

## Automatic Transfer Affirmation

### Reducing Risk and Cost for Institutional Trades in the US Market

#### OVERVIEW

Part of the institutional post trade flow for DTC-eligible products (Equities, Corporate Bonds, Municipal Bonds) includes trade affirmation. Trade affirmation is supported by DTCC Institutional Trade Processing's (ITP) TradeSuite ID™ service which enables institutions to affirm Broker confirmations. TradeSuite ID processes approximately 400 million broker confirmations annually.

For the US market, ITP's TradeSuite ID service serves multiple purposes:

- Facilitates trade processing into DTC's settlement platform;
- Allows Brokers to meet their confirmation delivery requirement as set forth under SEC Rule 10b-10; and
- Provides an archive for Broker confirmations that allows Brokers and Investment Managers to meet certain books and records requirements that they have under US securities law.

#### DTC BI-LATERAL SETTLEMENT PROCESS

The DTC Inventory Management System (IMS) manages the bilateral settlement process between DTC participants in DTC products. Trades can be submitted for settlement either as affirmed trades from TradeSuite ID or as unaffirmed trades through Day Delivery Orders or Night Delivery Orders.

Unlike other major Central Securities Depository's, DTC does not have a mandatory pre-settlement matching process between the delivering and receiving parties. However, once the deliverer approves a transaction, the receiver has an opportunity to accept or reject the trade through the Receiver Authorization Delivery (RAD) step. Most of rejects in the RAD process are due to the Receiver not knowing the transaction. RAD rejects tend to arrive late in the day on settlement, limiting the ability of the deliverer to resolve the exception before close of business.

Once a trade is rejected in RAD it frequently requires 2 to 3 re-submissions and involvement by both settling parties (Broker and Investment Manager) before settlement is achieved. **Affirmed trades are 50 to 100 times less likely to be rejected in the RAD process than unaffirmed trades.** Consequently, in terms of efficiency and cost, affirmed trades are superior to unconfirmed trades.

#### US MARKET: BASIC PROCESS & COST

- The basic flow has the Executing Broker submitting a trade confirmation to TradeSuite ID directly (or now TradeSuite ID via CTM, leveraging CTM's new Auto Affirmation workflow) with either the Investment Manager or its Custodian affirming the trade. There are three parties who play a role with each TradeSuite confirmation, the Investment Manager (institution), the Broker and the Custodian (agent).
- The Investment Manager should be identified by their own TradeSuite ID in ALERT such that the Broker can identify the Investment Manager explicitly using the TradeSuite ID confirmation.
- Transactions affirmed before 11:30 AM T +1 are submitted to DTC's IMS system for settlement processing and are eligible for a low processing charge of \$0.04. Transactions affirmed after 11:30 AM until settlement day at noon are sent to DTC as Late Affirms and the deliverer and receiver need to approve them.
- Unaffirmed transactions (after noon on settlement date) can only be submitted to DTC for settlement processing thru a Delivery Order (\$0.54) or a Night Delivery Order (\$0.17), the receiver in both cases is charged \$0.11.
- Our studies have shown that unaffirmed trades (i.e. non-STP) are 50 to 100 times more likely to be DK'd by the other settling party due to lack of knowledge of the transaction. DKs require manual intervention by the Broker, Investment Manager and Custodian to research and resolve.

## WHY ARE TRADES NOT AFFIRMED?

We have observed that the affirmation rate of Investment Managers using Custodian Omnibus accounts is 50% lower than those using their own TradeSuite ID. Trades are also not affirmed due to miscommunication between the Investment Manager and their Custodian. Affirmation may also not occur due to inefficiencies in the Custodian's matching process between the clients trade notification and the TradeSuite confirmation.

## CTM NOW ENABLES HIGH AFFIRMATION RATES WITH CTM AUTO AFFIRMATION

Through the use of CTM Auto Affirmation, Investment Managers can now elect to submit their CTM matched allocations for affirmation in TradeSuite ID. Under this election, TradeSuite ID will receive each Investment Manager's allocation from CTM (with their TradeSuite ID) and match it to the appropriate confirmation, automatically affirm it and send it to DTC for settlement processing. The matching/affirmation rate is expected to be very high since the trade data being used has already been agreed upon in CTM. Based on current data the CTM matching rate is 99+%.

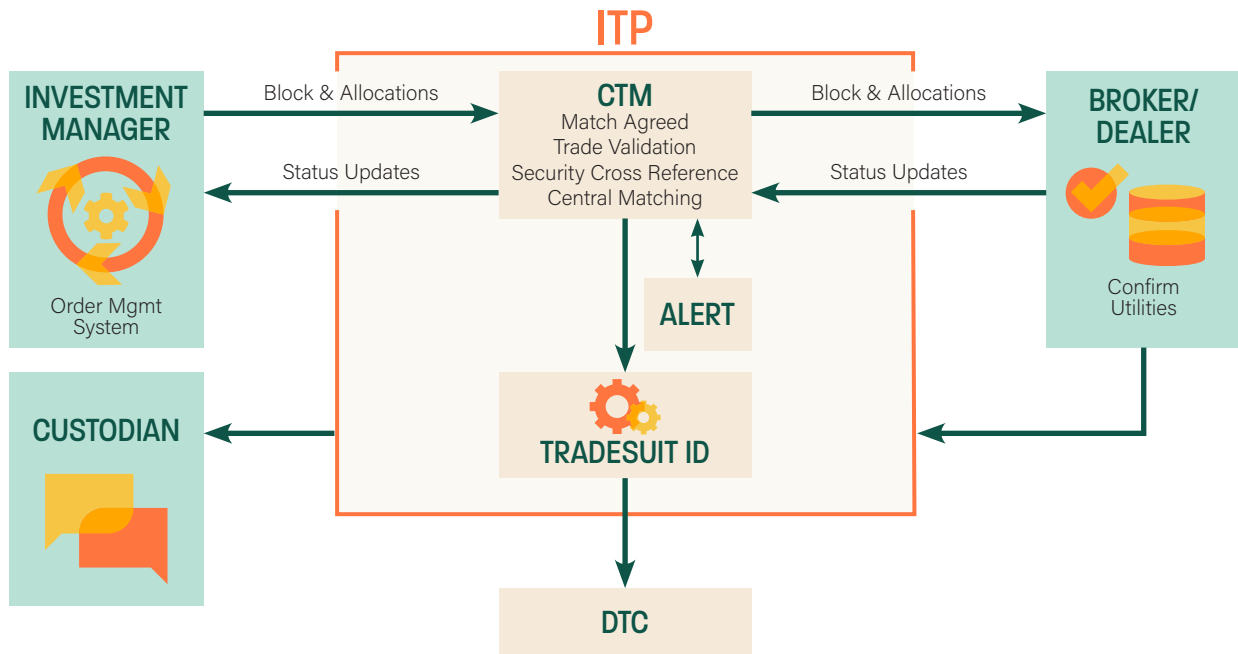
## RESILIENCY DURING VOLATILITY

In March 2020, CTM matching volumes and DTC settlement volumes roughly doubled when compared to the 2019 average. The CTM and TradeSuite ID platforms handled the increase without issue and CTM match rates remained at 95% on trade date and 99% on trade date plus 1. However, the number of daily RAD rejects on unaffirmed trades more than tripled (3X). These statistics highlight the challenge in managing rejected trades and validate the value of an automatic trade affirmation process, particularly in times of market stress.

## NEXT STEPS

To activate CTM Auto Affirmation, clients should:

- Obtain a TradeSuite ID (no cost)
- Populate ALERT (one field) with this TradeSuite ID
- Enrich their CTM trades with SSIs directly from ALERT
- Elect to auto affirm CTM matched trades in TradeSuite ID (no cost)



## FOR MORE INFORMATION

Please contact your Relationship Manager or visit [www.dtcc.com/itp](http://www.dtcc.com/itp).

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