T+1 After Action Report

September 2024

Overview

On May 28, 2024, the United States (U.S.) securities market moved to an accelerated settlement cycle of one day after trade date (T+1) for equities, corporate bonds, municipal bonds, unit investment trusts, and financial instruments comprised of these security types. After more than three years of rigorous and coordinated activities to plan for -- and ultimately implement -- a shortened settlement cycle, the industry is recognizing reduced settlement risk across the U.S. capital markets. Firms are now able to make better use of their capital while promoting financial stability. Ultimately, T+1 has provided the appropriate balance between increasing efficiencies and successfully mitigating risk for the industry.

The Securities Industry and Financial Markets Association (SIFMA), Investment Company Institute (ICI), and The Depository Trust & Clearing Corporation (DTCC) led the industry's efforts to plan, coordinate and implement the transition to T+1 settlement, a process that took well over three years to complete. This white paper outlines the general project timeline, including its key milestones. It also discusses the obstacles that were overcome and the groundswell of global participation with the U.S. move, as well as highlighting the initial impact of the shift.

Journey to Go-Live

In February 2021, DTCC published a white paper, "*Advancing Together: Leading the Industry to Accelerated Settlement*,[1] setting the stage for increased industry discussions around the topic of T+1 and accelerated settlement. In April, SIFMA, ICI and DTCC issued a press release, announcing their collaboration on next steps.[2] By December 2021, ICI, SIFMA, and DTCC followed with a joint white paper, "*Accelerating the U.S. Securities Settlement Cycle to T+1*."[3] This white paper provided significant momentum to the initiative, and further highlighted the benefits and considerations of moving to a T+1 settlement cycle.

Following the publication of the joint white paper, an Industry Steering Committee (ISC) and multiple associated Industry Working Groups (IWG) were formed to analyze the impacts of moving the U.S. securities market to T+1 settlement. Over the course of the next 24 months, industry working sessions were conducted with 100+ participants to study the impacts and the feasibility of the move. The sessions, steered by SIFMA, ICI, and DTCC, facilitated in-depth industry conversations around specific topics related to operationalizing T+1.

In the summer of 2022, ICI, SIFMA, and DTCC published the *T+1 Industry Playbook* (Playbook)[4] This Playbook encapsulated the ISC's work to provide industry guidance for the changes required to implement a T+1 settlement cycle. It was intended to serve as a framework and guide for impacted market participants to leverage when implementing the shortened settlement cycle. The publication contained timelines, milestones, and guidelines for market participants to assist in the planning, development, testing, and migration to a T+1 settlement cycle. It provided suggested activities across several business areas, including trade processing, asset servicing, documentation, securities lending, prime brokerage, and funding and liquidity.

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[1] DTCC white paper: Advancing Together: Leading the Industry to Accelerated Settlement (Feb 2021)

[2] Press Release: SIFMA, ICI and DTCC Leading Effort to Shorten U.S. Securities Settlement Cycle to T+1, Collaborating with the Industry on Next Steps (April 28, 2021)

[3] SIFMA, ICI, and DTCC white paper: Accelerating the U.S. Securities Settlement Cycle to T+1 (Dec 2021)

[4] T+1 Industry Implementation Playbook (Aug 2022)

On February 15, 2023, the U.S. Securities and Exchange Commission (SEC) adopted formal rule amendments to shorten the settlement and announced May 28, 2024, as the official transition date. SIFMA, ICI, and DTCC, continued industry project leadership and hosted several workshops and webinars to broaden global awareness and preparedness. In addition, they established several working groups to tackle the most challenging topics facing the industry as it prepared for a substantial compression of the post-execution timeframe. Some of these key topics included securities lending and recall processing, enhancements to the allocation, confirmation and affirmation process, Foreign Exchange (FX) and cash management, primary and secondary Exchange Traded Funds (ETF) market processing, and cross-border securities.

Exchange Traded Funds

For ETFs, ICI, SIFMA, and DTCC, facilitated workshops with subject-matter experts from DTCC's subsidiary, National Securities Clearing Corporation (NSCC), to tackle numerous items prior to the T+1 conversion. These workshops addressed same day settlement instances, the impact to collateral requirements, authorized participant agreements, and real-time NSCC messaging. As a result of these workshops, NSCC accelerated the availability of its end-of-day pricing to allow for near real-time reporting of ETF creation and redemption trades. Creating the ability to support a T+0 creation/redemption cycle with end of day true-up to current NAV was an integral part of the transition to T+1 to support stock loan sourcing needs. Additional information and timelines regarding the new ETF models for T+1 settlement may be found on UST1.org.[5]

International Considerations

By advancing the settlement clock for U.S. market transactions by 24 hours, numerous global considerations were identified, including FX settlement risk, international banking and market coordination, and collateral risk. These considerations required attention for a successful migration to T+1 settlement.

In the transition to T+1 settlement, significant discussions centered around the integration of foreign exchange practices and the potential need for adjustments in the Continuous Linked Settlement (CLS) FX exchange process. Despite initial concerns about the reduced time frame for transactions to be introduced by 6:00 p.m. ET daily, the analysis indicated that changes were not possible prior to the T+1 transition date. Market participants and their custodians successfully adapted their operations without the need for altering the CLS activity for

[5] UST1: ETF Materials

securities settlement, as early indications from CLS showed that their FX exchange volumes remained consistent with historical trends.[6]

Securities Lending

The transition to T+1 settlement has significantly impacted securities lending recall timing, necessitating adjustments in operational practices and systems to accommodate the accelerated settlement cycle. Although the legally binding recall time is determined per the applicable securities lending agreement, the industry recommended an 11:59 p.m. ET on T recall cutoff as a "leading practice."

This recommendation is expected to provide sufficient time for a lender and its agents to successfully complete post-trade operational steps to issue recalls and increase the rate at which loaned securities are returned on T+1.

Foreign Securities

Firms were encouraged to review foreign multi-listed securities as it related to the impact of a move to T+1 on margin and entitlements. On May 26, 1995, the SEC issued an exemptive order for certain transactions in foreign securities from Rule 15c6-1 under the Securities Exchange Act of 1934.[7] The IWG reviewed several circumstances for potential scenarios for dual-listed securities that were subject to Rule 15c6-1. These scenarios were published as voluntary recommendations[8] and a FAQ[9] was posted on the T+1 website.[10] Additionally, firms were asked to review scenarios or edge cases outside of the scope outlined in the recommendations and FAQ with their own legal counsel.

International T+1 Transition

Cross-border coordination was required to ensure a smooth T+1 transition. Representatives from several countries joined numerous industry sessions and T+1 Industry Command Center meetings. The table below indicates the T+1 dates by jurisdiction.

T+1 Transition by Jurisdiction		
Country	Date of Announcement	Effective Date
United States	February 15, 2023	May 28, 2024

[6] CLS Update, July 2024: Impact of T+1
[7] SEC 1995 Exemptive Order: Exemption
[8] T+1 Foreign Securities: Voluntary Recommendations
[9] T+1 FAQ: UST1 FAQ
[10] T+1 Website: Shortening the US Equities Settlement Cycle | DTCC

T+1 Transition by Jurisdiction		
Country	Date of Announcement	Effective Date
Canada	March 14, 2023	May 27, 2024
Argentina	March 6, 2024	May 27, 2024
Mexico	April 12, 2024	May 27, 2024
Jamaica	May 20, 2024	May 27, 2024
Peru	April 23, 2024	May 28, 2024
United Kingdom	March 28, 2024	No later than December 31, 2027
European Union	April 2024	Exploring T+1 (Q4 2027)
Australia	August 2024	Exploring T+1 (2030)

Command Center and Transition Weekend

In August 2023, the T+1 Industry Command Center (Command Center) was established to ensure a smooth conversion to T+1 settlement in support of the May 28, 2024 implementation date. The objective of the Command Center was to provide support prior to, during and post implementation, share conversion status information and increase transparency into participant activity. The Command Center served as a clearinghouse for issue identification and socialization, and included various Playbook updates, industry webinars, ISC meetings and read-outs, testing report-outs, progress reports, and the development of industry consensus on proposed resolutions.

The Command Center operated from May 24 to May 31, 2024, in support of industry transition activities. Hosted by SIFMA with support from ICI and DTCC, the Command Center conducted numerous and regular industry checkpoint calls and briefings with member firms, service providers, and representatives of the international community who also transitioned to T+1 settlement concurrent with the U.S.

Separate calls held by SIFMA, ICI, and DTCC briefed regulators on industry transition progress before, during and post implementation. The bridge-line was held open continuously for over

48 hours from May 28 to May 30 as the industry worked through critical "double-settlement"[11] processing. Ultimately, the Command Center served its purpose: participants were able to call in and be quickly connected with members from various vendors or DTCC for resolution. The Command Center was critical to the success of go-live and was a key enabler of the smooth transition.

Industry Transition Metrics[12]

Impact on Clearing Fund in a T+1 Environment

In a T+1 environment, the NSCC Clearing Fund decreased on average by US$3.0 Billion (23%) from the prior three-month average value of US$12.8 Billion in a T+2 environment to US$9.8 Billion. The NSCC Clearing Fund decreased on average by US$2.4 Billion (20%) from the prior month average value of $12.2 Billion in a T+2 environment to US$9.8 Billion post T+1 implementation.

Affirmation Rates Analysis

DTCC metrics continue to show low fail and high same-day affirmation rates. Since implementation, the industry continues to affirm nearly 95% of transactions by the 9:00 p.m. ET cutoff on trade date set by The Depository Trust Company (DTC), achieving significantly higher affirmation rates than those typically seen in a T+2 environment.

Breakdown by Market Segment, as of July 31:

- Prime Broker Affirmation Rate: Reached 98%, a rise from 81% in January.
- Investment Manager Auto Affirmation (Central Match) Rate: Achieved 96%, up from 92% in January.
- Custodian or Investment Manager (Self) Affirmation Rate: Increased to 88% from 51% in January.

[11] Trades from Friday, May 24 (T+2 settlement) and Tuesday, May 28 (T+1 settlement) settled on the same day (Wednesday, May 29) – which is referred to as "double settlement day." This staggered settlement occurred on Wednesday, rather than on Tuesday, because U.S. markets/settlement was closed on Monday, May 27 (U.S. Memorial Day).

[12] DTCC Metrics: Daily Metrics

Fail Rates Overview

On the first day following transition to T+1, Continuous Net Settlement (CNS) fail rates decreased to 1.9% and remain low at around 2%.

- CNS Fail Rate: The average CNS Fail Rate for July 2024 was 2.12%. This rate is consistent with T+2 settlement rates.
- DTC Non-CNS Fails Rate: The average non-CNS Fail Rate for July 2024 was 3.31%. Again, this rate is consistent with T+2 settlement averages.

Future of Settlement Cycle Acceleration

Despite the success of the industry's move to T+1, moving to T+0 is not simply the next step in the process. It would require a comprehensive independent review. While past transitions were an evolution of industry practices, moving to T+0 would require a fundamental reinvention of a range of products and processes across the trade lifecycle and large-scale changes bring with them risks that could potentially disrupt the operations of multiple products critical to the operations of the capital markets.

T+1 has brought many benefits, however, industry consensus is that further accelerating to T+0 could introduce significant risks and complexities. Ultimately, a move to T+0 could exacerbate market dislocations that already exist, which are adding operational friction between T+1 settlement markets and those under T+2 settlement (e.g., United Kingdom, European Union, certain Asian markets) today. Key infrastructure like foreign currency exchange provided through CLS and others could become increasingly disconnected from what is necessary to facilitate effective same-day settlement in the U.S.

There are still more benefits to be realized with the successful global market adoption of T+1 and corresponding shifts of key infrastructure to better accommodate for T+1 settlement such as adoption of standardized automation practices. This should be the focus of global market participants, policymakers, and regulatory bodies, before any fundamental reworking of securities operations that would be required for T+0 settlement.

Such perspective is not held just in the U.S. The European Securities and Markets Authority (ESMA) published a feedback statement stating, *"The majority of respondents have indicated that whichever definition of T+0 would be given, the costs of such move would largely outweigh the benefits. According to many respondents, T+0 would not be achievable in the short or medium term, it would require radical changes to the way markets operate and would likely involve new technologies which are not yet deployed at sufficient scale in financial market."*[13] The T+1 cycle is advisable to preserve market stability and efficiency for the foreseeable future.

We recognize that individual market participants may see value in developing faster settlement models for a subset of their activities. However, it is also critical to recognize the success of focused experimentation involving same day settlement on a voluntary basis by certain market participants for a subset of their overall trading activity does not mean that a broad-based market move to T+0 is viable, or beneficial for the entire industry.

The industry consensus is that accelerating to T+0 is premature. It would require costly and extensive changes to market operations, potentially increasing risks for both institutional and retail customers. Any action towards T+0 should be preceded by an extensive cost-benefit and risk analysis to validate the perceived benefits outweigh the risks and costs.

Concluding Thoughts

The U.S. securities market has effectively transitioned to a T+1 settlement cycle, enhancing risk reduction and increasing efficiency. Industry participants should be lauded for this accomplishment: a herculean and coordinated effort undertaken over a 3+ year period that involved significant planning, collaboration, and implementation activities. The success of this initiative demonstrates the value of close coordination and collaboration among the industry, with the participation of firms, market infrastructure providers, and industry associations in the U.S. and internationally.

As the industry looks to future operational transformations, whether in response to regulatory change or new operating models, we recommend that they consider the myriad of experiences which made the U.S. T+1 transition successful.

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[13] ESMA Feedback Statement

Contact Us

SIFMA and its members

Charles DeSimone, Managing Director, Deputy Director Technology, Operations, Business Continuity
cdesimone@sifma.org

Anthony Macchiarulo, Senior Associate, Financial Services Operations
amacchiarulo@sifma.org

ICI and its members

Jeff Naylor, Chief of Industry Operations
jeff.naylor@ici.org

RJ Rondini, Director, Securities Operations
rj.rondini@ici.org

The Depository Trust & Clearing Corporation

John Abel, Executive Director, Clearance and Settlement Product Management
jabel@dtcc.com

Robert Cavallo, Director, DTC Clearance and Settlement Product Management
rcavallo@dtcc.com