SIFMA, CCMA & ISDA T+1 Settlement Cycle Factsheet

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SIFMA, CCMA & ISDA have published this SIFMA, CCMA & ISDA T+1 Settlement Cycle Factsheet (the "**Factsheet**") to address queries from market participants in relation to the settlement cycle changes taking place in North America during May 27-28, 2024, and the possible impact to relevant securities and OTC derivatives transactions. This Factsheet may be updated from time to time.

The below list of instruments that could be impacted by T+1 implementation is not intended to be exhaustive and the considerations about the upcoming changes do not constitute advice for any particular question, issue, or concern and should not be considered a guide to or explanation of all relevant issues or considerations in connection with the impact of the settlement cycle changes taking place in North America during May 27-28, 2024 on relevant securities and derivative transactions. This Factsheet provides summary information and is intended to be an information resource only and the publishing parties are not responsible for the accuracy of the information. Firms should consult with their legal advisor and any other advisor they deem appropriate in considering the issues discussed in this Factsheet. The publishing parties encourage firms to conduct their own analysis of the rule or specifics of transactions. Each of SIFMA, CCMA and ISDA do not assume any responsibility for any use to which this Factsheet may be put.

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Section 1 (produced by SIFMA)

SEC Final Rule in the United States

The SEC Final Rule and key dates

On February 9, 2022, the Securities and Exchange Commission (SEC) issued a proposal to shorten the securities settlement cycle from trade date plus two business days (T+2) to trade date plus one business day (T+1). On February 15, 2023, in an open meeting, the SEC voted to adopt the proposed rule formally known as 15c6-1. As a result, the United States securities markets will transition to T+1 on May 28, 2024. Subsequently, Canada and Mexico announced their transition to T+1 settlement to occur on May 27, 2024.

Further information on the SEC's Final Rule can be found here.

Impact to securities markets in the United States

1. Impact to market participants

The acceleration to a T+1 settlement cycle will impact firms across the financial services industry and throughout the trade lifecycle. Impacted market participants include issuers, asset managers ('40 Act and non-40 Act funds'), broker-dealers (retail, institutional, and prime brokerage), global custodians, vendors, service bureaus, transfer agents, exchanges, clearing firms, buy-side firms, and depositories.

2. Products in scope for T+1 in the United States

The products subject to the T+1 settlement cycle are securities that do not carry an exemption from 17 CFR § 240.15c6-1(a). “Securities” defined in Section 3(a)(10) of the Exchange Act covers, among others, equities, corporate bonds, UITs, mutual funds, ETFs, ADRs, and options. Application of 17 CFR § 240.15c6-1(a) extend to the purchase and sale of securities issued by investment companies including mutual funds, private-label mortgage-backed securities, and limited partnership interest that are listed on an exchange.

3. Securities-based swaps are not in scope for T+1 in the United States

Importantly, the SEC also modified 17 CFR § 240.15c6-1(b) to exclude security-based swaps from the requirements under 17 CFR § 240.15c6-1(a). Additionally, the SEC retained exemptions for certain insurance products as well as exemption for certain foreign securities.

Since Rule 15c6-1(b) concerns the scope of transactions excluded from the requirements of the Rule 15c6-1(a), the amendment will become effective upon the effective date of May 28, 2024.

4. Other security exemptions for T+1 in the United States

17 CFR § 240.15c6-1(a) does not apply to (1) contracts for the purchase or sale of limited partnership interests that are not listed on an exchange or for which quotations are not disseminated through an automated quotation system of a registered securities association; (2) Security-based swaps; or (3) Contracts for the purchase or sale of securities that the Commission may from time to time, taking into account then existing market practices, exempt by order.

17 CFR § 240.15c6-1(a) does not apply to contracts for the sale for cash of securities that are priced after 4:30 p.m. ET on the date such securities are priced and that are sold by an issuer to an underwriter pursuant to a firm commitment underwritten offering registered under the Securities Act of 1933 or sold to an initial purchaser by a broker-dealer participating in such offering provided that a broker or dealer shall not effect or enter into a contract for the purchase or sale of such securities that provides for payment of funds and delivery of securities later than the second business day after the date of the contract unless otherwise expressly agreed to by the parties at the time of the transaction.

SEC Rule 15c6-1(d) also retains the ability for underwriters and parties to agree in advance of a transaction to a settlement cycle other than the standard settlement cycle. SEC Rule 15c6-1(c) also shortens the separate standard settlement cycle for firm commitment offerings priced after 4:30 p.m. from four business days after trade date (T+4) to T+2.

5. Benefits of accelerated settlement

The increased time to settlement may equate to counterparty risk and margin requirements, which are designed to mitigate those risks, and represent costs to market participants, most directly to members of clearing utilities such as the DTCC. The immediate benefits of moving to a T+1 settlement cycle may mean cost savings, reduced market risk and lower margin requirements.

Today an average of over $13.4 billion is held in margin at the DTCC every day to manage counterparty default risk in the system. An analysis carried out by the DTCC predicts that

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shortening the settlement cycle to T+1 could potentially reduce the volatility component of NSCC's margin by 41% by moving to T+1, assuming current processing and without any other changes in market behaviour. Market participants will likely see additional savings through greater efficiency and expedited processing.

6. Certain operational effects on market participants

Beyond the impact to in-scope products, market participants should consider how the shortened timeframes associated with the move to T+1 settlement will impact their wider operations, products, and processes, particularly where they intersect with the securities lifecycle. The impacts of shorter timeframes may be particularly important for market participants in other regions, where time zone differences will further shorten the windows available to execute key processes (e.g., trade affirmation or associated FX transactions).

7. Foreign Exchange (FX) markets implications of the T+1 move

T+1 may create knock-on challenges for FX markets because of the need to execute the securities transaction followed by the related FX transaction with compressed timeframe to convert currencies into USD. Foreign investors may need to transact currencies to fund their USD security transactions in local markets and will potentially have less time to fund transactions. These challenges reflect the intersection of T+1 settlement timeframes with FX process timelines (e.g., CLS and custodian bank cutoff times). These impacts may be particularly acute for Asian-based investors; local markets may have closed before U.S. security can be transacted. Asian markets may be closed before a U.S. based transaction is executed. The mismatch in settlement cycles, may require firms to prefund transactions and firms will need to make behavioural changes to compensate for the new compressed timelines.

The industry has been carrying out extensive analysis of the scale of the impacted markets, the timelines in question, and have identified numerous business practices and operational changes which can help mitigate these challenges and ensure that these timing impacts do not disrupt international participants in the U.S. securities markets. The Global FX Division have produced a detailed account of the considerations for transacting FX for T+1 and can be found on the link below:

GFXD-FX Considerations for T+1 U.S. Securities Settlement (May23)

Additionally, CLS carried out analysis of its transaction data, and determined that a value of <1% of the CLSSettlement average daily settlement value is executed by buy-side participants on a T+1 basis, comprising volumes where one side is USD and a fund is party to the trade, suggesting that the scope of the overall FX market which may be impacted is limited.

Additionally, the Foreign Exchange Professionals Association (FXPA) released "FXPA Buy Side Guidance in Preparation for T+1 Settlement". The guide outlines recommendations and considerations across the trade lifecycle to help market participants prepare. It is available below at:

https://fxpa.org/wp-content/uploads/2023/11/T-1-Settlement-Guidance-for-Buy-Side-11-27-23.pdf

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Users of CLS should also consider how its timelines intersect with the timeframes for T+1 settlement.

8. Changes to trade affirmation, allocation, and confirmation processes under T+1

The timelines for trade affirmation, allocation, and confirmation will all be shortened in the post-T+1 environment. This change was confirmed by the SEC in two updated rules released in 2023:

- **For Broker/Dealers & their buy-side counterparties: Exchange Act Rule 15c6-2** requires Broker/Dealers and Investment Managers to complete allocations, confirmations, and affirmations as soon as technologically practicable and no later than by the end of trade date.
- **For SEC Registered Investment Advisors: Amended Advisers Act Rule 204-2** which requires Registered Investment Advisers that are parties to contracts under Rule 15c6-2 to make and keep records of confirmations received, and allocations and affirmations sent, each with a date and time stamp.

Details on both rules and their key requirements are available below at:

https://www.dtcc.com/ust1/-/media/Files/PDFs/T2/SEC-Rule-15c6-2-IA-204-2

Market participants should also consider how the new timeframes for these rules align with their internal processes, time zones of their counterparties, and working hours of their staff, and dependencies on external infrastructure providers and vendors.

9. Corporate Action Changes

Corporate actions, such as rights, warrants, and income distributions that occur on securities that are traded at securities exchanges, will trade either with the distribution or without the distribution near the time of the event's record date. To determine when the security is traded without the distribution, the securities exchange establishes (or referred to as "rule") an ex-dividend date (ex-date) where the price of the security is adjusted by the amount of the distribution. In the current T+2 settlement cycle typically the regular-way ex-date will occur prior to the record date of the event, falling on the trading day before the record date whereas irregular-way ex-date occurs when ex-date is ruled after record date.

In a T+1 environment, ex-date and record date would be the same, commonly referred to as "regular way ex-date." With regular way ex-date, due bills are not necessary as any trade entitled to the dividend would be settled on record date. However, due bills are required for any ex-date that is not a regular way ex-date. The exchanges set ex-dates and typically will set a later ex-date (e.g., day after payment date) for stock or large cash dividends that exceed 15-25% of the value of the stock. This practice helps to maintain market values because in a regular way ex-date, the price would typically drop by the value of the dividend on ex-date; however, the proceeds would not be paid until later. This undervalues the stock and impacts portfolio modelling and purchasing power. Any irregular ex-date would still require a due bill. Organizations must adjust the ex-date period for regular way ex-date and modify the due bill period calculation for regular way and irregular ex-dates.

Additionally, as leaders of the industry T+1 Settlement Steering Committee in the United States, SIFMA, ICI, and DTCC requested Corporate Secretaries assistance in sensitizing

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constituent groups (including members, issuers, and other interested parties) around the scheduling of corporate action dividend events near the North American transition weekend.[1]

The United States will transition to T+1 on May 28, 2024, one day after Canada and Mexico. Similar to recommendations made when the industry moved to T+2 in 2017, SIFMA, ICI, and DTCC encourage secretaries to remind market participants including corporate issuers and listing agents of the transition and request they avoid corporate action events with actionable dates inclusive of Friday May 24, 2024, through Tuesday May 28, 2024.

Examples include the following:

- ex-dates and record dates on distributions such as dividends and stock splits,
- corporate actions (voluntary and mandatory) with expiration and effective dates around or during the implementation weekend.

Normal corporate actions processing—including designation of post-implementation expiration, effective and ex-dates—may resume on Wednesday, May 29, 2024.

10. Impact on securities lending in the United States

To reduce potential increases in settlement, fail rates and potential buy ins resulting from sales of loaned securities, the industry recommends that lenders adopt a "best practice" of issuing their recalls by 11:59 PM ET on T. However, this deadline does not supersede existing MSLAs. The more notice borrowers have to return securities, the more likely they will be returned in time for settlement. The change in the settlement cycle will necessitate behavioral change in lenders, borrowers, custodians, broker dealers, and service providers, because security lenders will have less time to recall securities on-loan and security borrowers will have less time to return those securities to settle a sale of loaned securities. These behavioural, technological, and process changes are important to mitigate the impact on settlement processes resulting from a compressed settlement timeframe. Some lending agents use a batch process for recalling shares whereas others will recall intra-day. The move to a T+1 settlement cycle can pose a challenge for a custodian who must receive trade instructions in a timely manner in regard to the institutional workflows to be able to process their recalls on trade date. Where the lending agent is also the custodian bank, any securities lending recalls would not begin until after this trade instruction workflow reaches the custodian. If a third-party lender is involved, this creates a secondary, bifurcated flow that can be similarly delayed. A third-party lending agent must be separately instructed, and subsequently must have the shares recalled and put back into the custody position at the bank, for it to be delivered in time.

Under T+1, a lender who sells the loaned securities is incentivized to issue the recall on trade date to minimize risk of fails to deliver and potential resulting buy-ins. The more notice broker-dealers have to return securities, the more likely they will be returned in time for settlement. Although the legally binding recall time will continue to be determined per the securities lending agreement in effect between the lender and the borrower, the industry recommends an 11:59PM ET on T recall cutoff "best practice." SIFMA believes this recommendation would provide sufficient time for lender and its agents to complete post-

[1] SIFMA, ICI, DTCC: T+1 Corporate Action Notice, February 9, 2024, *https://www.dtcc.com/-/media/Files/PDFs/T2/T-1-Corporate-Action-Notice.pdf*

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trade operational steps necessary to issue recalls and would be reasonably expected to increase the rate at which loaned securities are returned on T+1.

The best practice will cause the recall process to work as follows: The lender issues the recall before 11:59 p.m. ET on T. This should provide sufficient notice to enable the Borrower to attempt to return the loaned securities on T+1 (often by delivering newly borrowed shares) to timely settle the sale of the loaned securities. However, the legal cutoff time to return the loaned securities may not occur until a later cutoff time agreed by the lender and borrower under the relevant securities lending agreement (e.g., 3:00PM ET on T+2). The Rule 204 close-out requirement would remain at SD+3 (or T+4).

11. Resources that are available to help firms prepare for the transition

Industry Playbook: SIFMA, the Investment Company Institute (ICI), and the DTCC have released the T+1 Securities Settlement Industry Implementation Playbook, in collaboration with Deloitte. The playbook includes a detailed implementation schedule, interim milestones, and identified dependencies. It discusses impacts and key considerations across a range of key impacted areas, including trade processing, asset servicing, documentation, securities lending, prime brokerage, and funding and liquidity considerations, as well as regulatory changes and testing and migration. The T+1 Playbook is available below at:

https://www.sifma.org/resources/general/t1-playbook/

DTCC Resources: DTCC maintains a robust library of resources related to the T+1 transition, covering both changes happening at DTCC and considerations for market participants. The full set of resources is available below at:

https://www.dtcc.com/ust1

Resources which may be of particular interest in understanding the transition and its impact on firms include:

- ***FAQs*****:** https://www.dtcc.com/ust1/faqs
- ***Documentation*****,** including archives of educational webinars: https://www.dtcc.com/ust1/documentation
- https://www.dtcc.com/ust1/-/media/Files/PDFs/T2/UST1-Testing-Document-v9-January-2024.pdf

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Section 2 (produced by CCMA)

Impact on securities markets in Canada

1. ***T+1 Rules in Canada***
   Canadian and U.S. markets are significantly interlinked; both markets have been on the same standard securities settlement cycle for decades and the two countries moved in sync to shorter cycles. The SEC's mandating of T+1-related regulatory changes led to proposals to amend comparable Canadian rules, although Canada's securities regulatory structure and approach are different.

   Final rule: Canadian securities regulators (the Canadian Securities Administrators ("CSA")) have set a different matching time compared to that set by the SEC: 90% of securities transactions by value and volume must be matched by 3:59 a.m. ET on T+1. This better accommodates the needs of institutional investors (including those from overseas) investing in Canadian markets (the SEC requires confirmation by midnight ET on T, which is supported by a 9 p.m. cutoff at DTCC). Refer Amendments to National Instrument (NI) 24-101, *Institutional Trade Matching and Settlement*, and Changes to Companion Policy 24-101 (December 13, 2023; for effect May 27, 2024).

   Key dates:

Friday May 24	Saturday May 25	Sunday May 26	Monday May 27	Tuesday May 28	Wednesday May 29	Thursday May 30 on
Last T+2 Trade Date	Conversion Weekend	Conversion Weekend	**First T+1 Trade Date**	**Double Settlement Date**	Trade and settle T+1	Trade and settle T+1

2. ***Impact on market participants***
   The CSA rules apply to trade-matching parties, defined as custodians settling trades at the clearing agency, institutional investors (or their advisors), and dealers executing and/or clearing trades. It also applies to clearing agencies and trade-matching utilities. The 3:59 a.m. ET deadline on T+1 is before the next day's trade settlement cycle begins. It gives market participants in different time zones in Canada more flexibility; custodians and institutional investors (the buyside) will have additional time to confirm trades; and sell-side firms (broker/dealers) will be better able to manage collateral and settlement. Counterparties operating in non-Canadian time zones – especially Asia, Europe, and the U.K. – will be able to start working to correct any trading errors for several hours before business opens in North America.

   As in the U.S., shortening the settlement cycle will impact market participants broadly, including buyside firms/institutional investors/portfolio managers (including pensions), broker-dealers, clearing infrastructure, correspondent clearers, custodians, issuers, marketplaces (including exchanges), retail clients, service bureaus and service providers, technology providers, and transfer agents.

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3. ***Products in scope for T+1***
   The regulation of the securities settlement cycle in NI 24-101 uses the term "institutional trade" –effectively delivery-against-payment and receipt-against-payment trades (DAP/RAP), whether settled by a non-dealer or a dealer custodian. The types of products in scope for T+1 are not itemized in the rule, however, practically-speaking, are all non-fund securities currently settling on a T+2 standard (equities and other platform-traded securities, e.g., ETFs; government and corporate bonds; and derivatives). At a detailed level, Canadian industry participants reviewed all Canadian investment types and their current and future status, now reflected in the CCMA's Canadian T+1 Asset List (v. 3) (the same approach was used for the move from T+3 to T+2 in 2017). For clarity and consistency, "in scope" are securities listed on a Canadian exchange that trade on secondary markets that are entirely or almost entirely moving to T+1, whether in certificated or uncertificated form. **Note:** The list may be updated, however, changes if any, are expected to be minimal.

4. ***Securities-based swaps***
   Canadian market participants are expected to follow U.S. practice.

5. ***Other security exemptions for T+1 in Canada***
   Paraphrasing and expanding on NI 24-101, excluded are:

   a. New issue transactions, such as initial public offerings (IPOs) and 'when issued' securities before issuance (**Note:** Creation of exchange-traded fund (ETF) units (akin to creating new issues) is not subject to T+1, however, is being addressed as part of the T+1 project to support ETF trading on secondary markets, which will settle on T+1);

   b. A trade in a security to the issuer of the security;

   c. A trade made in connection with a take-over bid, issuer bid, amalgamation, merger, reorganization, arrangement, or similar transaction;

   d. A trade made in accordance with the terms of conversion, exchange or exercise of a security previously issued by an issuer;

   e. A trade that is a securities lending, repurchase, reverse repurchase or similar financing transaction;

   f. Purchases or redemptions governed by NI 81-102, *Investment Funds* (**Note:** See 6. below; in past settlement-cycle-shortening efforts, conforming amendments were made to NI 81-102, i.e., when the cycle changed from T+5 to T+3 and from T+3 to T+2);

   g. A trade to be settled outside Canada;

   h. A trade in an option, futures contract, or similar derivative (**Note:** See 6. below);

   i. Securities already settling on a T basis (e.g., T-bills) (money market mutual funds and options that already settle on T or T+1 are not expected to change).

   Also excluded are 'special terms' trades, which (by definition) are already not on the standard cycle per Universal Market Integrity Rules (UMIR) 1.1.

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6. ***Products not mandated, but expected to move (at least partly) to T+1 in Canada***
Two of the above categories require special mention:

- With respect to (and despite) (h) a trade in an option, futures contract, or similar derivative, Canadian market participants are expected to align with American market practices. This means that derivatives related to depository-eligible securities moving to T+1 will likely move to T+1 to keep cash flows aligned, avoiding increased capital, pre-funding, or credit costs, and to reduce business risk between the derivative and corresponding hedge transaction as much as possible. The OTC market is expected to follow suit for similar reasons and to avoid basis risk between securities and the related derivative instruments.

- With respect to (f.) purchases or redemptions governed by NI 81-102 *Investment Funds*, this issue is largely a domestic one as conventional mutual funds and similar products do not trade on marketplaces, and there is no interlisted equivalent. The settlement cycle of these instruments in Canada has in the past been the same as for non-fund securities, but the move to T+1 will not be mandated for funds. CSA Staff Notice 81-335 *Investment Funds Settlement Cycles* (December 15, 2022) explains: "… we are of the view that, where practicable, mutual funds should settle primary distributions and redemptions of their securities on T+1 voluntarily… We are not proposing to amend … (NI 81-102) at this time to shorten the settlement cycle." At present, the Canadian marketplace is collecting information about which funds will move to T+1 on May 27.

Not regulated by either NI 24-101 or NI 81-102, segregated funds have still typically settled on the same settlement cycle as mutual funds. As mutual funds may or may not move to T+1, the same uncertainty applies with respect to segregated funds. Funds of funds also are an issue.

7. ***Benefits of accelerated settlement***
Similar to in the U.S., the benefits are a reduction in counterparty default and market risks. There will be the equivalent approaching a day's decrease in collateral requirements for the Canadian Depository for Securities (CDS) participants and indirectly for others. While at the start, costs of moving to T+1 may exceed the benefits for some stakeholders, it is believed that increasing automation will reduce errors and other expenses and improve resiliency.

8. ***Certain operational effects on market participants***
In addition to the benefits described above, a number of issues present T+1 implementation challenges and some effects will last for an adjustment period; the impact on different stakeholders is uneven, with market players in Europe and points east going to have much less time for trade confirmation, securities recall, and foreign exchange processes, as well as even less time to correct errors. To the extent that processes cannot be automated, there is a concern that unmatched/unsettled trades will roll over to successive days, and if the magnitude of the rolling corrections grows, the effects on markets could be an increase (or further increase) in failed trades.

9. ***Foreign exchange (FX) markets implications of the T+1 move***
See response to SIFMA question 7; in addition to the resources mentioned in SIFMA's answer, there's also useful guidance in a new ACI The Financial Markets Association Briefing Note:

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USD T+1 Securities Settlement and the Impact on FX (released January 15, 2024). A 2023/24 ValueExchange survey found that the target FX model, at least in the immediate term for T+1, is that 25% will rely on pre-funding; 33% on executing an FX transaction on a gross basis at the same time as a security trade is placed during the trading day; 21% expect to execute FX transactions between 4-6 p.m. on trade date, and the remaining 21% will execute the FX transaction on T+1 for same-day delivery. There will be a cost to these approaches, and we expect to see further improvements in this area.

10. ***Changes to trade entry, allocation, and confirmation processes under T+1***
    Below are the times set for the CDS Job Scheduler (where CDS is the clearing agency, IMs are investment managers, BDs are CDS participant broker-dealers, and CUs are custodians).

    - Hourly 10 a.m.-4 p.m. T: Marketplaces submit trades *(currently end-of-day)*
    - Hourly 11 a.m.-5 p.m. T: CDS returns exchange-trade messages/files *(currently end-of-day)*
    - By 7:30 p.m. on T: BDs enter allocated ITP trades
    - By 3:59 a.m. T+1: IMs/BDs/CUs confirm ITP trades.

11. ***Impact on securities lending in Canada***
    Market practice for recalls for T+2 settlement is 3 p.m. ET on T+1 in Canada, as it is in the U.S. While SIFMA's *T+1 Playbook* identified market best practice as moving from 3 p.m. ET on T+1 to 11:59 p.m. for a "T" recall, in Canada, "market practice" of a 3 p.m. cut-off will not change but will rather be interpreted as 3 p.m. ET on T/trade date. With a 3 p.m. ET on T cut-off, borrowers will have at least the last hour of the trading day to process the recall and/or determine if they need to buy back the securities. To facilitate processing, TMX/CDS has developed a Recall Portal, currently in testing, for use by CDS participants and non-CDS members. It will be interoperable with participant internal systems as well as parties using securities lending vendor systems. The portal is expected to be launched at the end of the first quarter.

12. ***Resources that are available to help firms prepare for the transition***
    Resources can be found on the CCMA's T+1 portal, www.ccma-acmc.ca/en.

13. ***Impact of T+1 on ex-date and record date***
    As the change from T+2 to T+1 is more complex than from T+3 to T+2, issuers and their advisors have been asked to avoid creating new events that settle on the first date set for trading on a T+1 basis (May 27) or the May 28 double settlement date (U.S. first trading date) when trades from two business days prior and May 27 trades will settle on the same day. The effect of the move to T+1 on corporate action events:

Function	Current Practice	Practice as of May 27, 2024
Distribution Events if base security trades…	• Without due bills: ex-date is record date minus 1 • With due bills: ex-date is the due bill redemption date minus 1	• *Without* due bills: **ex-date is record date** • *With* due bills: **ex-date is due bill redemption date**

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Function	Current Practice	Practice as of May 27, 2024
Mandatory Events	• CDS payable date is delisting date plus 3	• **CDS payable date is delisting date plus 2**
Mandatory with Options Events: Event set-up is driven by date, not settlement cycle	• Continuous net settlement (CNS) restriction and trade conversion dates are calculated based on agent expiry and payable dates provided by external sources	• **No changes**
Voluntary Events: Letter of guaranteed delivery for event expiries (cover/protect period)	• Expiry date plus 2	• **Expiry date plus 1**

Other dates relevant to the ex-date calculation of corporate action events are as follows.

Settlement	Day	Trade Date	Settlement Date	Record Date	Ex Date	Notes
T+2	Wed.	May 22nd	May 24th	May 24th	May 23rd	Regular T+2 settlement
T+2	Thurs.	May 23rd	May 27th	May 27th	May 24th	Last full T+2 settlement
T+2	Fri.	May 24th	**May 28th**	May 28th	May 27th	Double settlement
T+1	Mon.	May 27th	**May 28th**	May 28th	May 28th	Double settlement AND first day Ex Date equals Record Date
T+1	Tues.	May 28th	May 29th	May 29th	May 29th	Regular T+1 settlement
T+1	Wed.	May 29th	May 30th	May 30th	May 30th	Regular T+1 settlement

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Section 3 (produced by ISDA)

*Considerations on the impact of the T+1 settlement cycle change to relevant OTC derivatives instruments reflect the input of members of the ISDA Equity Steering Committee and the ISDA Equity Market Infrastructure Group (together, the "**ISDA Equity Groups**"). While ISDA solicited the views from all members of the ISDA Equity Groups, not all members responded and not all members of ISDA are members of the ISDA Equity Groups. These considerations may not, therefore, reflect the full range of views held by ISDA's membership or of the ISDA Equity Groups in their entirety.*

Impact to OTC derivatives transactions

1. In-scope derivatives instruments to reduce their settlement cycle to T+1 under the SEC Final Rule

In respect of derivatives, as noted in Section 1.1 of this Factsheet, the products subject to T+1 settlement are those included in Section 3(a)(1) of the Exchange Act, such as, among others, "equities, corporate bonds, UITs, mutual funds, ETFs, ADRs, and **options**".

The SEC Final Rule[2] also permits parties to provide for settlement on a timeframe other than T+1 if they expressly agree a different settlement timeframe at the time of the transaction. For OTC derivatives, this could be agreed through transaction confirmations and for listed derivatives, parties should refer to the rules of the relevant exchange.

2. Impact on certain OTC derivatives instruments that are hedged with in-scope 'securities'

(i) *OTC equity derivatives*: In previous settlement cycle reduction initiatives in North America and in other markets, the market practice was that the settlement cycle of relevant OTC equity derivatives transactions referencing the in-scope securities was shortened to align with the settlement cycle of the referenced in-scope security. This was primarily done to avoid settlement mismatch between the OTC equity derivative transaction and the corresponding security hedge.

(ii) *Other OTC derivatives*: For other asset classes, from member feedback provided in previous settlement cycle change initiatives, ISDA understands that a key driver for amending the settlement cycle of OTC derivative instruments following a settlement cycle change is to avoid a settlement mismatch between that OTC derivative instrument and the corresponding hedge.

For example, as the spot convention for FX transactions is generally T+2 (note that CAD/USD spot convention is T+1), market participants may need to consider if any changes are needed if there is a need to perform an FX conversion to obtain U.S./Canadian dollars to purchase a U.S./Canadian security that may be used as a hedge.

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[2] See SEC's Final Rule, page 10 https://www.sec.gov/files/rules/final/2023/34-96930.pdf

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Therefore, it is expected that parties may choose to amend the settlement cycle of OTC equity and other relevant OTC derivative instruments in order to match the settlement cycle for the hedge which may be an in-scope 'security' due to settlement, payment or other reasons.

3. There are no plans to launch an industry-wide protocol to facilitate updates of relevant ISDA documentation

ISDA has not received sufficient demand from its members to launch an industry-wide protocol to facilitate an update of the settlement cycle for impacted transactions set out in relevant ISDA documentation. Furthermore, ISDA understands that many market participants, in making changes for previous settlement cycle reductions, may have already made changes that would cater for the current T+1 settlement cycle change, for example, by removing a "hard-coded" settlement cycle reference (that referred to a fixed number of days) and replacing it with generic settlement cycle wording.

4. There are no plans to amend relevant ISDA-published equity derivatives MCA templates

There are no plans for ISDA to amend ISDA-published equity derivatives master confirmation agreements ("**MCAs**") covering the Americas region to cater for the settlement cycle change as those MCAs do not make reference to a hard-coded settlement cycle number.

5. Impact to equity swaps

Feedback received from ISDA members on how market participants might address the T+1 settlement cycle change for equity swaps referencing in-scope securities include aligning with the reduced settlement cycle, in respect of settlement from both a floating amount leg and equity amount leg perspective. This would apply to the interval between the Trade Date and the Effective Date, and between a Valuation Date and the corresponding Cash Settlement Payment Date and/or Settlement Date (each such term as defined in the ISDA 2002 Equity Derivatives Definitions).

Following the transition from IBORs to Risk-Free-Rates (RFRs), certain conventions can be applied to the Floating Amount leg of a swap (i.e., Observation Period Shift, Lookback and Lockout). These RFR conventions are designed to determine the Floating Amounts referencing an overnight rate in advance of the relevant Payment Date, therefore allowing Floating Amount payments to be settled on a shortened settlement cycle.

ISDA understands that due to the reduced timeframe to perform relevant cashflow amount calculations and settlement-related processes, market participants, especially those located outside of North America, may face operational challenges to effect payments on T+1.

6. Impact to OTC equity options

Feedback received from ISDA members on how market participants might address the T+1 settlement cycle change for OTC equity options referencing in-scope securities include aligning with the reduced settlement cycle for each of the Cash Settlement Payment Date and the Settlement Date (for physical delivery). ISDA understands that the interval between the Trade Date and the Premium Payment Date may also be reduced.

7. Impact to "exotic" OTC equity derivatives transactions

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Feedback received from ISDA members on how market participants might address the T+1 settlement cycle change for transaction types that contain bespoke, non-standard features, include that such "exotic" transactions may not follow the reduced settlement cycle of the referenced security, and would be considered on a case-by-case basis. This can apply to certain OTC equity derivative transactions that are not considered "vanilla" equity derivatives transactions.

8. Impact to OTC equity derivative transactions hedging notes

Feedback received from ISDA members on how market participants might address the T+1 settlement cycle change for OTC equity derivative transactions that are used as a hedge for securitised notes include retaining alignment with the corresponding securitised notes' settlement cycle.

9. Impact to custom basket/index transactions comprised of North American securities and non-North American securities

Based on member feedback received, ISDA understands that parties may bilaterally agree what settlement cycle to apply to OTC equity derivatives transactions on custom basket/index transactions. ISDA understands that certain institutions may apply the longer settlement cycle in respect of the underlying shares and/or component securities to such transactions, and other institutions may apply the settlement cycle in respect of the underlying share and/or component security with the largest weighting out of all the components of the index or basket.

10. There are plans to facilitate an industry coordination exercise for the treatment of the settlement cycle of outstanding transactions as of the go-live date

ISDA has issued members a "Preferences Grid", in which firms can indicate whether they intend to amend outstanding transactions (i.e., executed before the transition date) previously confirmed on a longer settlement cycle, to the reduced settlement cycle. ISDA will then distribute the collated information to members who can coordinate among themselves to reduce the risk of settlement breaks. This initiative is being conducted in the ISDA Equity Market Infrastructure Group.

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