

GMAC T+1 Resources

This guide is intended to be a resource document to support market participants as they prepare for the transition to T+1 settlement for US securities, as well as the parallel moves to T+1 in Canada and Mexico. Recognizing that participants in adjacent markets may have questions, this guide provides an introduction of the T+1 transition, its scope, areas of particular impact market participants should be familiar with, and provides links to more detailed resources to support their implementation planning.

<p>What is the T+1 Transition in the U.S. Securities Markets?</p>	<p>On February 15, 2023, the Securities and Exchange Commission (SEC) voted to adopt the proposed rule formally known as SEC Rule 15c6-1 to shorten the securities settlement cycle from trade date plus two business days (T+2) to trade date plus one business day (T+1). As a result, the United States will transition to T+1 on May 28, 2024. Further information on the SEC’s Final Rule can be found here.</p>
<p>What products will move to T+1 settlement?</p>	<p>The products subject to the T+1 settlement cycle in the United States are securities that do not carry an exemption from SEC Rule 15c6-1(a). “Securities” defined in Section 3(a)(10) of the Exchange Act covers, among others, equities, corporate bonds, UITs, mutual funds, ETFs, ADRs, and options. Application of SEC Rule 15c6-1(a) extends to the purchase and sale of securities issued by investment companies including mutual funds, private-label mortgage-backed securities, and limited partnership interest that are listed on an exchange.</p>
<p>What products will not change their settlement cycle?</p>	<p>There are several exceptions within the broad category of securities defined by SEC Rule 15c6-1(a) accelerating the US settlement cycle. These include: security-based swaps (the SEC did not include derivatives in the official scope of the rule); certain insurance products; certain foreign securities; as well as contracts for the purchase or sale of limited partnership interests that are not listed on an exchange or for which quotations are not disseminated through an automated quotation system of a registered securities association.</p> <p>There are also exceptions associated with the underwriting process - underwriters and parties can agree in advance of a transaction to a settlement cycle other than the standard settlement cycle, and contracts for the sale for cash of securities that are priced after 4:30 p.m. ET on the date they are priced. The SEC may also exempt securities from time to time by order.</p> <p>U.S. Treasury bills, bonds, and listed options already settle T+1 and so will not be affected.</p>

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<p><i>What are the benefits of accelerated settlement?</i></p>	<p>The increased time to settlement may equate to counterparty risk and margin requirements, which are designed to mitigate those risks, and represent costs to market participants, most directly to members of clearing utilities such as the DTCC. The immediate benefits of moving to a T+1 settlement cycle may mean cost savings, reduced market risk and lower margin requirements.</p> <p>Today an average of over \$13.4 billion is held in margin at the DTCC every day to manage counterparty default risk in the system. An analysis carried out by the DTCC predicts that shortening the settlement cycle to T+1 could potentially reduce the volatility component of NSCC’s margin by 41%, assuming current processing and without any other changes in market behavior.</p> <p>Market participants will likely see additional savings through greater efficiency and expedited processing.</p>
<p><i>What other markets are moving to T+1 alongside the U.S.?</i></p>	<p>Canada and Mexico have also announced they are also moving to T+1 alongside the U.S.</p> <p>The Canadian Capital Markets Association (CCMA) has announced their decision to move the settlement cycle for capital market securities from two business days (T+2) to one business day (T+1). The target date set by CCMA for the transition to T+1 is May 27, 2024. The full list of the types of securities which will be moving to T+1 in Canada is available here.</p> <p>Mexico will also be moving to T+1 on May 27, 2024. This follows an analysis by Mexico’s Equities CCP, Contraparte Central de Valores (CCV) and the Mexican Association of Brokerage Firms (AMIB), that recognizes the value of maintaining synchrony with the markets of the U.S. and Canada, considering the strong interaction between these markets with the Mexican market. The target date for the transition in Mexico is May 27, 2024.</p> <p>Several other markets in the Americas are also exploring a move to T+1 later in 2024.</p>
<p><i>Are other international markets considering accelerating their settlement cycles?</i></p>	<p>The United Kingdom and the European Union are also exploring an acceleration of settlement from their current T+2 cycle. In the United Kingdom, in December of 2022, HMS Treasury formed a Task Force under the chair of Charlie Geffen to explore the feasibility to accelerate settlement in the U.K. An initial report from the Task Force is expected in Q1 2024, with final</p>

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	<p>recommendations (including a proposed timeline for transition) anticipated in Q3 2024. In the European Union, the European Securities and Markets Authority (ESMA) has issued a Call for Evidence and asked stakeholders to supply their perspectives by December of 2023.</p>
<p><i>How will market participants be affected by the T+1 transition?</i></p>	<p>Beyond the impact on in-scope products, market participants should consider how the shortened timeframes associated with the move to T+1 settlement will impact their operations, products, and processes, particularly where they intersect with the securities lifecycle. The impacts of shorter timeframes may be particularly important for market participants in other regions, where time zone differences will further shorten the windows available to execute key processes (e.g., trade affirmation or associated F/X transactions). Broadly, it will mean compression of timescales and rethinking of some legacy processes which are challenged by the new timeframes.</p> <p>The acceleration to a T+1 settlement cycle will also impact firms across the financial services industry and throughout the trade lifecycle, including collateral management. Impacted market participants include issuers, asset managers ('40 Act and non-40 Act funds), broker-dealers (retail, institutional, and prime brokerage), global custodians, vendors, service bureaus, transfer agents, exchanges, clearing firms, buy-side firms, and depositories.</p>
<p><i>What are some of the Foreign Exchange (F/X) Markets Implications of the T+1 move?</i></p>	<p>T+1 may create knock-on challenges for F/X markets because of the need to execute the securities transaction followed by the related F/X transaction with compressed remediation time available. These challenges reflect the intersection of T+1 settlement timeframes with F/X process timelines (e.g., CLS cutoff times). These impacts may be particularly acute for Asian-based investors; local markets may have closed before US security can be transacted.</p> <p>The industry has been carrying out extensive analysis of the scale of the impacted markets, the timelines in question, and have identified a number of 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. Additionally, CLS carried out analysis of its transaction data, and determined that a value of <1% of the CLS Settlement average daily</p>

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settlement value is executed by buy-side participants on a T+1 basis, comprising volumes where one side is USD and a fund is party to the trade, suggesting that the scope of the overall F/X market which may be impacted is highly limited.

The Global F/X Division (GFXD) of the Global Financial Markets Association (GFMA) has released several resources on implications of T+1 for F/X markets and processes:

- The GFXD T+1 paper was released May 2023, titled "[FX Considerations for T+1 Securities Settlement.](#)"
- The GFXD has also issued a paper on the Accelerating settlement cycle in July 2023 titled "[Accelerated FX Settlement - Moving to T0 and continuous settlement.](#)"

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. It is available [here](#).

Users of CLS should also consider how its timelines intersect with the timeframes for T+1 settlement. CLS has released [an FAQ](#) discussing the potential impacts and what firms can do to minimize risk and disruptions. It is available [here](#).

How will trade affirmation, allocation, and confirmation processes change under T+1?

The timelines for trade affirmation, allocation, and confirmation will all be shortened in the post-T+1 environment. This change was confirmed by the Securities and Exchange Commission in two updated rules released in 2023:

- **For Broker/Dealers & their buy-side counterparties: Exchange Act Rule 15c6-2** requires Broker/Dealers and Investment Managers to complete allocations, confirmations, and affirmations as soon as technologically practicable and no later than by the end of trade date.
- **For SEC Registered Investment Advisors: Amended Advisers Act Rule 204-2** which requires Registered Investment Advisers that are

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	<p>parties to contracts under Rule 15c6-2 to make and keep records of confirmations received, and allocations and affirmations sent, each with a date and time stamp.</p> <p>Details on both rules and their key requirements are available here.</p> <p>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 7:00PM 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).</p> <p>DTCC has released a detailed discussion of the new affirmation rate goals and operating models.</p> <p>Market participants should also consider how the new timeframes for these rules align with their internal processes, time zones of their counterparties, and working hours of their staff, and dependencies on external infrastructure providers and vendors.</p>
<p><i>How will securities lending be impacted by T+1?</i></p>	<p>The change in the settlement cycle will necessitate behavioral change by lenders, borrowers, custodians, broker dealers, and service providers, because security lenders will have less time to recall securities on-loan and security borrowers will have less time to return those securities to settle a sale of loaned securities.</p> <p>To reduce potential increases in settlement fail rates and potential buy-ins resulting from sales of loaned securities, the industry recommends that lenders adopt a “best practice” of issuing their recalls by 11:59 PM ET on T. However, this deadline does not supersede existing MSLAs. The more notice borrowers have to return securities, the more likely they will be returned in time for settlement.</p> <p>Behavioral, technological, and process changes are important to mitigate the impact on settlement processes resulting from a compressed settlement timeframe. Market participants should consider whether lending</p>

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	<p>agents use a batch process for recalling shares or recall intraday, and how those timelines interact with custodian timelines.</p> <p>Under T+1, a lender who sells the loaned securities is incentivized to issue the recall on trade date to minimize risk of fails to deliver and potential resulting buy-ins. The more notice broker-dealers have to return securities, the more likely they will be returned in time for settlement.</p>
<p><i>How will collateral management be impacted by T+1?</i></p>	<p>For market participants using securities as collateral, it will be imperative to manage inventories as efficiently as possible. Using automated processing and data standards, including digital representation of collateral, will mitigate operational challenges and ensure collateral optimization.</p> <p>Streamlining collateral management, including the margin call, allocation and affirmation, settlement, and confirmation of settlement reporting steps will improve inventory management and counterparty risk oversight. For firms that use multiple systems for collateral management and settlement, digitally representing securities that are used for collateral will expedite interoperable processing and reduce risks related to data translation risks. This, in turn, can improve collateral optimization and may contribute to decreased funding costs.</p> <p>One specific example is the substitution of collateral. If a firm is substituting collateral in securities form, processing the movements as promptly as possible via automation will reduce operational and counterparty risks and reduce funding costs.</p>
<p><i>What are some of the potential T+1 impacts on OTC derivatives?</i></p>	<p>The SEC final rule does not specifically mandate all OTC derivatives settle on a T+1 basis. Market participants should be aware of the impact that the T+1 move will have on derivatives which reference “in-scope” securities. For some derivative products, participants should consider adjustments in their settlement timeframes to align with the reduced securities’ settlement cycle, even in the absence of a regulatory requirement or updated industry conventions. These may include, <i>inter alia</i>, equity swaps, OTC equity options, OTC derivative transactions hedging notes, and in some cases “exotic” OTC derivatives transactions.</p> <p>As the transition date approaches, ISDA plans to issue members a “Preferences Grid,” where firms can indicate</p>

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	<p>whether they intend to amend outstanding transactions (i.e., transactions executed before the “go-live date”), previously confirmed on a longer settlement cycle, to the reduced settlement cycle. ISDA would then distribute the collated information to members who can use it to coordinate among themselves to reduce the risk of settlement breaks for these products. This initiative is being conducted by the ISDA Equity Market Infrastructure Group.</p>
<p><i>How will foreign listed securities trading in the U.S. be impacted?</i></p>	<p>On May 26, 1995, the Securities and Exchange Commission (“Commission”) issued an exemptive order, exempting certain transactions in foreign securities from Rule 15c6-1 under the Securities Exchange Act of 1934. When the US settlement cycle for DTCC eligible securities moved from T+3 to a T+2 settlement cycle in 2017 this exemptive order may not have been considered by industry participants in detail given other markets, for example the UK and the European Union, were already on a T+2 settlement cycle. With the US moving to T+1 in May 2024 before most other markets, industry participants may need to review this exemptive order.</p> <p>In general, below are potential scenarios for foreign (dual-listed, multi-listed, multi-settled) securities that are subject to Rule 15c6-1. The below list of scenarios is not meant to be an exhaustive list that could be impacted by T+1 implementation and does not constitute advice as to any particular question, issue, or concern a counterparty may have in connections with any specific transaction. This list is meant to be illustrative only and counterparties to actual transactions should independently verify the accuracy of the information, expand or modify any recommendations to reflect their own analysis and independent review of implementation rules and requirements, and consult with counsel to the extent they have any questions about implementation of T+1 mandates. Additional market guidelines for scenarios not captured by the exemptive order will be published by SIFMA in due course, subject to further market participant agreement.</p> <p>The scenarios below only cover securities which are DTC eligible or eligible to be held at a US transfer agent. If a security is neither DTC eligible nor eligible to be held at a US transfer agent, then Rule 15c6-1 applies does not apply.</p>

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	<ul style="list-style-type: none">○ Scenario #1: There is more than 10% trading volume in the U.S., and the security is executed in the U.S., then Rule 15c6-1 applies.○ Scenario #2: There is more than 10% trading volume in the U.S., and the security is settled in the U.S., then Rule 15c6-1 applies.○ Scenario #3: There is more than 10% trading volume in the U.S., and the security is not executed nor settled in the U.S. then Rule 15c6-1 does not apply (exempt from 15c6-1).○ Scenario #4: There is less than 10% trading volume in the U.S., then Rule 15c6-1 does not apply (exempt from 15c6-1). <p><u>FAQ on Interpretation of the 1995 SEC exemptive order exempting certain transactions in foreign securities from Rule 15c6-1</u></p> <p><u>Voluntary T+1 Implementation Recommendations for Transactions in Foreign Securities</u></p>
<p>What other resources are available to help firms prepare for the transition?</p>	<p>Industry Playbook: SIFMA, the Investment Company Institute (ICI), and the DTCC have released the <u>T+1 Securities Settlement Industry Implementation Playbook</u>, in collaboration with Deloitte. The playbook includes a detailed implementation schedule, interim milestones, and identified dependencies. It discusses impacts and key considerations across a range of key impacted areas, including trade processing, asset servicing, documentation, securities lending, prime brokerage, and funding and liquidity considerations, as well as regulatory changes and testing and migration. The T+1 Playbook is available <u>here</u>.</p> <p>DTCC Resources: DTCC maintains a robust library of resources related to the T+1 transition, covering both changes happening at DTCC and considerations for market participants. The full set of resources is available <u>here</u>.</p> <p>Resources which may be of particular interest in understanding the transition and its impact on firms include:</p> <ul style="list-style-type: none">○ <u>FAQs</u>○ <u>Documentation</u>, including archives of educational webinars

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	<ul style="list-style-type: none">○ Testing Framework
<p><i>What are the current settlement cycles in other securities products and markets?</i></p>	<ul style="list-style-type: none">○ U.S. government securities market has been T+1 since the start of central clearing of U.S. treasuries in 1986.○ The U.S. also has T+1 settlement in securities options markets and as the normal practice for mutual funds.○ U.S. commercial paper, certificates of deposit, and money market funds largely settle on the same day as the transaction (T+0).○ By 2014, the European Commission required equity markets in 29 member countries (including the U.K. pre-Brexit) to move to T+2 settlement, joining Germany, Bulgaria, and Slovenia, which were already settling T+2.○ The U.K Gilt market settles T+1.○ Israel has T+1 settlement for securities both through its clearing hour and broker-to-broker.○ India completed moving its equity markets to T+1 in January 2023, while its sovereign debt has been T+1 since 2017.○ In Japan, equities settle at T+2, while government bonds settle at T+1.○ China has same-day securities delivery (within four hours after market close) for its A-shares securities, though their related payments move in the banking system the next morning. In Hong Kong, securities settlement is T+2.