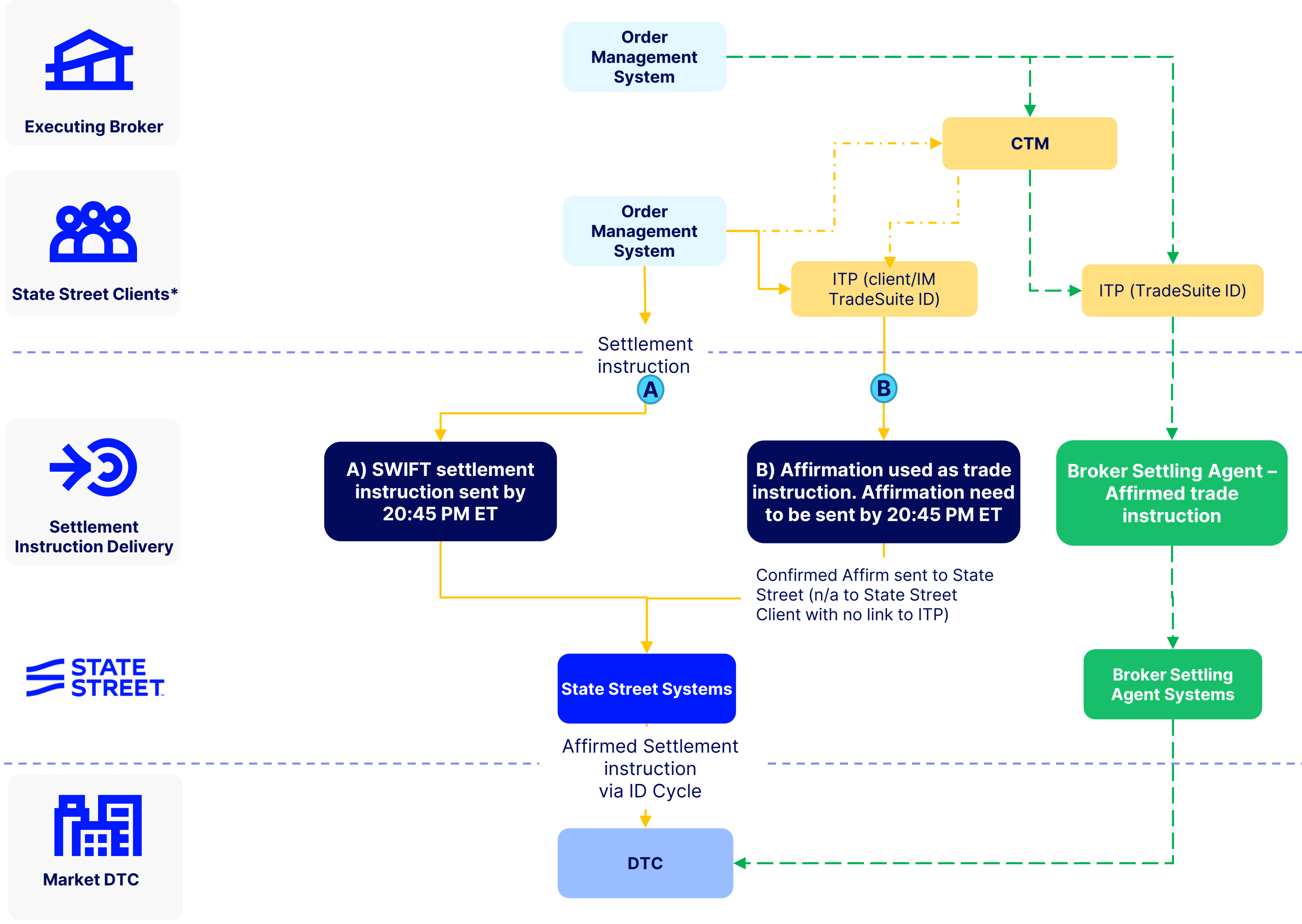
Model 3 is applicable if:

- ✓ No affirmation required; only settlement instruction is needed
- ✓ Affirmation deadline does not apply. Only settlement deadline applies: T+1 (SD) at 14.30pm ET.
- ✓ No TradeSuite ID set up; client does not use Central Trade Matching (CTM)/Alert
- ✓ The underlying broker is a non-US domiciled broker, and does not link to Institutional Trade Processing (ITP) or send confirms

*Asset Manager/ Asset Owner/ SWF/ FI

T+1 Clients Self Affirming Model

Model 1 – Client / IM Affirmation



Considerations

Note: To use DTCC tools M2i/CTM, clients need to have their own TradeSuite ID (aka FINs ID)

Note: TradeSuite ID is part of the header set-up in State Street static data. The static rules set up defines the options available and State Street will pull trades from ITP based on rules defined in the system (there is no x-ref on settlement instruction)

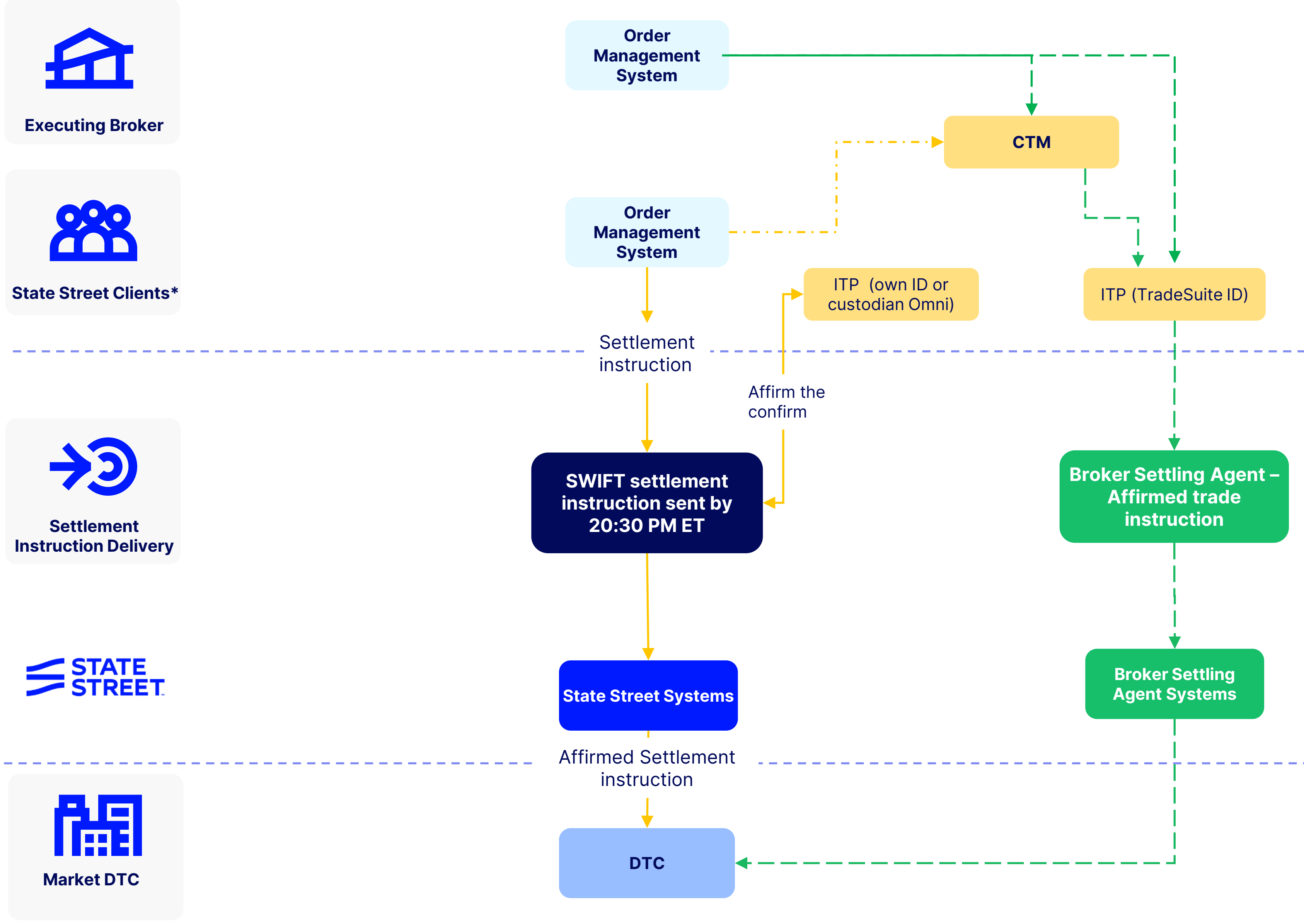
Note:
Option A: Client send settlement instruction via SWIFT ; in addition to affirming the confirm. State Street match both and use the settlement instruction to input to ID cycle.

Option B: State Street (State Street) as the designated settling bank would be notified that the confirmation has been affirmed. Affirmation would be used as settlement instruction for the ID cycle.

*Asset Manager/ Asset Owner/ SWF/ FI

T+1 State Street Affirmation

Model 2 – State Street Affirmation



Considerations

Note: In order to use DTCC tools M2i/CTM, clients need to have their own TradeSuite ID (aka FINs ID)

Note: TradeSuite ID is part of the header set-up in State Street static data. State Street will pull trades from ITP based on rules defined in the system (there is no x-ref on settlement instruction)

Note:
Client sends settlement instruction via SWIFT.

*Asset Manager/ Asset Owner/ SWF/ FI

T+1 Operational Change Impacts – Practical Steps

Trade affirmations, confirmation, allocations and settlement turnaround times: A move from T+2 to T+1 compresses the available post-trade processing time from 12 core business hours in a T+2 environment to 2 core business hours between the end of the trading window and the start of the settlement window. Settlement cycle will compress to 24 hours for those who don't affirm trades.

A compressed timeframe translates into operational considerations for all firms, especially for those operating in EMEA and APAC markets, for whom time zone differences will impact the possibility of same-day matching processes. Globally, the timeframe to communicate and resolve any breaks, cancellations, rebooks, or other exceptions will be reduced. One area that firms may wish to consider is whether pre-funding of liquidity and matching of instructions can be done ahead of trade settlement. It is strongly recommended that clients review their operational models to identify additional staff requirements in the US time zone.

Automation: Clients should evaluate their systems and look to add automation wherever possible in their operations to achieve STP to meet the accelerated settlement timeframe. Automated affirmation process through DTC's Central Trade Manager (CTM) and Match to Instruct (M2i) solutions are market solutions that will eliminate trade problems before trades are communicated to the market.

Foreign exchange pre-funding and other operational impacts: A shorter settlement cycle impacts cross-currency transactions which have an FX component. FX trades, which currently settle on T+2, would either need to be booked on the same day/T or alternatively pre-funded, meaning all participants in the settlement chain will need to confirm the transactions on T0. Firms without US-based operations may need to adjust staffing and processes to match US ET timeframes.

Securities lending and the compressed timeframes for loan recalls/ reallocations. Settlements currently rely on bilateral processes between custodians and third-party lending agents, as well as between the borrowers and the vendors. Moving to a T+1 cycle compresses the timeline to identify and recall securities. A modification to existing loan recalls and reallocations processes, technology and overall behavioural changes are needed to avoid breaks in the process, and an increase in settlement fails and cash penalties that would result.

Corporate actions: Ex Date and Record Date will be the same day, meaning that firms will need to review market practices around corporate actions notifications and responses to events with their custodian and update the key dates. Failure to do this could result in a significant increase in reverse market claims.

Cash and liquidity management: Cash and liquidity management will be compressed into a shorter timeframe, to ensure that the correct funding is in place in time for settlement. For example, current liquidity for cross-currency transactions with an FX component will need to adapt from T+2 to T+1 to avoid settlement issues for the contingent securities transaction. An important consideration for firms will be to work with brokers, dealers and other counterparties to agree how liquidity can be freed up sooner and work closer together on chains of transactions which can impact on T+1 settlement capability.

ETF activity: Existing NSCC ETF batch service already operates to tight timeframes; operational change and credit line support are possibly required for US ETFs with global securities where the settlement cycle is longer. DTC will be making functional changes to Universal Trade Capture, the primary and secondary ETF creation and redemption process

Batch processing/reporting: Firms can schedule this to happen on T0 to get ahead of T+1 requirements.

Glossary

DTCC	Depository Trust & Clearing Corporation
DTC	Depository Trust Company (subsidiary of DTCC)
NSCC	National Securities Clearing Corporation
CTM	Central Trade Matching (DTCC Platform)
ITP	Institutional Trade Processing's (a business unit of the DTCC automating post-trade life cycle events)
FINs ID	TradeSuite ID (Unique number that provides connectivity into DTCC and NSCC – allows for automated affirmation)
Omni ID	Omnibus ID – legacy ID number under respective custodian
M2i	Match To Instruct (CTM's workflow which can automatically trigger trade affirmation and delivery of DTC eligible securities directly to the DTC for settlement)
SWF	Sovereign Wealth Fund
FI	Financial Institution
IM	Investment Manager
RIA	Registered Investment Adviser

Appendix

SEC Final Rules to Reduce Risks in Clearance and Settlement

Applies to SEC registered Broker Dealers (BDs), Registered Investment Advisers (RIAs) and Central Matching Service Providers

1. Rule 15c6-1(a) –Standard Settlement Cycle

Rule 15c6-1(a) prohibits broker-dealers from effecting or entering into a contract for the purchase or sale of a security (other than an exempted security, a government security, a municipal security, commercial paper, bankers' acceptances, or commercial bills) that provides for payment of funds and delivery of securities later than the first business day after the date of the contract (T+1) unless otherwise expressly agreed to by the parties at the time of the transaction. Subject to the exceptions enumerated in paragraphs (a) and (b) of the rule, the prohibition in paragraph (a) of Rule 15c6-1 applies to all securities.

2. Rule 15c6-2 –Same Day Affirmation

Rule 15c6-2 requires that, where parties have agreed to engage in an allocation, confirmation, or affirmation process, a broker or dealer would be prohibited from effecting or entering into a contract for the purchase or sale of a security (other than an exempted securities) on behalf of a customer unless such broker or dealer has entered into a written agreement with the customer that requires the allocation, confirmation, affirmation, or any combination thereof, be completed as soon as technologically practicable and *no later than the end of the day on trade date* in such form as may be necessary to achieve settlement in compliance with Rule 15c6-1(a)

3. Rule 204-2 – Investment Adviser Recordkeeping – Registered Investment Advisor (RIA)

Rule 204-2 under the Advisers Act adds a requirement that if the adviser (RIA) is a party to a contract under Rule 15c6-2, it must make and keep records of each confirmation received, and any allocation and each affirmation sent, with a date and time stamp for each allocation (if applicable) and affirmation that indicates when the allocation or affirmation was sent to the broker or dealer.

4. Rule 17Ad-27 – Requirement for Central Matching Service Providers (CMSP) to Facilitate Straight-Through Processing

Rule 17Ad-27 is comprised of two requirements:

First, the Rule requires a clearing agency that provides central matching services for transactions involving broker-dealers and their customers (i.e., CMSPs) to establish, implement, maintain and enforce policies and procedures to facilitate STP for transactions involving broker-dealers and their customers.

Second, the Rule requires a CMSP to submit to the Commission every twelve months a report that describes (i) the CMSP's current policies and procedures for facilitating STP; (ii) the CMSP's progress in facilitating STP during the twelve-month period covered by the report; and (iii) the steps the CMSP intends to take to facilitate and promote STP during the twelve-month period following the period covered by the report.

STATE
STREET
SM

Important information

This document and information provided herein is for marketing and/or informational purposes only and does not constitute investment advice and it should not be relied on as such. It should not be considered a solicitation to buy or an offer to sell a security. It does not take into account any investor's particular investment objectives, strategies, tax status or investment horizon. You should consult your tax and financial advisor.

This document contains certain statements that may be deemed forward-looking statements. Please note that any such statements are not guarantees of any future performance and actual results or developments may differ materially from those projected. Investing involves risk including the risk of loss of principal. All information has been obtained from sources believed to be reliable, but its accuracy is not guaranteed.

There is no representation or warranty as to the current accuracy, reliability or completeness of, nor liability for, decisions based on such information and it should not be relied on as such. The whole or any part of this report may not be reproduced, copied or transmitted, or any of its contents disclosed to third parties without State Street's express written consent.

State Street Corporation
One Congress Street, Boston, MA 02114-2016

Expiration date: November 30, 2024 6120836.1.1.GBL.INST