

The Introduction of Same Day Settling with ETF T+0

SUMMARY

ETF T+0 Create / Redeem Enhancement:

This enhancement will unlock new opportunities for portfolio optimization, risk management, and capital deployment. Key benefits include:

- Enables same-day settling transactions, enhancing liquidity, agility and resiliency.
- Eliminates settlement delay, so investors can quickly capitalize on market opportunities.
- Simplified workflow.

The ETF industry – where efficiency and speed have always been paramount – was notably one of the earliest industry adopters of the accelerated T+1 settlement cycle. In response to this need for transparency and immediacy, in 2024, DTCC introduced the innovative ETF T+0 Create/Redeem enhancement.

Central to DTCC's ETF T+0 Create/Redeem enhancement is the introduction of a 3% Cash Collateral Amount added onto orders based on the prior night's Net Asset Value (NAV). This collateral provides an additional layer of protection and flexibility, ensuring that APs market makers can execute transactions efficiently, even in volatile market conditions. Moreover, it mitigates the risk associated with potential discrepancies between anticipated and actual NAV values.

Throughout the trading day, ETF Agents monitor market movements and NAV fluctuations. At the end of the day, once NAV is struck, an extra order file is submitted, including the Collateral Cash Adjustment (true-up). At DTCC, the true-up amount is processed and reconciles T+0 Create/Redeem orders to the current day's NAV, ensuring accurate pricing and regulatory compliance for all parties involved. This novel approach not only enhances transparency and trust in ETF trading but also minimizes the potential for arbitrage and market manipulation. The benefits of this enhancement extend beyond immediate transactional efficiency. By reducing settlement times and simplifying workflows, market participants can unlock new opportunities for portfolio optimization, risk management, and capital deployment. Moreover, the enhanced liquidity and accessibility offered contribute to a more robust and resilient ETF market ecosystem.

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