

**DTCC**

JANUARY 2024

HITTING 90% AFFIRMATION BY 9:00 PM ET ON TRADE DATE

# The Key to T+1 Success

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# Introduction

As Vince Lombardi once put it, "Individual commitment to a group effort – that is what makes a team work, a company work, a society work, a civilization work." The same is true in financial services. Ensuring the smooth operation of financial markets requires consistent collaboration between market participants. And regardless of individual market participant roles, the impending move to T+1 settlement in the US makes this collaboration even more critical.

We now have only a few months to go before the US implementation of T+1 on May 28. The good news is, whatever your stage of readiness, there is still time to prepare and there are clear, straightforward actions you can take to ensure a smooth transition.

## Executive Summary

- With only a few months to go before the US moves to a T+1 settlement cycle on May 28, 2024, DTCC has been working with market participants to help ensure industry readiness.
- The move to a T+1 settlement cycle may require market participant firms to adapt operations to ensure they have adequate time to allocate, confirm and affirm trades by 9:00 PM ET on trade date (the T+1 DTCC affirmation cutoff).
- Based on trades currently affirmed on T+1 that settle under the current T+2 timeline, DTCC recommends the industry affirm 90% of all trades by 9:00 PM on trade date. Doing so will maintain current levels of market efficiency and lower the chances for a potential increase in trade fails.
- Unfortunately, DTCC data shows that only 69% of all trades were affirmed by 9:00 PM on trade date in December of 2023. To support the move to T+1, the industry must focus on affirming trades earlier.
- Institutional trades settled bilaterally through DTC could achieve higher on-time affirmation rates by:
  - Ensuring market participants understand best practices of using a TradeSuite ID omnibus account number.
  - Encouraging investment managers to obtain their own TradeSuite ID number.
  - Examining the pros and cons of first, having custodian counterparties affirm, second, managing self-affirming or third, leveraging a central matching solution with auto affirmation capabilities such as CTM's Match to Instruct (M2i) workflow.
- DTCC has created preparation [checklists](#) market participants can use to assess readiness.
- Current CTM or TradeSuite ID service subscribers can also review their affirmation performance via the [ITP T+1 scorecard](#).

# What the New SEC Rules Mean

The SEC's **final T+1 rules** establish requirements for the main parties involved in allocation, confirmation, and affirmation of US institutional trades:

SEC FINAL RULES	
<p><b>Central Matching Service Providers:</b> New Exchange Act Rule 17Ad-27</p>	<ul style="list-style-type: none"> <li>➤ Establish, implement, maintain, and enforce reasonably designed written policies and procedures that facilitate straight-through processing (STP).</li> <li>➤ Submit an annual report to the SEC that provides a qualitative description of its progress in facilitating straight-through processing during the twelve-month period covered by the report and of the actions it intends to take to facilitate STP in the coming 12 months, as well as quantitative metrics to measure the rates of allocations, confirmations, and affirmations.</li> </ul>
<p><b>SEC Registered Broker-Dealers:</b> Amended Rules 15c6-1, New Exchange Act Rule 15c6-2</p>	<ul style="list-style-type: none"> <li>➤ Establish policies and procedures reasonably designed to ensure completion of allocations, confirmations, and affirmations as soon as technologically practicable and no later than the end of the day on trade date.</li> </ul>
<p><b>SEC Registered Investment Advisers (RIAs):</b> Amended Advisers Act Rule 204-2</p>	<ul style="list-style-type: none"> <li>➤ For transactions subject to Rule 15c6-2(a), make and keep records of each confirmation received, and any allocation and each affirmation sent or received, with a date and time stamp for each indicating when it was sent or received.</li> </ul>

To support the move to T+1, we also must affirm trades earlier. When the market moved from T+3 to T+2 in 2017, we lost one of the two days previously available to correct exceptions. When we move to T+1, we'll lose the luxury of that full day and have only about five hours to manage exceptions. That dramatically narrowed window means both the buy and sell sides need to affirm trades much sooner than they currently do.

To meet the new, tighter settlement window, the Securities Industry and Financial Markets Association (**SIFMA**), the Investment Company Institute (**ICI**), and The Depository Trust & Clearing Corporation (**DTCC**) teamed up to form the T+1 **Industry Steering Committee**, which also includes a range of representatives from across the industry. The **participating members and associations** of the T+1 Steering Committee recommend that trade allocations be completed by 7:00 PM Eastern Time (ET), and that trade confirmation and affirmation be completed by the DTC cutoff time of 9:00 PM ET on trade date (T).

Based on the current level of trades affirmed on T+1 to settle by T+2, DTCC recommends an industry target of 90% of all trades affirmed by 9:00 PM on T when we move to T+1. This is necessary just to maintain existing levels of settlement efficiency, so we should strive for an ultimate goal of hitting 100% affirmation by that time.

The move to a T+1 settlement cycle may therefore require institutional investors to adapt their operations to ensure they have time to allocate, confirm and affirm trades by 9:00 PM ET. Institutional investors should prioritize automated straight through processing (STP) solutions, while also updating legacy systems to improve efficiency.

An affirmation is an acknowledgement by the affirming party that an institutional investor's trade details agree with the broker-dealer's confirmation trade details.

# The Affirmation Process

In institutional trading, the broker confirms a trade using **TradeSuite ID**, then the investment manager or its agent (such as a custodian or prime broker) affirms the details of the trade. The central matching service provider (CMSP) then sends the affirmed trade to the depository for settlement. The clearing agents check position and credit for both parties, then settle the trade.

Outside the US, affirmations are generally processed within the central securities depository (CSD) system, in what is known as pre-settlement matching between the local broker and the local custodian (acting on behalf of the investor). So, while institutional investors outside the US may be familiar with pre-settlement matching, they may not be familiar with the US affirmation process using TradeSuite ID, even if they actively invest in US markets, as most rely on a US-based custodian to manage affirmation on their behalf.

## WHAT IS TRADESUITE ID®?

**TradeSuite ID** automates electronic trade detail distribution between counterparties for post-trade processing of DTC-eligible securities to facilitate electronic settlement and end-user regulatory compliance.

Prime broker and hedge fund trades are generally processed through NSCC's continuous net settlement (CNS) system, and account for 62% of the affirmed confirmations processed through TradeSuite ID. For these trades, NSCC acts as the central counterparty to clear and settle broker-to-broker equity, corporate and municipal bond and unit investment trust trading.

Institutional trades are settled bilaterally through DTC and account for the remaining 38% of affirmed TradeSuite ID confirmations. Market participants can submit trades for settlement either as affirmed or unaffirmed trades through night or day delivery orders.

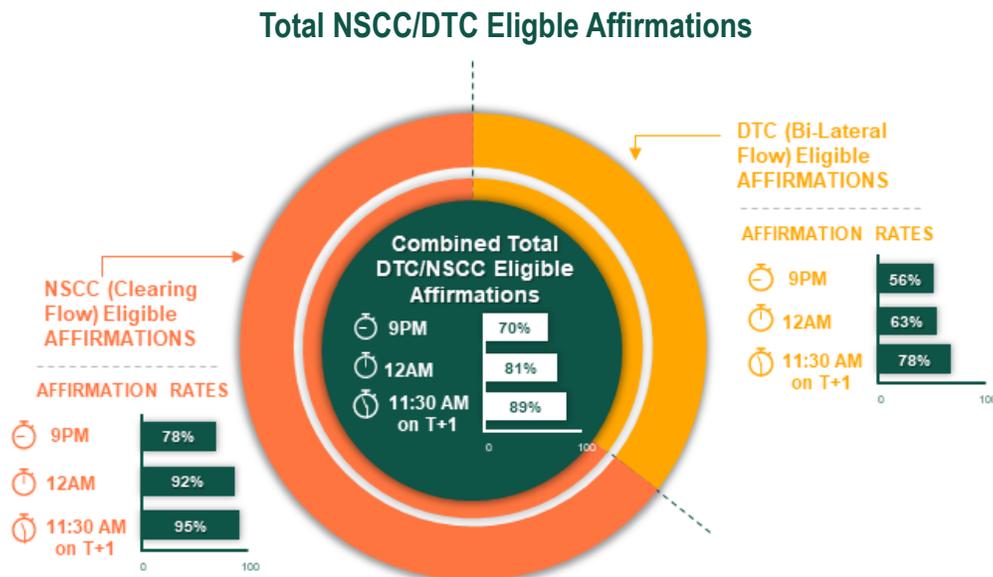
Affirmation is critical as analysis of historical data shows that trades not affirmed on time have a significantly higher chance of exceptions. Once a trade is affirmed, it is less likely to fail: A common reason an affirmed trade might fail would be because there are insufficient funds or securities, not because of a mismatch of instructions.

# Where are We Now

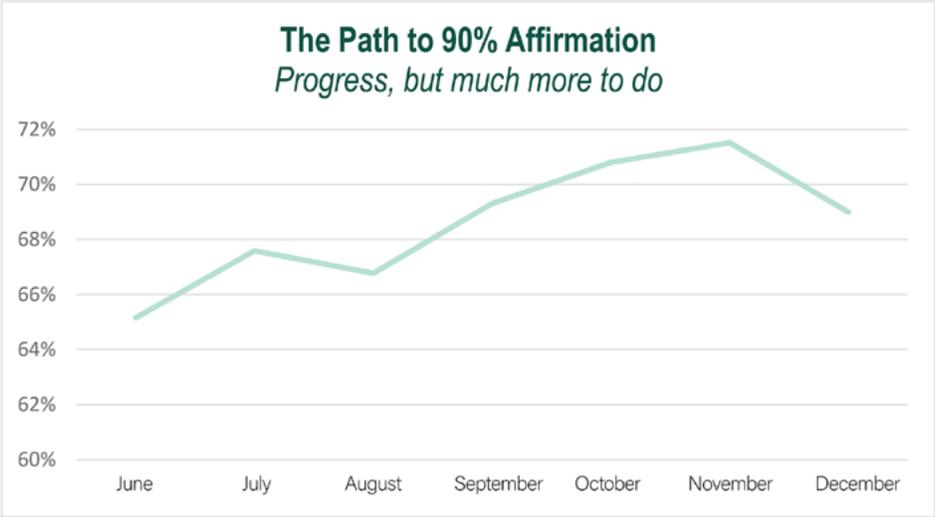
Under today's T+2 timeline, approximately 90% of all trades are affirmed by 11:30 AM ET on T+1, the current affirmation cutoff. To maintain the current level of post-trade settlement when T+1 is implemented – and more importantly to avoid a potential increase in trade fails – DTCC recommends the industry ensure at least 90% of trades are allocated, confirmed and affirmed by 9:00 PM ET on T, a target also supported by the [US T+1 Industry Steering Committee](#).



Unfortunately, a recent deep dive analysis of DTCC data shows that only 69% of all trades are currently affirmed by 9:00 PM on T, with about 78% of NSCC trades and about 56% of DTC trades affirmed by that time.



While the December 2023 rate of 69% of all trades affirmed by 9:00 PM on T represents an improvement over the 65% rate we saw in June of 2023, we still have work to do just to maintain the current level of market efficiency when we move to T+1.



Although there currently are no regulatory penalties for not meeting same-day affirmation targets or for failed trades in the coming T+1 world, there are very real implications, including the potential for higher costs to settle via delivery orders, the impact of non-compliance with US SEC requirements (specifically, 15c6-2), and the increased likelihood of trade failure, along with potential reputational impacts.

For example, a trade missing the cut off of 9:00 PM ET on T and submitted directly to DTC by 11:30 PM ET (which would be a Night Delivery Order) costs 3 times more for the deliverer and 2 times more for the receiver.

# How We Get to 90% Affirmation by 9:00 PM on T

That same deep dive analysis also highlighted that while some market participants are on track to be ready for T+1, others still have some work to do.

Eight of the top 10 prime brokers have already achieved a 90% (or better) affirmation rate by 9:00 PM ET on T. And, DTCC's understanding is that the remaining two prime brokers already have technology and process-based improvements in-flight that will improve affirmation rates in Q1 2024, such as moving from batch to real-time processing.

Of course, prime brokers have a strong incentive to ensure trades are affirmed earlier. Trades affirmed on time can be processed via NSCC's CNS, which offers the benefits of trade guaranty and central counterparty netting. Trades not affirmed by the cutoff cannot process via CNS and instead must be settled bilaterally in the day/night cycle, which costs more and does not enjoy trade guaranty. Losing netting also means more shares have to be allocated to fill trades, which increases cost.

However, we see a very different picture when we look at institutional trades affirmed bi-laterally through DTC. Many custodians use "omnibus" accounts in which the custodian's customers use the custodian's TradeSuite ID number, mostly in the case of custodians for clients located outside the US.

The challenge is, when numerous market participants use a single TradeSuite ID number, it does not allow clear visibility into which investment managers have affirmed trades on time and which have not. It's perhaps not surprising, therefore, that trades using omnibus TradeSuite ID numbers have only a 43% affirmation rate by 9:00 PM ET on T.

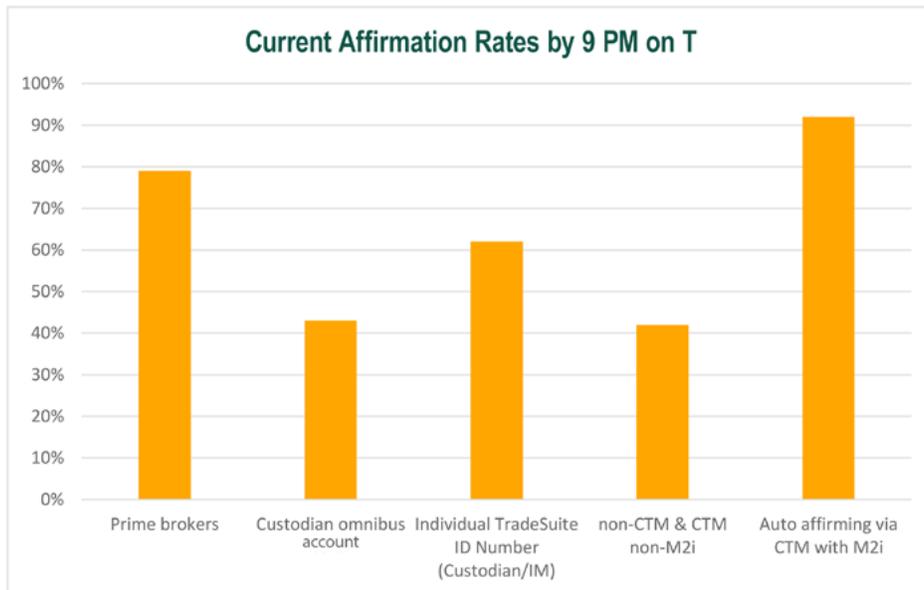
To bolster omnibus TradeSuite ID confirmation rates, DTCC has been partnering with custodians, particularly those with customers outside the US, to educate them on this issue, to highlight the nuances, and to suggest changes that can support higher affirmation rates.

One thing custodians can do to boost earlier affirmation rates is to encourage clients to get their own TradeSuite ID number. DTCC now offers TradeSuite ID numbers at no cost, without having to subscribe to the TradeSuite ID service. With their own TradeSuite ID, investment managers who do not affirm their own trades can still be identified on the confirmation using their own unique TradeSuite ID number. This promotes transparency for the investment managers and the market.

Acting on DTCC advice, a number of custodians have already communicated to their clients the value of getting their own TradeSuite IDs and DTCC continues to work with custodians to support these efforts. If investment managers choose not to obtain their own TradeSuite ID number and continue using their custodians' omnibus account, they must work with the custodian to define a service model which ensures the trade will be affirmed by 9:00 PM on T.

It is important to note, however, that if an investment manager wants to use its TradeSuite ID number to make and keep records of confirmations, allocations and affirmations with a date and time stamp as required by 204-2 (SEC Registered Investment Advisers: Amended Advisers Act Rule), the investment manager will also need to subscribe to the TradeSuite ID service, as well as CTM, which together give access to the information and tools they need to keep the records for all record types required by 204-2, and also to monitor affirmation rates under T+1. DTCC is expanding its existing archival services solutions to offer "Trade Archive," which will include allocation and confirmation time stamps, along with trade details from CTM. Trade records from TradeSuite ID will include the confirmation and affirmation timestamps, including confirmation and affirmation details, consistent with 204-2 requirements.

The value of having your own TradeSuite ID number can be seen in current statistics for trade affirmation among those already using their own TradeSuite ID number. This group includes investment managers who have their own TradeSuite ID number but rely on the custodian to affirm for them, those that are self-affirming, as well as those that have implemented auto-affirmation using CTM's match to instruct (M2i) workflow.



Investment managers who have their own TradeSuite ID number but plan to continue relying on the custodian to affirm for them must bear in mind that under the much shorter T+1 settlement window, custodians will need all upstream processes to work seamlessly. This means investment managers will have to match trades with no exceptions so the custodian can affirm the trades as quickly as possible. Today, 60-65% of allocations are submitted to CTM only after US market close, which creates an extremely compressed time frame in which to complete the affirmation process.

This tight time frame further underscores the value of market participants outside the US having their own TradeSuite ID number. Those market participants taking ownership of the process by using their own TradeSuite ID number and self-affirming trades have an affirmation rate of 80-90% by 9:00 PM ET on T.

Using M2i can also greatly accelerate the affirmation and settlement process to address the issue of after-market allocation submissions. Once fully matched, CTM automatically creates the TradeSuite ID confirmation, affirms the trade and stages it for settlement at DTC.

Investment managers using CTM's M2i workflow and transacting with another CTM M2i broker for institutional trades already have a near 100% affirmation rate by 9:00 PM ET on T.

### WHAT IS CTM®?

CTM is a central matching platform end-user clients use to allocate and centrally match transactions globally across multiple asset classes. With its community of over 1,900 buy-side and 1,400 sell-side firms, CTM is the industry standard and offers significant operational efficiency thanks to its enhanced central matching workflow and automatic trade enrichment.

CTM's match to instruct (M2i) workflow will be crucial to T+1 settlement by automatically triggering trade affirmation and delivery to the DTC for settlement when an investment manager and executing broker match trade details.

### WHAT IS ALERT®?

ALERT is an online global database to maintain accounts and communicate SSIs, available to end-user clients such as investment managers, investment manager outsourcers, broker-dealers and custodian banks, which either input or retrieve account information and SSIs into or from ALERT. ALERT end-user clients may also subscribe to SSI enrichment workflows for CTM.

As of January 2024, 408 investment managers use CTM's automated trade affirmation capabilities, and the number of buy-side firms that also leverage CTM's M2i workflow with a broker/dealer counterparty has increased by 91% since the start of 2023. Investment managers using CTM who do not use the M2i workflow can sign up by 1) obtaining a TradeSuite ID Number, 2) updating their ALERT DTC SSIs, and 3) working with our Integration Team to onboard. Investment managers not currently using CTM should consider signing up and adding M2i capabilities.

While we are seeing steadily improving rates of earlier affirmation as we get closer to T+1, we as an industry still have work to do to hit the target of 90% of trades affirmed by 9:00 pm on T. The good news is, we have identified areas of opportunity which can bring us to this target, and have specific actions that can be taken to help us get there.

It is often said nothing good happens between trade execution and settlement. Shortening the settlement timeline and the time between execution and settlement will improve market function by reducing risk, lowering cost and improving efficiency by having shares available for trading again sooner. But to realize these benefits, we need to work together as an industry to hit at least 90% affirmation rate by 9:00 PM ET to be ready for T+1.

### STEPS YOU CAN TAKE NOW

- **Take action to improve your affirmation rates:** Review our [segment specific checklists](#).
- **Review your ITP T+1 Scorecard:** These are available now at no cost to all CTM and TradeSuite ID investment managers and brokers via the ITP Data Analytics tile on MyDTCC. No signup required. The ITP T+1 Scorecard gives you information on trade submission timing for you and your counterparty, and what percent of your trades are affirmed by 9:00 pm on T.
- **Access CTM and TradeSuite ID Confirm Archive:** This is available at no cost to all CTM and TradeSuite ID clients. Confirm Archive is a real-time, web-based service that lets clients electronically search and retrieve trade confirmations in TradeSuite ID or those that have been matched in CTM. Users can access up to 10 years of confirmation history quickly and easily. Confirm Archive streamlines archive management while complying with all requirements for retention and safekeeping of electronic confirmations.

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