

The Role of Affirmation in U.S. Post-Trade Processing

The U.S. SEC's New Exchange Act Rule 15c6-2 states that broker-dealers and their counterparties need to complete certain parts of the post-trade process – specifically, the allocation, confirmation, and affirmation process - as soon as technologically practicable and no later than by the end of trade date. To be able to meet these requirements, the [U.S. T+1 Industry Working Group](#) has recommended a best practice time for allocations to be completed for a move to a T+1 settlement cycle by 7:00PM ET on trade date to ensure that firms have sufficient time to process confirmations and affirmations by the DTCC affirmation cutoff of 9:00PM ET on trade date. To achieve this, firms must consider how they can accelerate their allocation and affirmation processes. Brokers and custodians that miss the affirmation deadline face additional post-trade costs to submit Delivery Orders directly to the U.S. depository, the Depository Trust Company (DTC).

U.S. TRADE FLOWS

For U.S. institutional trades, the affirmation process takes place before the settlement instruction is sent to the depository, in a system called TradeSuite ID®. In contrast, in non-U.S. markets, affirmations are generally embedded within the depository system, in what is known as pre-settlement matching between the local broker and the local custodian (acting on behalf of the investor). Non-U.S. institutional investors are typically familiar with pre-settlement matching, but not familiar with TradeSuite ID for their trades in the U.S. market since it is their U.S. custodian who normally handles TradeSuite ID affirmation under an omnibus settlement setup. This is a key distinction that non-U.S. investors must account for when planning for the U.S. move to T+1. As a result, non-U.S. investors should discuss the optimum affirmation arrangement suitable for them under T+1 with their custodians.

To enhance the straight-through processing of U.S. institutional trades, DTCC has introduced CTM®'s Match to Instruct (M2i) workflow (which includes use of CTM, TradeSuite ID, and SSI enrichment via ALERT®). With this workflow, which includes various affirmation options depending on the broker's setup, trades that are allocated, confirmed, and matched by the institutional investor and its brokers in CTM will automatically trigger trade affirmation and delivery of instructions for DTC-eligible securities directly to the U.S. depository for settlement. **This auto-affirmation eliminates any manual intervention by the institutional investor or their custodian to affirm the trade, as the central match is the affirmation.**

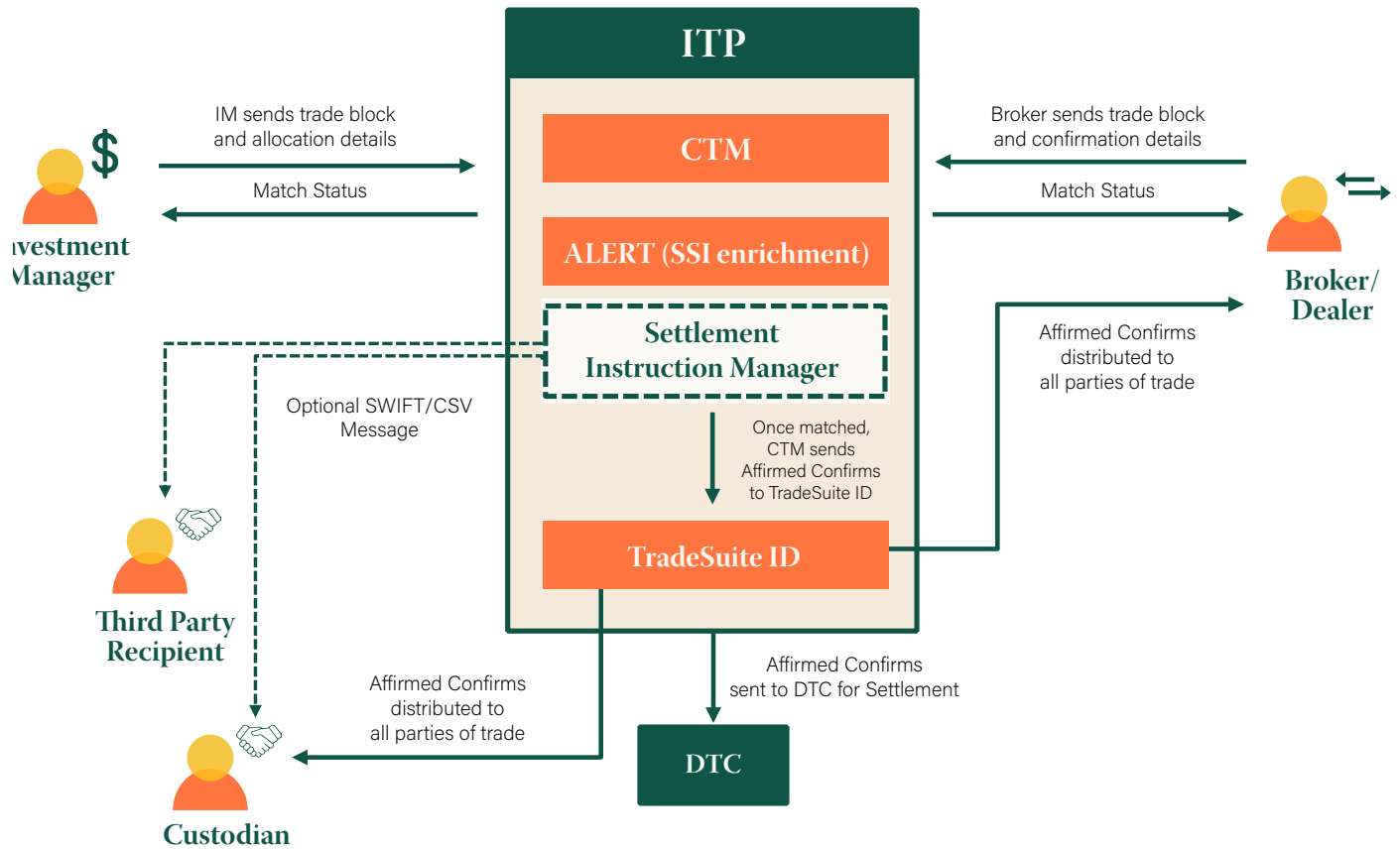
In support of T+1 preparedness, DTCC published [Hitting 90% Affirmation by 9:00 PM ET on Trade Date: The Key to T+1 Success](#) which recommends that the industry affirm at least 90% of all trades by 9:00 PM on trade date. Clients using automated workflows such as M2i to match and affirm U.S. trades are approaching a 100% same day affirmation (SDA) rate by 9:00 PM ET on trade date. Contrarily, as of January 2024, the SDA rate for all institutional confirm/affirm flows performed directly in TradeSuite ID via custodians and/or investment managers is only 51%, averaging all affirmation methods together for the industry as of January reaching 73%.

To enable CTM's M2i workflow, the institutional investor will need a subscription to CTM, TradeSuite ID and ALERT, and will need to secure their own TradeSuite ID Number, which is the identifier used to attribute the institutional investor as the "Institution" on the confirmation. This TradeSuite ID Number is separate from the custodian's omnibus TradeSuite ID identifier, so the affirmation can automatically be generated at the investor level, without the need for any further custodian or broker action.

Additionally, when the institutional investor has their own TradeSuite ID Number, it ensures they are listed as a party to the confirm. With paid subscriptions to TradeSuite ID, the institutional investor will eventually have access to an archival capability which is being developed by DTCC ITP and will be launched shortly with more information.

M2I WORKFLOW DIAGRAM

This diagram represents the M2i workflow when both the investment manager and broker are enabled.



Time is of the essence—the deadlines are fast approaching and non-U.S. firms trading in the U.S. market will be impacted either directly or indirectly.

Contact us today to learn more about CTM and how the M2i workflow can help you prepare for the move to T+1.

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