
US T+1 Settlement - FAQs

April 2024

Background

Why is the US moving to T+1?

The SEC's decision to adopt T+1 was supported by the US industry, which anticipates a number of benefits from the move. In particular, the reduction of counterparty risk across the ecosystem, and the associated efficiencies resulting from lower CCP margin requirements. US participants also anticipate that T+1 will serve as a catalyst for increasing levels of automation and standardisation in post-trade processes.

Why not move straight to T+0?

US industry participants, including SIFMA and DTCC, considered the possibility of moving to T+0, or real-time settlement. It was concluded that, today, this change would be too complex, and an iterative approach to shortening settlement cycles was more pragmatic. DTCC note that real-time settlement would lose the significant benefits to liquidity and risk-mitigation that netting processes allow.

Implementation

When is the migration date?

The US will transition to T+1 as of trade date 28 May 2024, following the Memorial Day weekend. This will mean there is a 'double settlement' day on 29 May 2024, when trades executed on both 24 May 2024 (T+2) and 28 May 2024 (T+1) will be due to settle.

What about other markets?

It is expected that the Canadian market will migrate to T+1 as of trade date **27 May 2024**. The Canadian Capital Markets Association (CCMA) has issued a briefing [document](#) on in-scope products for T+1.

The Mexican capital markets industry has put forward a proposal to move to T+1 on **27 May 2024**, which has been granted regulatory approval.

Other markets such as Brazil and Argentina are expected to follow suit. AFME continues to monitor developments across global markets.

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Where can I find the technical specifications related to the T+1 change?

The US industry steering group has published a T+1 Playbook which describes the technical aspects of the US T+1 change. This can be found at: [ust1.org](https://www.us1.org)

Scope

What types of securities are in scope?

The requirements apply to all "securities" as defined in Section 3(a)(10) of the Exchange Act. This includes: equities, corporate bonds, UITs, mutual funds, municipal bonds, ETFs, and ADRs.

A full list can be found here: <https://www.dtcc.com/-/media/Files/PDFs/T2/T-1-Product-List.pdf>

What types of transactions are in scope?

The requirements of the SEC Exchange Act Rule 15c6-1 apply to contracts for the purchase or sale of securities, effected by an SEC-regulated broker-dealer in an in-scope security.

Are GDRs in scope?

GDRs are typically traded on international markets and may follow different settlement cycles depending on the rules and regulations of the specific exchange or market where they are traded and settled. Technically, GDRs are not listed in US exchanges, hence they would not be considered in scope.

Are there any regulatory exemptions permitted?

An exemptive order was issued by the SEC in 1995, covering the application of SEC Exchange Act Rule 15c6-1 to foreign (i.e., non-US) securities and settlement. This exemptive order has not been subsequently updated. At a high-level, the exemptive order considers three criteria to determine exemptions from application of SEC Exchange Act Rule 15c6-1, and thus the T+1 mandate.

The following exemptions apply:

- Securities not eligible to settle in DTC nor eligible to be held at a US transfer agent – OUT OF SCOPE
- Securities in which less than 10% of trading volume takes place in the US – OUT OF SCOPE
- Transactions which were not executed or settled in the US – OUT OF SCOPE

Further details can be found at: <https://www.dtcc.com/-/media/Files/PDFs/T2/Foreign-Securities-FAQ.pdf>

What will be the applicable regime for dual/multi-listed securities in practice?

SIFMA has produced industry voluntary recommendations as guidance for industry participants engaged in the trading of dual/multi-listed securities and those which can be settled in multiple CSDs, including those outside of the US.

Voluntary Recommendations:

<https://www.dtcc.com/-/media/Files/PDFs/T2/Foreign-Securities-Voluntary-Recommendations.pdf>

What other requirements are included in the new rules?

The SEC adopted a new SEC Exchange Act Rule 15c6-2, which requires broker-dealers to either enter into written agreements with their clients or enforce policies and procedures that are reasonable designed to achieve completion of trade allocations, confirmations and affirmations as soon as technologically practicable and no later than the end of the day on trade date.

In addition, the SEC is enhancing SEC Exchange Act Rule 204-2, for Investment Advisors to retain the associated records subject to 15c6-2.

The SEC is also adopting a new SEC Exchange Act Rule 17Ad-27 to require clearing agencies that provide a central matching service to establish written policies and procedures designed to achieve straight through processing (STP) and file an annual report about their progress in achieving STP.

Allocations, Confirmations and Affirmations

What is an allocation?

After a trade has been executed and the order filled, the investment manager will instruct their executing broker (EB) on how to allocate the traded securities to its underlying accounts.

What is a confirmation?

The confirmation process occurs after allocation, whereby the EB sends a trade confirmation, providing the details of the trade, to either the investment manager's global custodian (GC) or prime broker (PB).

What is an affirmation?

The affirmation process is where GCs or PBs affirm their agreement with the trade confirmation provided by the EB, on behalf of their client. Alternatively, Investment Managers in some cases can also self-affirm transactions.

What is the cut-off time for completing allocations?

The SEC Exchange Act Rule 15c6-2 sets out that allocations must be completed as soon as technologically practicable and no later than the end of trade date.

Industry best practice has established the recommended deadline for trade allocations at 7pm EST on T+0. (equivalent to 1am CET).

What is the cut-off time for completing affirmations?

The SEC Exchange Act Rule 15c6-2 sets out that affirmations must be also completed as soon as technologically practicable and no later than the end of trade date.

Industry best practice has established the recommended deadline for trade affirmations at 9pm EST on T+0. (equivalent to 3am CET).

Will firms be potentially fined if trades are not allocated/affirmed on T+0 or settled on T+1?

Unlike the European CSDR regime, there will be no direct regulatory penalties if trades are not affirmed on T+0 or settled on T+1. However, missing the affirmation cut-off of 9pm will lead to a decrease of straight-through-processing (STP), creating additional inefficiencies. Transactions that are not affirmed will not be eligible for DTC's overnight net settlement processes, and will therefore be subject to higher settlement costs.

Impact on specific products and processes

How will the US move affect ADRs?

In the context of ADRs, the introduction of a settlement cycle misalignment between the US and local market of the respective underlier may lead to challenges in ensuring timely settlement of the transaction, and increased costs and inefficiencies. The industry is working together to find solutions and mitigants to these issues.

How will the US move impact ETFs?

Primary market transactions such as creations, akin to creating new issues, will not be subject to T+1. However any secondary market trading in US trading line ETFs and/or US underlying securities will be subject to T+1. Please note that any non-US trading line ETFs and/or non-US underlying securities will be subject to their respective standard settlement cycle (i.e. T+2 in the EU).

ETF creation and redemption timelines can be found here:

<https://www.dtcc.com/ust1/-/media/Files/PDFs/T2/ETF-T0-Create-Redeem-Cycle-Timeline>

How will the US move impact Securities Lending?

The implementation of T+1 will shorten the timeframe during which lenders can initiate any recalls required to meet their delivery obligations. Industry best practice, developed by SIFMA, is for recalls to be issued by 11:59pm EST on trade date. The compressed settlement timeframe will require enhanced operational efficiency in securities lending activities. Lenders and borrowers must streamline their processes, improve communication channels, and ensure seamless coordination to meet tighter settlement deadlines.

How will the US move impact Corporate Actions?

The timeframe available for receiving instructions related to voluntary events will be shortened when entering a position shortly before a corporate action-related deadline. This further contributes to the challenge of ensuring trade bookings and client instructions are both timely and precise, a pressure that will be particularly pronounced for investors located outside the US time zone.

It is also expected that there will be an impact on US securities which are also listed, traded and settled outside of the US (“multi-listed securities”). Industry discussion is ongoing regarding appropriate market practice for determining key dates for the non-US line of a multi-listed security.

How will the US move impact FX markets?

T+1 may create knock-on challenges for FX markets because of the need to execute the securities transaction followed by the related FX transaction with compressed timeframe to convert currencies into USD. Foreign investors may need to source currencies to fund their USD security transactions in local markets and will potentially have less time to fund transactions.

CLS will not be making any operational changes to CLSSettlement ahead of the expected T+1 implementation date of May 2024. While CLS will not move the 00:00 CET deadline for the initial pay-in schedule (IPIS) calculation, settlement members can still submit their trades to CLSSettlement up to 06:30 CET for settlement that day. Further details on this can be found [here](#).

The industry has been carrying out extensive analysis of the scale of the impacted markets, the timelines in question, and have identified numerous business practices and operational changes which can help mitigate these challenges and ensure that these timing impacts do not disrupt international participants in the U.S. securities markets.

GFMA’s Global FX Division have produced a detailed account of the considerations for transacting FX for T+1, which can be found on the following link:

<https://www.gfma.org/wp-content/uploads/2023/05/gfxd-fx-considerations-for-t1-u.s-securities-settlement-may23-003.pdf>

Additionally, the **Foreign Exchange Professionals Association (FXPA)** released “FXPA Buy Side Guidance in Preparation for T+1 Settlement”. The guide outlines recommendations and considerations across the trade lifecycle to help market participants prepare. These guidelines are available below at:

<https://fxpa.org/wp-content/uploads/2023/11/T-1-Settlement-Guidance-for-Buy-Side-11-27-23.pdf>