Frequently Asked Questions

T+1 ACCELERATED SETTLEMENT

April 2023
# Introduction

Following the SEC’s confirmation of the upcoming transition to T+1 in US and Canadian markets, the Frequently Asked Questions (FAQs) below have been prepared to provide you with an update on the latest regulatory and market developments.

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| **1** What is T+1? | Following equity market volatilities in early 2021, the US Securities and Exchange Commission (SEC) proposed changes, including a transition to a shorter trade settlement cycle.  
When trades are made, the buyer and seller must exchange money and process the stock during what is known as the “settlement window,” before ownership is officially transferred. Currently, if a stock is bought on Wednesday (day "T"), the buyer pays for the shares and the seller delivers them by Friday (day T plus two days, or T+2). The future process would see the trade settle one day earlier, on Thursday (T+1).  
The SEC announced on February 15, 2023, that the US transition to T+1 would take place on May 28, 2024, which provided about 15 months for the industry and all market participants to make and test the necessary operational changes and technological upgrades required to settle trades in one day. |
| **2** What are the key changes for clients and counterparties? | Key US changes include:  
- Same day allocations by 7:00 p.m. and affirmations by 9:00 p.m. ET  
- Written agreements or policies and procedures requiring allocations and affirmations as soon as “technologically practicable and no later than by the end of the trade date”  
- Requires investment advisors (buy-side) to maintain records of confirmations received and allocations and affirmations sent. |
<p>| <strong>3</strong> Which markets are affected? | The US and Canadian securities markets will be impacted by these changes. This means anyone who operates in these markets may be affected, regardless of where they are based around the world. Other jurisdictions are expected to announce moves to T+1 in the coming months. The UK and EU established taskforces to review potential moves to T+1 settlement. Mexico, Brazil and other LATAM markets have not yet indicated whether they will transition to a T+1 settlement standard. |</p>
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<td>4  What are some of the challenges associated with the transition?</td>
<td>After the transition, the shorter timeframes for funding and processing in US markets will have an outsized impact on market participants based in time zones ahead of the US. Additional challenges may stem from FX markets, as they will stay at T+2 settlements, which will introduce complexities for funding trades. Industry practices in other areas including securities lending recalls may require further exposition.</td>
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<td>5  What is BNY Mellon doing to address these changes?</td>
<td>BNY Mellon established an enterprise-wide program with senior management oversight that focuses on understanding and addressing the impacts of T+1 settlement for clients and counterparties. BNY Mellon will be fully prepared for industry go-live.</td>
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<td>6  Will the current cut-off times for custody change?</td>
<td>BNY Mellon will follow market best practice and guidance on cut-off times. We expect that these may change but will endeavor to ensure our cut-off times remain consistent with the rest of the industry.</td>
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<td>7  Will the current cut-off times for FX change?</td>
<td>There is no indication the FX cut-off times will change for the global markets.</td>
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<td>8  What will the BNY Mellon Securities (Sec Lending) instruction deadline be?</td>
<td>The SEC confirmed 11:59:00 p.m. (23:59:00) EST deadlines for securities lending instructions.</td>
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<td>9  What are the time frames for participating in industry testing?</td>
<td>DTCC is opening up their window for testing on August 14, 2023, and will continue for the following nine months leading up to Go-Live. BNY Mellon works closely with DTCC and will continue to do so on industry testing.</td>
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<td>10 Which products are in-scope?</td>
<td>DTCC has published a list of in-scope products for the transition here: <a href="https://www.dtcc.com/-/media/Files/PDFs/T2/T-1-Product-List.pdf">https://www.dtcc.com/-/media/Files/PDFs/T2/T-1-Product-List.pdf</a></td>
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| **11** What are some ways clients can prepare for a smooth transition? | We recommend clients consider taking the following actions to prepare:  
  • Subscribe to DTCC’s CTM/M2i to allow for timely affirmation.  
  • Review internal operating models to determine if additional coverage is needed, or if movement of functions across geographies will be required.  
  • Leverage e-delivery for the delivery and receipt of trade documentation.  
  • Clients should leverage the information on the DTCC T+1 website ([https://www.dtcc.com/ust1](https://www.dtcc.com/ust1)) to determine their impacts. Additional information will be made available from BNY Mellon businesses to clients in the coming months. |
<p>| <strong>12</strong> Will there be penalties for failed settlements, as with CSDR in Europe? | There is no penalty regime for failed settlements in US and Canadian markets. |
| <strong>13</strong> Does BNY Mellon affirm trades for funds or process via Deliver Order or Night Deliver Order? | We do offer affirmation services to our clients to affirm on their behalf and support both Deliver Order and Night Deliver Order transactions but prefer to get trade allocations earlier so we can include the transaction as part of the Night Deliver Order. |
| <strong>14</strong> Will BNY Mellon affirm confirmations via TradeSuite once T+1 is implemented? | We strongly encourage trades to be affirmed, whether that’s using BNY Mellon services, the client affirming their own transactions, or leveraging DTCC’s auto-affirm/M2i. |</p>
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<td><strong>15</strong> What changes to processes, operating model or cut-offs is BNY Mellon making to ensure T+1 settlement can be achieved in Canada and US markets?</td>
<td>We have identified internal systems and processes that require changes and established a prioritized roadmap to implement these to ensure BNY Mellon is ready prior to the SEC deadline of May 28, 2024.</td>
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<td><strong>16</strong> Will BNY Mellon offer T+1 transition testing to clients?</td>
<td>We will undertake extensive testing exercises, internally and externally, as part of our T+1 implementation readiness program. We do not anticipate a need to test with each client individually. Some trades, such as Fixed Instruments, already settle T-0 or T+1 so testing is not required where the infrastructure is already in place. Additional information will be made available in the coming months.</td>
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<td><strong>17</strong> Who can I contact for more information?</td>
<td>Please reference our BNY Mellon T+1 Transition and readiness page (<a href="https://www.bnymellon.com/us/en/t1.html">https://www.bnymellon.com/us/en/t1.html</a>) or contact us at <a href="mailto:T1_Transition@bnymellon.com">T1_Transition@bnymellon.com</a></td>
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