



T+2 Changes to Omgeo's Prime Broker Disaffirmation Cutoff

At the request of the industry, and after discussion with the SIFMA Prime Broker Working Group, DTCC will change Omgeo's proposed Prime Broker (PB) disaffirmation cutoff time for the T+2 settlement environment from 9:30 AM ET T+1 to 5:00 PM ET T+1. This modification represents a change from the original DTCC functional changes outlined in DTCC's T+2 Functional Change document published in March 2016.

The Prime Broker disaffirmation change will become effective with the implementation of T+2 on September 5, 2017. DTCC expects to make the new Prime Broker cutoff available for testing in the DTCC "PSE U" test environment in Q2 2017, with the exact date being announced in a separate notice.

Background

Currently, trades¹ between Executing Brokers (EBs) and PBs (Prime Broker trades) are sent to Omgeo for confirmation/affirmation. Timely affirmed PB trades are typically forwarded to the National Securities Clearing Corporation (NSCC) for netting in NSCC's Continuous Net Settlement (CNS) service if the CUSIP is eligible for CNS processing. Generally, PB trades are affirmed on Trade date (T).

Under various circumstances, as defined in the SEC's Prime Broker No Action Letter², a PB has the ability to disaffirm all previously affirmed PB trades of a client as a means of managing its risk vis-à-vis its client. When Omgeo receives a disaffirmation instruction from a PB, it generates new offsetting trades and sends the new trades to NSCC to offset the original affirmed trades already submitted to NSCC for CNS processing.

When a PB disaffirms a previously affirmed trade, the obligation to settle the trade is shifted back to the EB, who may now be responsible for posting additional margin with NSCC to support NSCC's trade guarantee.

¹ Although transactions between Executing Brokers and Prime Brokers are referred to as "trades," they are not really trades but rather transactions designed to transfer the clearance and settlement responsibility of a trade from an Executing Broker to a Prime Broker.

² <https://www.sec.gov/divisions/marketreg/mr-noaction/pbroker012594-out.pdf>.

In the current T+3 settlement environment, the operational cutoff for PB disaffirmation instructions has been 10:00 AM ET on T+2 for regular way settling trades. This means that if the client does not satisfy its margin requirement by the afternoon on T+1, the PB has the ability to disaffirm a transaction up to 10:00 AM ET on T+2. As part of the move to T+2, the disaffirmation cutoff was previously proposed to move to 9:30 AM ET T+1. However, after further discussion with the industry, it became apparent that the 9:30 AM ET T+1 cutoff would not provide sufficient time, as required under the Prime Broker No Action Letter, for PBs to manage their risk vis-à-vis their clients and make appropriate credit decisions.

New Proposed T+2 Disaffirmation Cutoff

To ensure PBs continue to have enough time to disaffirm transactions, the new T+2 disaffirmation cutoff will be 5:00 PM ET T+1. PB trades disaffirmed by 5:00 PM ET on T+1 will continue to be sent from Omgeo to NSCC for inclusion in NSCC's CNS service and will continue to net with the original affirmed PB transaction.

Similar to other trades received by NSCC, PB disaffirmation trades received by NSCC before noon on T+1 will be reported on the noon Consolidated Trade Summary (CTS) report. Trades received between noon and 5:00 PM ET T+1 will be reported via NSCC's Universal Trade Capture (UTC) output and will be included in the 9:00 PM ET CTS report.

To provide members with the status of their institutional trades, Omgeo produces a Cumulative Trade report, which contains settlement information for each trade affirmed in the Omgeo system. The Omgeo Cumulative Trade report is currently produced at 12:00 noon ET on T+1, but will be produced at 11:30 AM ET on T+1 when the industry moves to T+2 settlement. Disaffirmation instructions received by Omgeo prior to 11:30 AM ET T+1 in a T+2 settlement environment will be included in the Omgeo Cumulative Trade report. However, disaffirmation instructions received between 11:30 AM ET and 5:00 PM ET T+1 in a T+2 settlement environment will not be included in this report. Instead, members will need to rely on NSCC's UTC and CTS output to identify those disaffirmation trades generated between 11:30 AM ET and 5:00 PM ET T+1.

Reverse Affirmations

Although not relevant to Prime Broker Trades, Omgeo offers a process that allows for the reversal of non-PB institutional trade (reverse affirmation). Similar to the disaffirmation process, reverse affirmation instructions allow members to reverse affirmed institutional trades. However, unlike PB trades, non-PB institutional trades are not sent to NSCC. Instead, non-PB institutional trades are sent to The Depository Trust Company (DTC) for processing. Since DTC does not net trades, the non-PB Institutional trades and reverse affirmation trades remain discrete trades pending settlement in DTC.

Currently, the PB disaffirmation cutoff and the reverse affirmation cutoff are the same in the Omgeo system, i.e., 10:00 AM ET T+2. To minimize disruption to the industry, the PB disaffirmation cutoff and the reverse affirmation cutoff will be separated. With the implementation of T+2 settlement, the PB disaffirmation cutoff will move to 5:00 PM ET T+1 as previously mentioned in this Notice. The reverse affirmation cutoff will move to 9:30 AM ET T+1, as originally proposed by the T+2 industry working groups.

This notice was sent via email to clients on February 28, 2017. To be added to the UST2 mailing list please send an email to info@ust2.com.