

**T2**  
SETTLEMENT  
**T+2**

## Shortening the Settlement Cycle: The Move to T+2

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# The U.S. financial services industry has expressed support for the move to T+2 by Q3 2017

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The move to T+2 settlement cycle in the U.S. is supported by Asset Managers for 40 Act and non-40 Act Funds, Global Custodians, Institutional and Retail Broker-Dealers, Transfer Agents, Exchanges, DTC and NSCC, Omgeo, OCC, Service Bureaus, and Issuers.

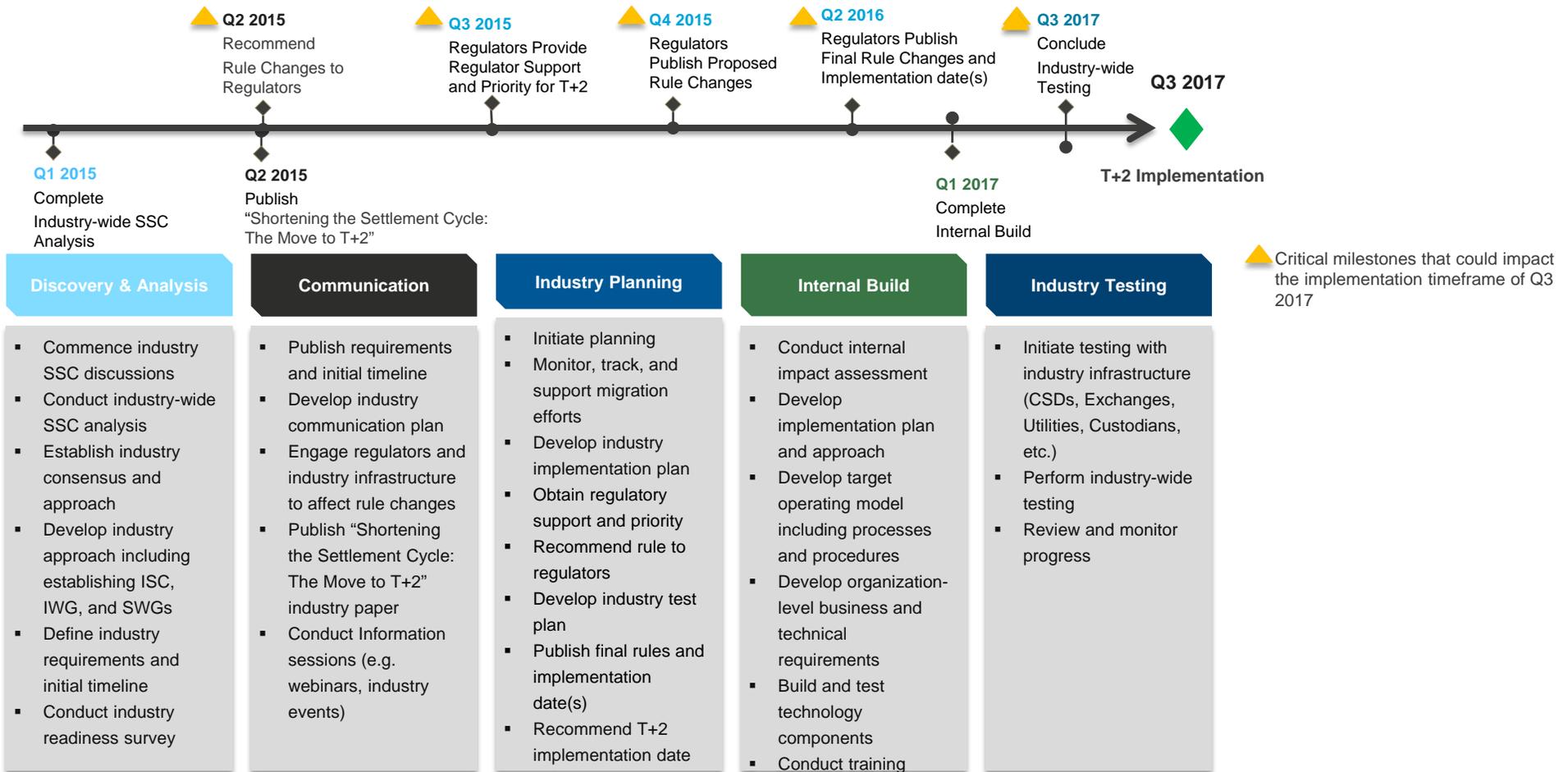
**The move to T+2 regular way/standard settlement is expected to yield important benefits including:**

- Reduced Counterparty Risk
- Reduced Pro-Cyclical Margin and Liquidity Demands
- Decreased Clearing Capital Requirements
- Increased Global Settlement Harmonization

To lead the industry to T+2, the financial services industry formed an Industry Steering Committee (ISC), Industry Working Group (IWG), and Sub-Working Groups (SWGs). As an initial step towards achieving T+2, the IWG and SWGs identified industry-level requirements for the following in-scope products:

- Equities
- Corporate bonds
- Municipal bonds
- Unit investment trusts
- Financial instruments comprised of these products (e.g. ADRs, Mutual Funds, ETFs)

# To facilitate a move to T+2, the ISC has developed a proposed migration timeline

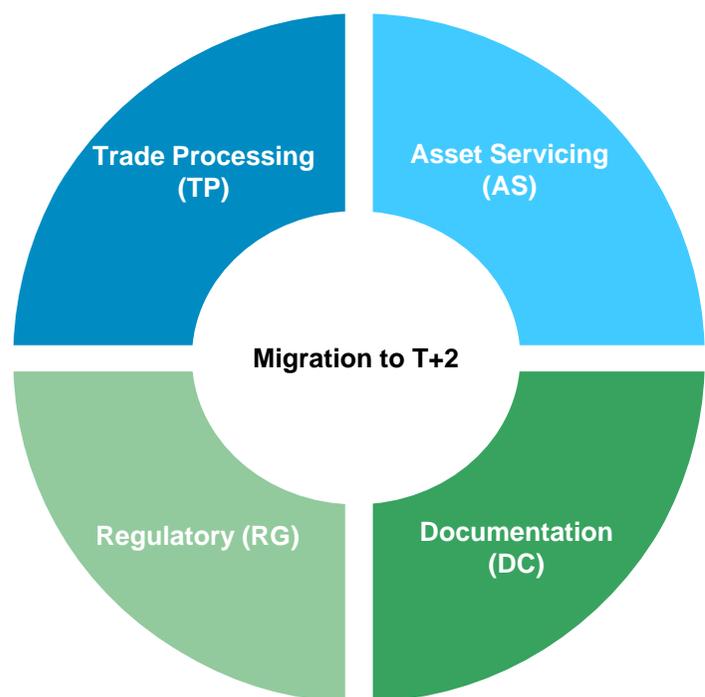


## Critical Dependencies

While it is necessary to complete all milestones by the quarter specified in the timeline, achieving **regulatory certainty** and successfully executing **industry-wide testing** are on the critical path for achieving the Q3 2017 implementation timeframe as they affect an organization's ability to plan and execute the migration to T+2.

# A series of industry-level requirements primarily focused on secondary market activity were identified to facilitate the migration to T+2

## Industry-Level Requirements Categories



**Trade Processing:** Identifies industry-level requirements impacting trade execution through settlement

**Asset Servicing:** Identifies industry-level requirements impacting asset servicing functions such as distributions and reorganizations

**Documentation:** Identifies industry-level requirements impacting agreements and procedural documentation

**Regulatory:** Summarizes the content of a comment letter that was submitted to regulators and identified specific rules and rule text changes

- The industry-level requirements are meant to serve as a guide for organizations to develop organization-level requirements
- As the industry moves forward with the T+2 migration effort, additional industry-level requirements may be identified and will be communicated to industry stakeholders

# The industry-level requirements in each category provide the changes that various organizations must undertake to migrate to T+2



## Trade Processing

1. Reference data and trade processing systems must be configured for T+2 as standard settlement
2. Trades must be matched in NSCC's Real Time Trade Matching (RTTM) by 11:30am on T+2
3. Affirmed trades must be submitted to Omgeo by 12pm on T+1 for downstream processing (NSCC and/or DTC)
4. Processing of physical securities must support T+2 settlement



## Asset Servicing

1. Organizations must adjust the ex-date period for regular-way ex-date calculations and modify the due bills period calculation for regular-way and irregular ex-dates
2. Cover/Protect expiration date must be calculated as two business days instead of three business days after the offer expiration date



## Regulatory

The comment letter identified three categories of potential rule changes:

1. Rules that specifically establish or reference a T+3 settlement cycle
2. Rules that do not specifically reference T+3 as the standard settlement cycle, but establish time frames based on the settlement date of a trade, and require one or more parties to act prior to settlement taking place
3. Rules that establish time frames based on settlement date, but do not require action before settlement occurs



## Documentation

1. Agreements, official statements, prospectuses, statements of additional information, and subscription documentation must be updated to accommodate the move to T+2
2. Procedure documentation and training materials must be updated to specify T+2 as standard settlement

# The shortened settlement cycle will require organizations to consider and manage the impact to their operating model

## Failed Trade Management

Shortening the settlement cycle may increase the number of cases in which securities (seller) and/or funds (buyer) fail to **deliver the securities or funds by settlement date**. Organizations should consider automation and the use of industry utilities to minimize fails and promote operational efficiency.

## Securities Lending

**Security lenders** may have less time to recall securities on loan, **security borrowers** may have to be cognizant of the reduced timeframe when processing security recalls, and **service providers** may have to update their products and services to accurately process such transactions.

## Liquidity and Collateral Management

**Organizations** may have to modify their liquidity management, cash forecasting functions and collateral management functions to process transactions. **Retail broker-dealers** will need to review the collection process to ensure good/cleared funds are available from clients.

## Processing of Multi-listed Securities

Multi-listed securities such as **American Depositary Receipts (ADR)** and securities listed **on multiple international stock exchanges** may require changes to account for the shortened settlement cycle in the U.S.

## Foreign Investment/Cross-Border Transactions

Complexities common in foreign investment/cross-border transactions will continue to exist and organizations will need to **review internal operations based on global investment strategies to ensure trade settlement**.

## Secondary Insurance for Municipal Bonds

The shortened settlement timeframe **may constrain the ability of investors to obtain secondary insurance within the standard settlement timeframe** and is likely to result in a greater number of extended settlements.

# Organizations should consider implementing leading industry practices to promote operational efficiencies and enable settlement finality

## Trade Date Match/Affirm

**Trade match/affirm streamlines the clearance and settlement process** enabling organizations to take advantage of downstream efficiencies. Organizations should consider matching and affirming trades on trade date and the industry should consider publication of affirmation/settlement rates per organization, to enable organizations to evaluate their post-trade performance in relation to peers.

## Automated Exchange of Standing Settlement Instructions (SSI)

Incomplete/incorrect SSI information is one of the leading causes of settlement fails. **Organizations should consider automating the exchange of standing settlement instructions (SSI) through a central data repository** maintained by industry participants in order to reduce manual processes, create efficiencies, and increase data quality.

## Electronic Funds Payment/ACH Processing

To reduce the risks and costs associated with check processing, organizations should **encourage their customers to leverage electronic funds payment/ACH processing** to streamline payment processing and reduce exposure.

## Early and On-going Stakeholder Communication

**Organizations should engage in early and on-going communication with clients, counterparties, and staff** to minimize settlement date mismatches, reduce risks, and operate efficiently.

## Other Industry initiatives, although not integral for a migration to T+2, support a shortened settlement cycle

### Extending Digital Delivery and Use of the Summary Prospectus Delivery Option

By extending Summary Prospectus delivery to other product types and establishing greater use of Enhanced Broker Internet Platforms (EBIPs) for pushing documents digitally, **the industry can create significant economic benefits and higher levels of investor readership**. A Summary Prospectus delivery option for corporate bonds and government securities, would significantly reduce costs for the industry. Additionally, the industry should seek to expand investors' digital delivery options for statutory documents.

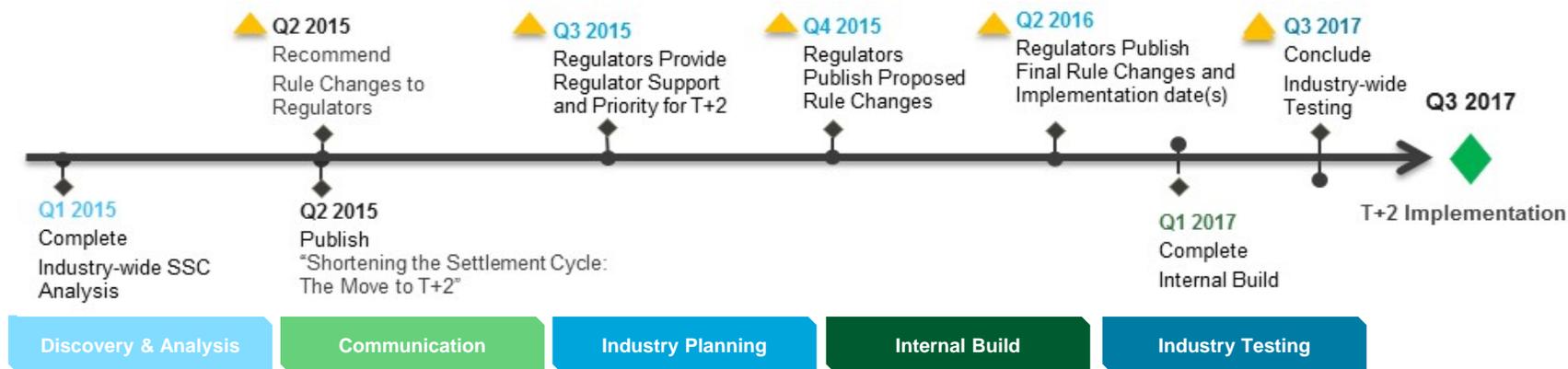
### Dematerialization

Dematerialization, replacing physical certificates with book-entry securities, reduces cost, complexity of settlement and the risks associated with handling them. **Direct Registration System (DRS)**, which enables assets to be converted to electronic book-entry form in a fully automated process and expansion of DTC's **Fast Automated Securities Transfer (FAST)** program, which enables the exchange of records in place of certificates between DTC and the transfer agent community will contribute to greater dematerialization.

### ACATS

Automated Customer Account Transfer Service (ACATS) would **provide customers with a clear and consistent expectation regarding the amount of time required to complete an account transfer**, thus allowing customers to effectively plan for the use of the transferring securities. Currently, ACATS, a service that automates and standardizes procedures for the transfer of assets in a customer account from one brokerage firm /bank to another, does not have a mandatory timeline, which leads to variations in transfer times (typically 3-5 days depending on the type of transfer) and makes it difficult for customers to use securities being transferred.

# The industry and individual organizations must execute a series of next steps in order to successfully migrate to T+2 by Q3 2017



## Industry Next Steps:

*We are here*

- Continue to monitor and measure T+2 migration progress
- Engage with regulators to assist the industry in meeting the key milestones for regulatory changes
- Conduct information sessions with the industry and ensure continued industry-wide engagement
- Develop and execute an industry communication, implementation, and testing plan

## Organization Next Steps:

- Develop an internal migration plan and approach
- Conduct an impact assessment (compare current state to industry-level requirements)
- Obtain budget to execute the T+2 migration plan
- Engage and communicate progress and preparedness to the ISC

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