

GLOBAL MARKETS

# T+1 Accelerated Settlement

# T+1 Accelerated Settlement | Overview

Beginning Tuesday, May 28, 2024, the SEC standard settlement of U.S. securities will accelerate from two (T+2) to **one business day after the trade date (T+1)**.



## Background

In February 2022, the Securities & Exchange Commission (SEC) proposed shortening the settlement of U.S. securities from two business days after the trade date (T+2) to one business day after the trade date (T+1), with a proposed implementation date of March 31, 2024. The industry countered with a proposed implementation date following Labor Day weekend September 2024.

In February 2023, the SEC announced their decision to shorten the standard settlement cycle to T+1, with a compliance date of **May 28, 2024**.<sup>1</sup>



## Key Industry Impacts

- All **allocations** must be submitted on trade date (T+0) for settlement on T+1 (industry recommends 7 p.m. Eastern).
- All **trade confirmations and affirmations** must be made on the trade date (T+0) (industry recommends 9 p.m. Eastern).
- Recommended adoption of industry tools for **automation** such as [Central Trade Manager \(CTM\)](#) / [FIX / Match to Instruct \(M2i\)](#) and [ALERT](#).
- Clearing breaks should be resolved on Trade Date.



## U.S. Key Dates

<b>SEC announces T+1 rule</b>	Feb 15, 2023
<b>Industry Testing begins</b>	Aug 14 2023
<b>2024 Transition Weekend Timeline</b>	
Friday, May 24	Last T+2 Trade Date
Saturday, May 25	Conversion Weekend
Sunday, May 26	Conversion Weekend
Monday, May 27	US: Conversion Weekend CA/MX: First T+1 Trade Date
Tuesday, May 28	US: First T+1 Trade Date CA/MX: Double Settlement Date
Wednesday, May 29	US: Double Settlement Date



**T+1 Implementation playbook:** Commissioned by the Securities Industry and Financial Markets Association (SIFMA), this playbook outlines the activities necessary to meet T+1 requirements for market participants. SIFMA updated this playbook in April 2023<sup>2</sup>.

1. SEC, "[Reducing Risk in Clearance and Settlement](#)," Fact Sheet February 2023.
2. SIFMA and ICI, "[T+1 Securities Settlement Industry Implementation Playbook](#)," April 2023.

# T+1 Accelerated Settlement | SEC Final Rule updates

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On Feb. 15, 2023, the SEC announced an amendment to Rule 15c6-1 and adoption of Rule 15c6-2, both effective as of May 5, 2023.

## Rule 15c6-1 Settlement Cycle

The final rule amends Rule 15c6-1 of the Exchange Act to shorten the standard settlement cycle by:

- Prohibiting broker-dealers from the purchase or sale of a security that provides for payment of funds and delivery of **securities (other than an exempted security, a government security, a municipal security, commercial paper, bankers' acceptances, or commercial bills)** 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
- Adding **security-based swaps** to the list of exempted securities

## Rule 15c6-2 Same-Day Allocation, Confirmation and Affirmation

The final rule adopts new Rule 15c6-2 of the Exchange Act to require broker-dealers engaging in the **allocation, confirmation, or affirmation process** with another party or parties to achieve settlement of a securities transaction subject to the T+1 settlement cycle to:

- Enter into written agreements with the “relevant parties” to ensure completion of the processes as soon as “technologically possible” and no later than the end of the trade day; or
- **Establish, maintain, and enforce written policies and procedures “reasonably designed” to ensure completion of the processes as soon as “technologically possible” and no later than the end of the trade day.** The policies and procedures must:
  - Identify and describe any IT systems, operations, and procedures used to coordinate with relevant parties to ensure completion of the processes for the transaction;
  - Set target time frames on trade date for completing the processes for the transaction;
  - Describe procedures for communicating trade information, investigating discrepancies in trade information, and adjusting trade information to help ensure that the processes can be completed by the target time frames;
  - **Describe plans to identify and address delays in the processes;** and
  - Measure, monitor, and document the rates of the processes completed as soon as possible and no later than the end of the day on trade date



# T+1 Accelerated Settlement | Key Topics

## 1 Allocations and Affirmations

- Allocations need to be submitted by 7:00 PM ET on trade date (T)
- Allocations need to be sent using industry platforms – CTM, FIX, Approved Template
- SSIs recommended to be updated in Alert to streamline settlement and new accounts
- Affirmation cut-off is 9:00 PM ET on trade date (T)

## 2 Prime Brokerage / Clearing

- Trade files need to be submitted by 7:00 PM ET on trade date (T)
- Earlier reporting for exceptions / ID breaks will be provided on Trade Date
- Clearing: CNS intra-day settlement cycle for same day contract comparison will change from T+2 at 11:30AM to T+1 at 1:30PM
- Clearing breaks should be resolved on Trade Date

## 3 Securities Lending

- Applied Buy-in date is aligned to a 3pm EST cut off date (recalls received to BofA) – prior to 3PM EST is T+1, post 3PM EST is T+2
- Existing requirements for Locates will not change under Rule 204 of Regulation SHO, clients remain obligated to deliver the security to the registered clearing agency in time for settlement.

## 4 ETFs Creation and Redemption

- Industry focus on T+0 creation ability
  - For domestic – restrictive order windows (cut off is 9:30 AM ET)
  - For international – extra day of collateralization
- Domestic equity settlement at previous day prices
- FICC and INTL are FOP settlement

## 5 ADRs

- Settlement cycle differences across ADR / ORD require that clients recognize their delivery obligations. If clients are waiting for ADR conversions or receipts, they may need to borrow stock to reduce settlement fails on value date.
- Ensure all bookings are correct and submitted on Trade Date as the compressed timeframe limits reconciliation with the agent/depository.

## 6 Dual Listed Products

- Sifma published their industry recommendation for handling dual listed securities
- Equity will be determined by the exchange.
- FI products will default any US ISIN to T+1.
- [Foreign Securities Voluntary Recommendations.pdf \(dtcc.com\)](#)

## 7 Equity Derivatives

- Clients will be expected to agree, instruct, and settle cash flows within the T+1 timeframe for new trades on all relevant OTC Equity Derivatives and Swaps on US/CA/MX cash equities, US/CA/MX Custom Baskets, US/CA/MX Indices (together 'Eligible Swaps') and Global Indices/Baskets where US/CA/MX are a majority component. All accruals and settlements will be set up as T+1 Settlement for new trades going forward on these products as of the relevant market transition date.

## 8 Exchange Traded Derivatives - Listed Options

- Physical settlement for exercise/assignment will move from T+2 to T+1
- Notifications for exercise/assignment will be sent earlier, however, still on Settlement Date.

## 9 Foreign Exchange

- Compressed funding window creates challenges, particularly for EMEA/APAC clients
- CLS cutoffs will remain unchanged at this point.

## 10 Margin / Collateral

- Collateral pledges are out of scope for T1 accelerated settlement
- Collateral delivery and return periods will not be impacted
- Existing timings for collateral release of excess and substitutions will not change

## 11 Corporate Actions

- Transition risk – 1 day gap between US and CA/MX
- Proactively communicate any trades around Corporate Action deadlines

## 12 Operating Model

- Expand operational and system operating hours as well as follow the sun capabilities to manage exceptions
- Improving system capabilities to eliminate exceptions or shorten resolution times
- Partner across the industry to align support model for all involved parties - clients, executing brokers, prime brokers and custodians



# T+1 Accelerated Settlement | Conclusion

## Bank of America Preparations

Since the SEC first proposed T+1 in February 2022, Bank of America has been laying the groundwork to support a smooth transition to T+1 for our affected clients. We have completed a thorough impact assessment of all potentially affected business processes across Bank of America and are making the changes needed to best meet the requirements for a shortened settlement cycle and support a seamless transition for our clients.

### Key Takeaways

The shortened T+1 settlement cycle means that certain related processes must be completed sooner than they are today, therefore below are key takeaways and recommendations for a smooth transition.

<b>Timeliness</b>	Unlike today, the new rules require us to complete activities such as allocations, trade confirmations and affirmations on trade date. Consequently, Bank of America will be monitoring performance and escalating as needed to meet the future requirements.
<b>Automation</b>	In order to meet regulatory and industry-imposed deadlines it will be important for Bank of America and our affected clients to utilize industry tools or other means to automate trade date activities.
<b>Custodian</b>	Custodians play a pivotal role so please engage them to ensure they are committed to the work necessary to comply with the new SEC rule.

### Contact us

If you have any questions about testing and how T+1 will affect you and your business with Bank of America, please review our [Preparing for T+1 Settlement](#) website, contact your dedicated client service representative or sales contact or reach out to [T1questions@bofa.com](mailto:T1questions@bofa.com).

Disclosures are provided at the end of this presentation.



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