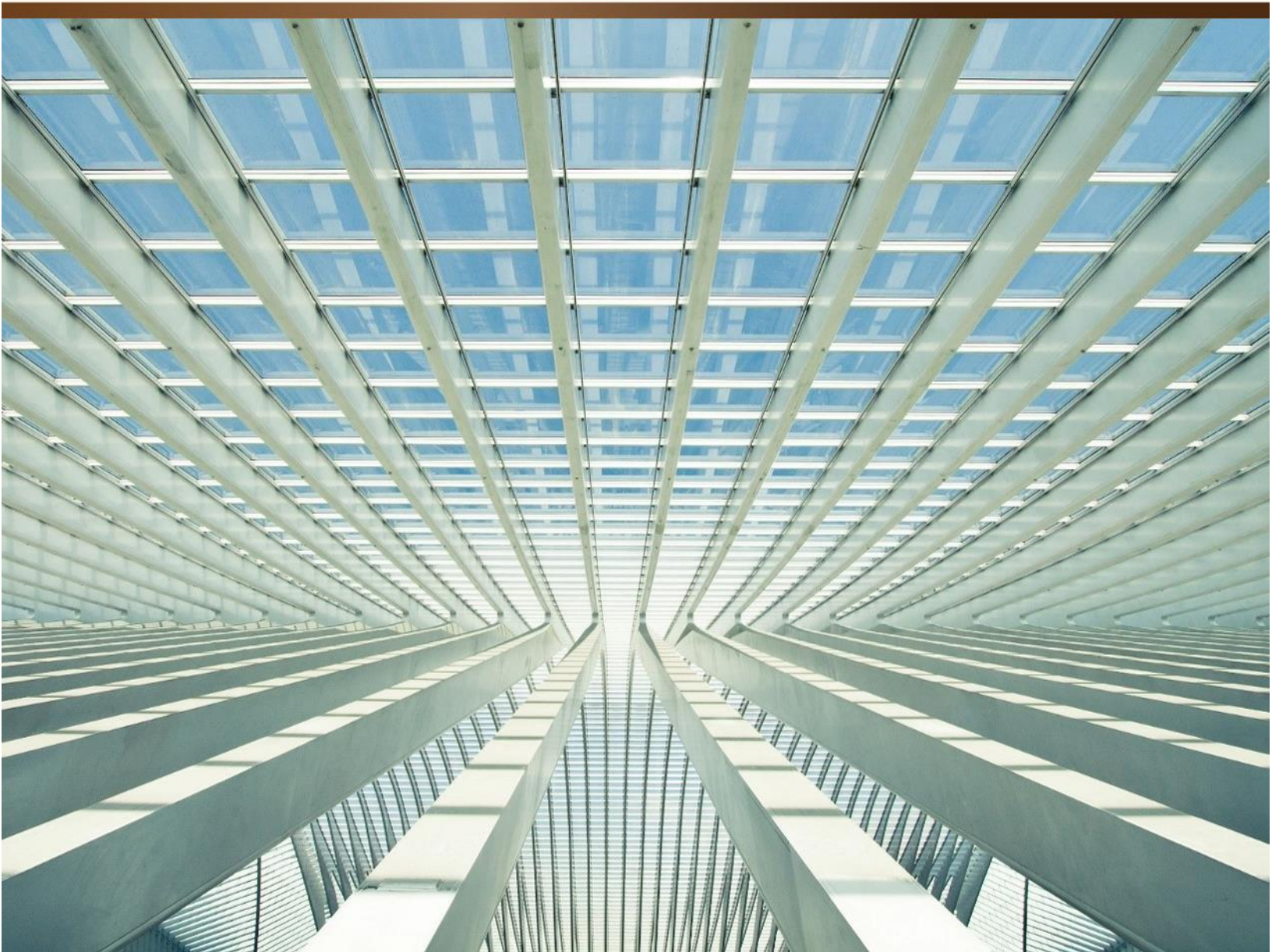


U.S. T+1 Securities Settlement

Frequently Asked Questions

August 2023



J.P.Morgan

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Regulatory change overview and latest developments

1. Why is the U.S. moving to Trade Date plus 1 (T+1) securities transaction settlement cycle?

In the U.S., with the passage of the Securities Acts Amendments of 1975, Congress empowered the Security Exchange Commission (SEC) with the authority to establish a national clearance and settlement system. As industry and regulators views on risk have evolved and as technology capabilities have improved, so has the desire and the ability of the U.S. and other global financial markets to shorten the settlement cycle. In 1995, the SEC used that authority to shorten the settlement cycle from Trade Date (T)+5 business days to T+3, then shortened the settlement cycle again from T+3 to T+2 in 2017.

Underpinning the compression in the settlement cycle has been the view that reducing the period between trade execution and trade settlement reduces credit, operational, market and counterparty risk while at the same time reducing margin requirements, increasing market liquidity, and allowing for more efficient use of capital. The focus on margin and its correlation to volatility in the price of stocks has also become a focus of policymakers and regulators following events such as the COVID-19 outbreak, and the GameStop Corp (GME) trading event in 2021.

This view on risk reduction was a key driver behind the proposal led by the Securities Industry and Financial Markets Association (SIFMA), the Investment Company Institute (ICI) and the Depository Trust & Clearing Corporation (DTCC) to move the U.S. market to a T+1 settlement cycle for U.S. securities which are cleared and settled through the Depository Trust Company (DTC). The roadmap to T+1 was laid out in the December 2021 industry whitepaper, “Accelerating the U.S. Securities Settlement Cycle to T+1”, which set out the technical requirements and the regulatory amendments required for a successful implementation.

On February 15, 2023, the SEC published its final rule, [Shortening the Securities Transaction Settlement Cycle](#) (Final Rule), which amends the standard settlement cycle for DTC eligible trades to T+1 and sets the compliance date as May 28, 2024.

2. The U.S. has shortened the settlements cycle before - what's different this time?

Compared to the move to T+2 in 2017, the move to T+1 is a more significant change for the industry and will drive a critical need to ensure trades are instructed correctly the first time and on time. Specifically, T+1 settlement eliminates the one-day cushion between trade execution and settlement, which is often used today to true-up settlement mismatch and prevent settlement failure. The elimination of that one-day cushion may increase operational challenges that were not observed when the industry changed from T+3 to T+2.

To reduce those operational complexities and the risk of settlement fails, it is essential that all market participants, their agents, and Financial Market Infrastructures (FMIs)¹ adjust current operating models, implement new processes, and evolve existing technologies. Without a coordinated approach there is a significant risk of increased settlement failures, which would be antithetical to the overarching purpose of reducing risk and would reduce liquidity, increase cost, and create other systemic concerns with post-trade activity.

¹FMIs are multilateral systems among participating financial institutions, including the system operator, used for the purposes of clearing, settling, or recording payments, securities, derivatives, or other financial transactions.

3. What is the timing of the U.S. transition to T+1?

May 28, 2024 is the compliance date for U.S. T+1 securities settlement.

4. What does the SEC Final Rule require and to whom does the Final Rule directly apply?

The Final Rule directly applies to SEC registered Broker Dealers (BDs), Registered Investment Advisers (RIAs), and central matching service providers (CMSPs).

- Amended Rule 15c6-1(a) applies directly to BDs - Prohibits BDs from effecting or entering into contracts for the purchase or sale of securities (other than exempted securities) that provide for payment of funds and delivery of securities later than T+1 unless the parties expressly agree to a different settlement date at the time of the transaction.
 - *While the direct obligation of the rule applies to BDs, any entity trading eligible securities with a BD will generally be required to settle on a T+1 basis.*
- New Rule 15c6-2 (same day allocation, confirmation, affirmation) applies directly to BDs - For transactions that require completion of the allocation, confirmation, or affirmation process, the rule requires that a BDs either (i) enter into written agreements with the relevant parties (such as investment managers and bank custodians, as agents of a BD's customer) to ensure completion of allocations, confirmations, and affirmations as soon as technologically practicable and no later than the end of the day on trade date, or (ii) establish, maintain, and enforce written policies and procedures reasonably designed to ensure completion of allocations, confirmations, and affirmations as soon as technologically practicable and no later than the end of the day on trade date. The rule also imposes certain recordkeeping requirements including but not limited to measuring, monitoring, and documenting the rates of allocations, confirmations, and affirmations completed on trade date.
 - *While the direct obligation to comply with the rule lies with the BD, in practice, BD customers will be indirectly impacted as they may need to align their settlement practices accordingly.*
- New Rule 204-2 applies to RIAs - Requires RIAs to make and keep records of each confirmation received, and of any allocation and each affirmation sent or received, with a date and time stamp for each indicating when it was sent or received.
- New Rule 17Ad-27 applies to CMSPs - Requires central matching service providers to establish, implement, maintain, and enforce policies and procedures that facilitate straight through process.

For more information, please see the SEC Final Rule - Shortening the Securities Transactions Settlement Cycle Fact Sheet.²

5. Which instruments are in scope, and must they all settle T+1?

The instruments subject to the shortened settlement cycle include equities, corporate bonds, municipal bonds, unit investment trust as well as exchange traded funds (ETFs), American Depositary Receipts (ADRs), rights, and warrants settling at the DTC. See the DTCC's list of instruments³ in scope of T+1 settlement.

² https://www.sec.gov/files/34-96930-fact-sheet_0.pdf

³ <https://www.dtcc.com/-/media/Files/PDFs/T2/T-1-Product-List.pdf>

U.S. Government-issued securities are not in scope as they clear through the Federal Reserve system. These securities currently settle on a T+1 basis and are eligible for settlement at the DTC - clients wishing to hold them with the DTC are therefore not impacted with the change to T+1 settlement.

DTC eligible securities can be held at Central Securities Depositories other than the DTC. There are a number of International Central Securities Depositories that can hold DTC eligible securities. As of this publication, industry groups are convening to determine a best practice as pertains to securities that are not settling at DTC and to which settlement cycle would apply.

The SEC Final Rule allows settlement on a timeframe other than T+1 if the parties expressly agree to a different settlement timeframe at the time of the transaction - the so-called "override" provision. Trading parties may opt to settle T+1 even though the local market is under a different market standard. Similarly, a longer settlement cycle can be agreed at the time of execution if the specific transaction requires a longer settlement period. Market participants should consider the impact of such trading arrangements on their funding requirements and processes.

6. What is the status of other jurisdictions/markets in their plans for a T+1 transition?

Settlement acceleration has become a growing global priority impacting custodians, our clients, BDs, and CSDs. J.P. Morgan (JPM) expects a continued trend towards T+1 settlement across global markets. For example:

- India has now completed its transition to T+1, having started in 2021
- The Canadian Securities Administrators proposed rule amendments to support T+1 settlement. The final rule amendment is still pending. The draft rule proposes 9 PM Eastern Time (ET) on T as the industry matching deadline, although the industry recommended a matching deadline of 3:59 AM ET on T+1. Although the industry is awaiting a final rule including the matching deadline, the Capital Markets Association announced that it will move to T+1 settlement on Monday May 27, 2024. This is one day earlier than the U.S. transition date of May 28, 2024.
- On July 11, 2023, Mexico's Equities CCP, Contraparte Central de Valores, and the Mexican Association of Brokerage Firms, jointly announced that the CCV will initiate the formal process with the Mexican Financial Authorities, to get the approval to reduce the ordinary settlement cycle of the capital market securities to one business day (T+1) for the National Securities (Mexican capital market) and for the Securities listed at the International Quotation System (SIC) which declare the United States of America or Canada as their main market. The target date for the transition in Mexico would be May 27, 2024.
- Although there have been no formal announcements from other Latin American markets, JPM is monitoring developments given a number of Latin American markets aligned their T+2 transition with the U.S. in 2017.
- The United Kingdom (UK) government and regulators have established an Accelerated Settlement Taskforce (Taskforce), which over 2023 and into 2024 will examine the case for trades to be settled on a T+1 basis in the UK. The Taskforce will publish its initial findings by December 2023, with a full report and recommendations made by December 2024 although this effort may conclude sooner. JPM is participating in this Taskforce.

- In the European Union (EU), the Central Securities Depository Regulation (CSDR) ReFIT negotiations between the European Council and Parliament have concluded that European Securities and Markets Authority (ESMA) be given the mandate to explore the feasibility for the EU to shorten its settlement cycle. JPM understands that ESMA will have until the end of 2024 to report their findings - the exact date is dependent on the passage of the CSDR ReFIT into law. A cross-industry taskforce has been established with 16 European trade associations conducting their own assessment of whether the EU can move to a T+1 cycle. JPM is part of this taskforce.

In the near term, JPM expects many markets will remain in a T+2 settlement cycle. This may present challenges for some market participants as their systems and operating models will need to manage different settlement cycles.

7. What are the key industry level requirements to implement T+1 settlement?

According to the U.S. T+1 industry implementation playbook, the key industry requirements include:

- Trade processing: Life cycle of a trade is affected from reference data set-ups to real-time trade matching, straight-through processing, and delivery of physical securities
- Funding: Timing of available U.S. Dollars (USD) to align with a compressed settlement cycle
- Asset servicing: Changes to asset servicing functions include ex-date and cover/protect period computations for corporate actions
- Documentation: References to settlement cycle will need to be updated where they appear in external client-facing documentation, external service agreement documentation, operating procedures and internal controls documentation and customer and staff education

Impacts

Pre-settlement

8. What are trade allocations, confirmations, and affirmations?

Trade allocations are used by investment managers to apportion trades ordered on behalf of multiple investment vehicles, funds, or non-fund clients. Allocations are important in the settlement cycle as they define the quantity and location when one trade is apportioned to multiple vehicles, funds, or non-fund clients.

A trade confirmation is a receipt from the BD confirming the trade details, including (but not limited to) price, value, quantity, execution time, and settlement date. Confirmations are often produced by the client's executing BD as it is the executing BD that will face the counterparty to the transaction.

A trade affirmation is an acknowledgement from the counterparty back to the executing BD agreeing that the confirmation details are accurate.

9. Do all BDs send confirmations?

Yes, pursuant to SEC Rule 10b-10, all BDs are required to issue a trade confirmation.

10. Does J.P. Morgan receive a copy of the BD confirmation?

If JPM is identified as the settling bank or affirmation agent to the trade, JPM will receive a copy of the confirmation.

11. Does a trade affirmation guarantee settlement?

No, affirmation does not guarantee settlement. Even when a trade is affirmed, the counterparty can still fail. In addition, an affirmed trade must still be evaluated by the custodian, and sufficient position inventory and cash availability is required to affect settlement.

12. Under the T+1 settlement regime, when must allocations, confirmations, and affirmations be completed?

While SEC Rule 15c6-2 requires BDs to enter into written agreement or to establish policies and procedures with the relevant parties to ensure completion of allocations, confirmations, affirmations *as soon as technologically practicable and no later than the end of the day on trade date*, the industry has agreed the following best practices:

- Allocations should be completed by 7:00 PM ET on T
- Affirmations should be completed no later than 9:00 PM ET on T

13. Should clients, who do not currently affirm trades, move to an affirmation model in a T+1 settlement cycle?

JPM recommends that custody clients review their current affirmation model and consider which processes/models works best for their circumstances, taking into consideration the regulatory requirements under the SEC Rule 15c6-2 designed to advance the SEC's objective of same day affirmation and the industry agreed best practice affirmation cut-off of 9:00 PM ET on T. Evidence shows that affirmed trades not only have a higher success rate for on-time settlement, but they also have a lower need for trade repair. Conversely, non-affirmed trades have a greater need for trade repair and in a T+1 environment may have a greater rate of trade fail.

14. What happens if the 9:00 PM ET industry best practice affirmation deadline is missed?

The SEC's Final Rules do not prescribe penalties for unaffirmed trades. However, the SEC intends to monitor affirmation rates and as with any regulation, will perform examinations to confirm compliance with the rule.

As long as settlement instructions are received prior to settlement deadline, JPM will submit qualified instructions to the market. Clients should consider the settlement instruction method used because it is possible for settlement instructions to be based on an affirmed confirmation.

15. What affirmation models does J.P. Morgan's Custody offer/support?

Confirmations and affirmations in the U.S. are managed through the DTCC's Central Trade Matching (CTM) solution. When two parties execute a trade, information is captured in the CTM system. This information includes the Party to the Trade, the settling bank(s) that are involved in the movement of the shares and cash, an affirmation agent (if required), and a number of other key attributes that comprise the Standing Settlement Instructions (SSI). These parties may either view the activity within CTM or they may have their own systems that consume the information automatically. JPM has a direct link to CTM.

Depending on client preference and requirements, JPM offers and supports three affirmation models:

Custodian Affirmation

Client or the client's investment manager (IM) submits a settlement instruction to JPM, as custodian. JPM compares the settlement instruction's attributes to the confirmation details from the BD. JPM receives the confirmation when JPM is designated as the settling bank on the trade. If the settlement attributes received by the client match the BD's confirmation (within a specified JPM tolerance), JPM, as affirmation agent, affirms the trade back to the BD, and then forwards the settlement to DTC. This process is highly automated and occurs in near real-time.

Who Affirms the trade?	Benefit(s)	Consideration(s)	Settlement Instruction Required? (Y/N)
JPM (as agent)	<ul style="list-style-type: none"> Outsources the affirmation process to an agent, and the client or IM is not required to interact with CTM 	<ul style="list-style-type: none"> Settlement instructions must be sent to JPM by 8:45 PM ET on T 	Yes

Direct Affirmation

Client or the client's IM (the Party to the Trade) affirms a trade confirmation via CTM, JPM's Transaction Initiation Manager (TIM), or a trade order management system's affirmation solution (e.g., Aladdin). JPM, designated as the settling bank, is notified that the confirmation has been affirmed and creates a settlement instruction on its record keeping system. Currently, this model is available only to U.S. Direct Custody clients. A solution for international clients is under development.

Who Affirms the trade?	Benefit(s)	Consideration(s)	Settlement Instruction Required? (Y/N)
Client or IM	<ul style="list-style-type: none"> Improved timing between trade execution, affirmation, and pending settlement Settlement instructions are not required Client can affirm via a JPM tool 	<ul style="list-style-type: none"> Use of CTM or a system that reflects the CTM status is required Settlement instructions for non-executed movement are required May have some limitations such as the inability to pass a trade reference number and/or auto FX instruction to CTM 	No

Hybrid Affirmation

Client or the client's IM (the Party to the Trade) affirms a trade confirmation via CTM, JPM's Transaction Initiation Manager (TIM), or a trade order management system's affirmation solution (e.g., Aladdin). Client or the client's IM also sends settlement instructions. JPM ignores the affirmation and creates a settlement record based on the settlement instructions received. JPM's systems will attempt to compare the affirmed confirm to the settlement instructions; however, if the trade is not affirmed, JPM will still release the settlement.

Who Affirms the trade?	Benefit(s)	Consideration(s)	Settlement Instruction Required? (Y/N)
Client or IM	<ul style="list-style-type: none"> Client or IM controls the affirmation process Settlement Instructions post near real-time without counterparty dependency Playback of client internal reference number is supported 	<ul style="list-style-type: none"> More costly and complex as both affirmation and settlement instructions are managed by the Client or IM 	Yes

JPM is encouraging clients to align transmission of settlement instructions to JPM with the same day affirmation best practice of 9 PM ET on T. The earlier a settlement instruction can be submitted, the more likely the trade details can be matched/agreed and successfully settled.

16. Are there any new affirmation services offered by DTCC?

DTCC's CTM is the strategic platform for the central matching of cross-border and domestic transactions, automating the trade confirmation process across multiple asset classes and connects nearly 2,000 counterparties in 52 countries.

Custodians are integral to the CTM process because of their role as the settlement agent. When clients send trades through CTM, they are able to designate JPM as the settling bank. DTCC maintains more than 11.5 million standing settlement and account instructions (including JPM's). CTM pulls the JPM standing settlement instructions and once settled, shares are directed into or out of the JPM custody account with no further manual intervention required.

DTCC's latest enhancement to CTM is a product called Match to Instruct (M2I) which is a continuation of the CTM functionality as it further automates the post-trade process. Today, the CTM process allows clients to capture the broker's confirmations. Clients can affirm the confirmation on the CTM platform. The use of M2I triggers the trade affirmation and delivery to DTC for settlement when a centrally matched trade between a client and the BD occurs. Affirming a trade confirmation via M2I enables a client to utilize a Direct Affirmation model whereby JPM will create the settlement instruction from the affirmation without the need for the client to send either a settlement instruction or a copy of the affirmed trade.

17. If a client elects to use the Direct Affirmation model, do they still need to send settlement instructions?

A client that uses Direct Affirmation, regardless of the service or tool they use for affirmation, does not need to send settlement instructions for executed trades. If JPM is the custodian and is notified that the trade has been affirmed, the settlement instruction will be generated automatically without the client's instruction.

In certain instances, current technology may prohibit a client from blocking the delivery of settlement instructions to JPM even if they are performing their own affirmations. In these instances, the client accounts would be coded as Hybrid Affirmation and not as Direct Affirmation.

For all settlement movements that are not the result of an executed trade, such as moving securities between portfolios or aligning collateral into other custodian accounts, clients must submit a settlement instruction to affect that movement. There is no confirmation or affirmation required for these types of movements and, as a result, JPM would not be able to create the instruction from the affirmation.

18. My firm will use the Direct Affirmation model but requires a unique trade reference number played back. Can this be supported?

In a Direct Affirmation model, if a client is utilizing the CTM process, there is no client-specific trade reference on the affirmed trade confirmation and, when JPM creates the settlement record, the settlement confirmation will not contain a client specific reference number. This limitation is industry wide and JPM is exploring market best practice solutions via industry discussion. One potential solution is the use of a Universal Transaction Identifier (UTI). Clients may benefit from giving consideration as to whether the UTI could serve as their own trade reference in this scenario.

19. Will J.P. Morgan accept settlement instruction up to 9:00PM ET in order to meet the same day industry best-practice deadline?

If clients wish to use JPM as the affirmation agent, JPM requests all settlement instructions to be received no later than 8:45 PM ET. This deadline is to allow sufficient time to process and update DTCC prior to the 9:00 PM ET industry best practice cut-off.

Settlement

20. Are the DTCC securities settlement deadlines changing?

DTCC's cut-off times will remain unchanged. The cut-off for versus payment (VP) settlement is 3:00 PM ET on settlement date. The cut-off for free movement (FoP) settlement is 6:00 PM ET on settlement date. These are industry deadlines and may not reflect a specific cut-off time set by the custodian, which may vary depending on the type of transaction, method of transmittal, or originating time zone.

21. Are J.P. Morgan's settlement deadlines changing?

No, the cut-off times remain unchanged (see below). With the transition to T+1, the difference is that settlement date (SD) is one day earlier.

U.S. Platform Deadlines		
	Trade	Cancellation
Electronic VP	Trade 2:30 PM ET SD	Cancellation 2:30 PM ET SD
Electronic FoP	Trade 2:30 PM ET SD	Cancellation 2:30 PM ET SD
Fax VP	Trade 1:00 PM ET SD	Cancellation 11:00 PM ET SD
Fax FoP	Trade 1:00 PM ET SD	Cancellation 11:00 PM ET SD

International Platform Deadlines		
	Trade	Cancellation
Electronic VP	Trade 12:30 PM ET SD	Cancellation 12:15 PM ET SD
Electronic FoP	Trade 1:30 PM ET SD	Cancellation 12:30 PM ET SD
Fax VP	Trade 12:00 PM ET SD	Cancellation 12:15 PM ET SD
Fax FoP	Trade 12:00 PM ET SD	Cancellation 12:30 PM ET SD

22. Does the industry expect to see an increase in trade fails as a result of the change to T+1?

Market participants may experience a temporary increase in settlement fails. For this reason, resourcing implications immediately following the transition may need to be considered.

Post Settlement

23. Will cash penalties be assessed for failed trades?

No new settlement fail penalties were introduced under the SEC T+1 regulatory change in the U.S. The SEC intends to monitor affirmation rates and, as with any regulation, will perform examinations to confirm compliance with the rule. A low uptake of affirmation within the industry may prompt additional SEC actions. The practice of buy-ins is still acceptable for fails that exceed two business days after the expected settlement date.

24. In addition to trade fails, is a shortened settlement cycle expected to generate an increased number of position or cash breaks?

JPM is encouraging clients and their investment managers to submit instructions in electronic form early and to take advantage of the confirmation/affirmation process which should provide for a high straight through processing rate and keep any differences or discrepancies to a minimum.

25. Are there impacts to asset servicing with the move to T+1?

With the move to T+1, clients can expect compressed timelines to impact the following components:

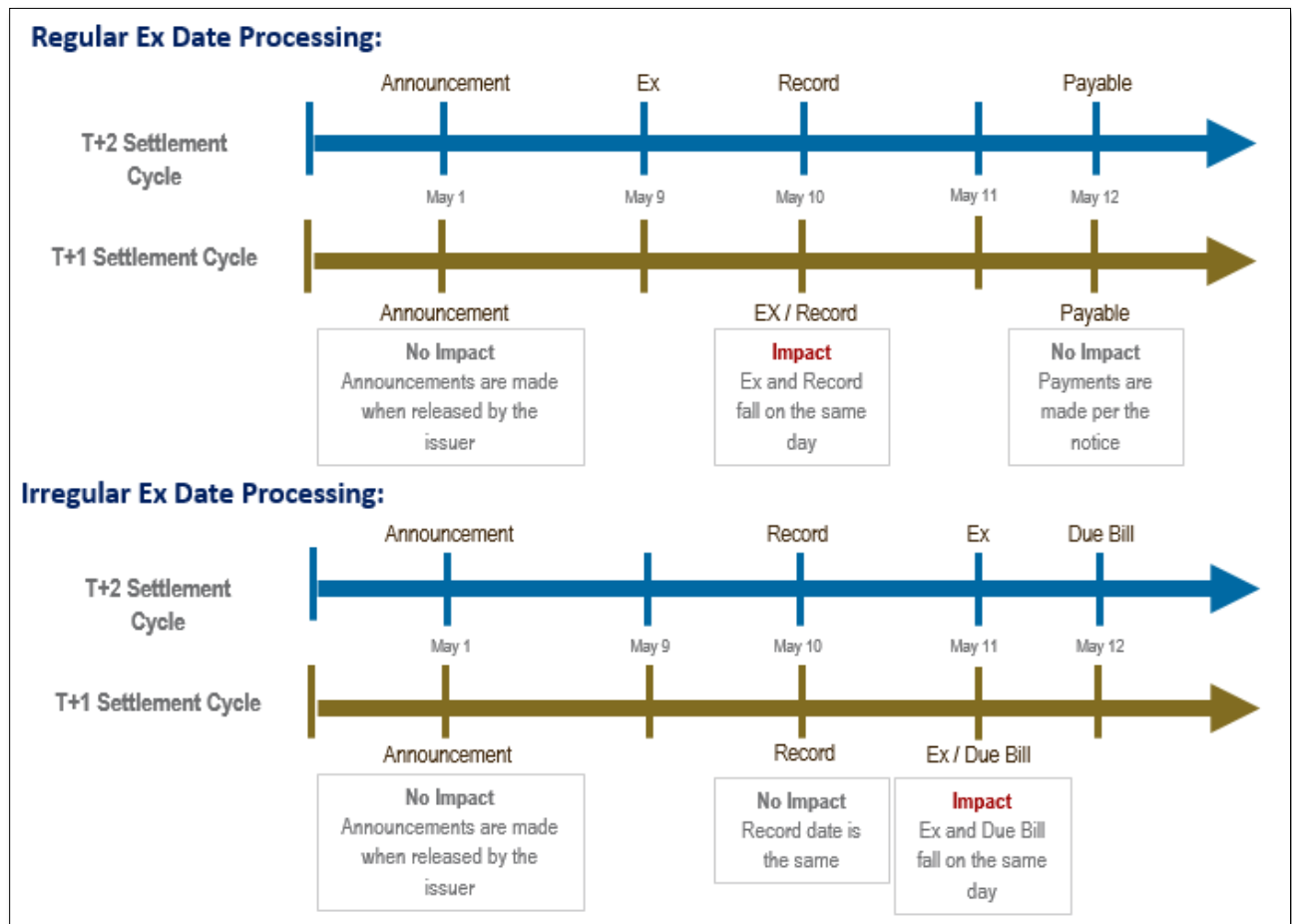
- **Ex-Date Changes** - In a T+1 environment, ex-date and record date would be the same, commonly referred to as "regular way ex-date."
- **Due Bill Changes** - The due bill redemption period (i.e., irregular-way ex-dates) will be shortened by one (1) business day. The due bill redemption date will now fall on the ex-date. The processing of

securities carrying a due bill will need to be adjusted for T+1 settlement. This includes ex-date notifications as well as the redemption of instruments with a due bill attached.

- **Interim Accounting Process** - To prepare for the migration to T+1 settlement, clients should review their interim accounting process to account for the shortened period and verify that income entitlement and tracking processes (e.g., due bill fail tracking, stock loan income tracking, and repo income tracking) are adjusted and functioning properly. JPM encourages clients to review their income entitlement capture and income allocation processing systems.
- **Cover protect timeline** - A T+1 settlement cycle will likely impact trading practices around the expiration dates of certain voluntary corporate action events (e.g., tender offers, exchange offers, rights subscriptions). Issuers often offer a Guarantee of Delivery feature that allows investors to purchase securities on the offer's expiration date and still participate in the offer while their securities are in the process of settling. Typically, this cover/protect period is aligned to the market's settlement cycle; however, there are exceptions where the time to cover a protect may be shorter or longer. The period is ultimately defined by the issuer and described in detail in the event's offering materials. In a T+1 settlement cycle, the cover/protect period will be the expiration date plus one (1) trading day.

Event reconciliation and entitlement calculations on voluntary asset servicing events is performed up to the market deadline, thus late trading with the compressed settlement cycle adds risk to the process so timely and accurate instructions will help alleviate some of that risk.

Figure 1: Using a hypothetical mandatory dividend event, dates for a regular and irregular ex-dividend event are shown in a T+2 and a T+1 environment



Funding

26. How is funding impacted by a T+1 settlement cycle?

Clients are encouraged to perform an end-to-end review of cash funding including foreign exchange (FX) and time zone requirements to mitigate failed trades due to insufficient funding or excessive pre-funding or overdrafts⁴. Clients that hold currencies other than USD to fund activity will have to make sure their funding model is adjusted to allow for timely delivery.

Other matters that clients may wish to consider include:

- A review of liquidity forecast procedures
- A review of internal liquidity management processes to fund in a timely fashion
- Fund settlement mismatch – For investment funds, there may also be funding mismatches caused by differences between the settlement cycles of shareholder fund flow transactions, and those of the underlying portfolio holdings. A strategic solution might be to align settlement cycles; however, this is likely to take time given a need to amend processing and documentation and may not be preferable for all products given a fund investment strategy may straddle markets with differing securities settlement cycles.
- Negotiation of different settlement cycles with individual counterparties
- Liquidity management to cover potential overdrafts and/or long balances

JPM regional client instruction deadlines can be accessed on Market Intelligence (accessible through J.P. Morgan Markets (JPMM)).

Product Documents	Market Intelligence Location
FX Execution Guide	Product – Securities Services Foreign Exchange
Global Custody FX Deadlines	Product – Securities Services Foreign Exchange
Funds FX CLS Cut-Off Times	Product – Securities Services Foreign Exchange
Global Custody Trade Deadlines (Used for FX SI or Tag 11A)	Product – Trade Deadlines
Securities Services Global Custody Cash Deadlines (Used for Free Cash and 3rd Party FX)	Product – Cash Deadlines

27. What are the FX considerations in a T+1 settlement cycle?

Depending on their FX and funding model, clients may need to execute same-day value FX on T+1 securities transactions. Clients with FX operations outside the U.S. will need to consider the impact of performing FX execution, matching, and settlement before local currency cut offs on T+1. JPM supports our custody client

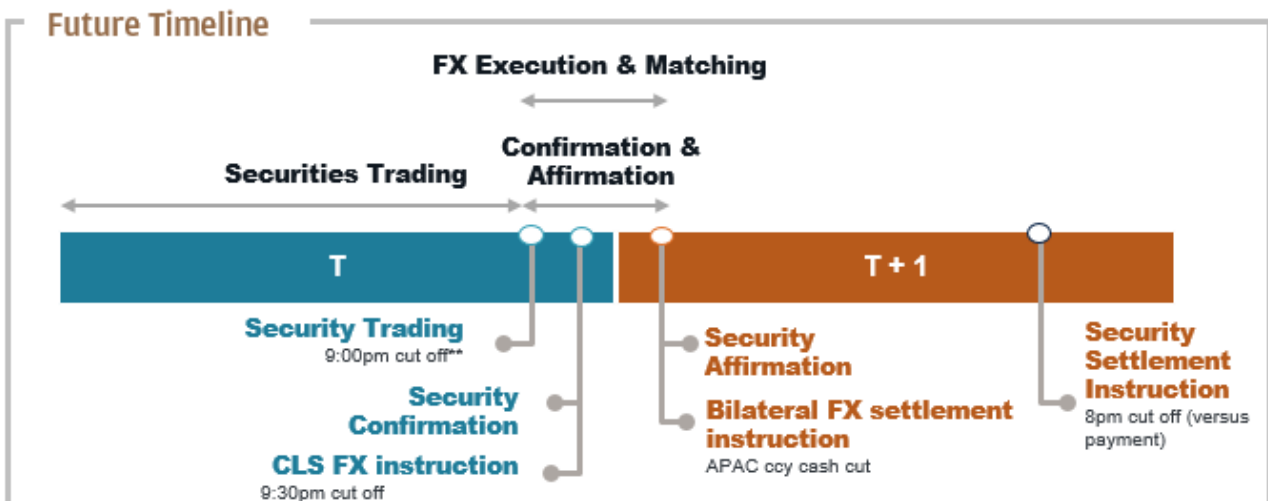
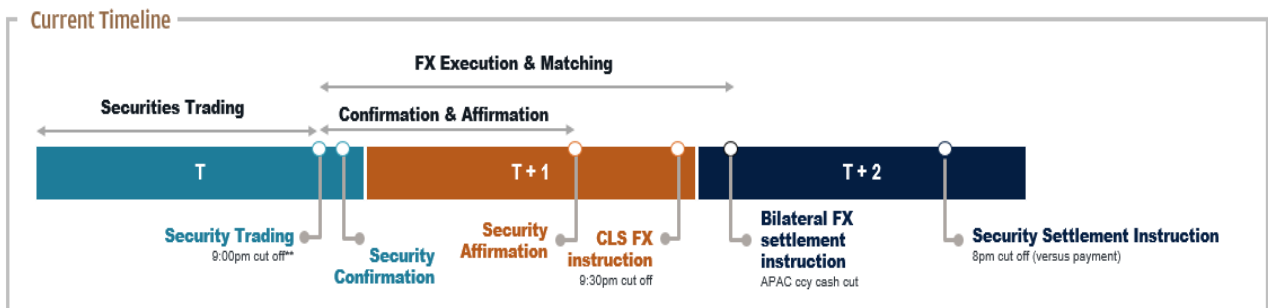
FX needs through a broad range of solutions – ranging from AutoFX or direct FX executed with JPM’s Markets business, through to facilitating the settlement of FXs executed with third party counterparties through our cash capabilities or via Continuous Linked Settlement (CLS).

⁴ Clients should note the ability to draw on JPM’s balance sheet for overdrafts or the use of Continuous Linked Settlement are subject to JPM’s credit and legal review and provided solely at their discretion.

JPM recommends that clients review their FX model to determine whether it will be able to support their needs in a T+1 environment. Considerations include:

- Clients may face additional challenges working with their FX providers to manage the end-to-end FX booking before local currency cut offs. For example, clients funding a USD FX from Australian Dollar may face earlier same-day value cut-offs than clients funding from selling EUR.
- In a T+2 environment, clients would typically have the entire local working day on T+1 to perform these tasks and would not be subject to the same cut off concerns if booking a TOM (T+1 value) FX to settle on T+2
- Depending on when the FX is executed, counterparties may not have sufficient USD liquidity
- Counterparties may have different FX and cash cut-off times to consider
- Booking FX post underlying securities trade matching may result in a reduced time window for the end-to-end FX process

Figure 2: Below is a timeline example of a client investing in U.S. securities for an APAC currency-based fund. All times are based in London time zone as of June 2023 and the visual is for illustrative purposes only.



Potential Client Challenge	Potential Impact
Security Affirmation Potential challenge to affirm securities late on T or early T+1 if only executing FX post affirmation	Need for new operational footprint in new time zones Less time for end-to-end FX process
FX Execution Requirement to execute FX late on T or in early hours on T+1	Need for new execution capabilities in new time zones Local currency FX cut-offs across various counterparties Counterparties have less USD liquidity on late T or early T+1
FX Settlement Challenge to utilize CLS due to SD--1 cut-off	Management of multiple settlement processes and risks, including cash cut-offs with counterparties and custodians

JPM's AutoFX offering can assist clients with cut-off or counterparty concerns by executing FX based on the underlying trade instruction. JPM's AutoFX model can execute same-day value FX for WM/Refinitiv Benchmark (WMR) eligible freely convertible currency pairs until the end of the New York trading day - which may be later than local FX brokers can offer for clients located outside of the U.S. Clients executing through AutoFX do not need to separately instruct the cash settlements to JPM.

28. Can clients still settle through CLS?

CLS is available for FX transactions with a settlement cycle of T+1 or greater. Clients must instruct the settlement by the Securities Services' published deadline on SD-1.⁵

In a T+1 environment, this means that the CLS FX may need to be executed, matched, and instructed to JPM on the same day as the security trade. Clients with concerns about meeting the CLS cut-offs may need to consider alternative FX solutions to meet their US T+1 FX needs.

29. Will there be any impact on J.P. Morgan's cash cut-offs?

JPM regularly reviews cash cut-off times, looking for improvements which can give clients more time to instruct. Our USD deadline recently was improved by 45 minutes for U.S. domestic customers to 6:15 PM ET. At this time, JPM does not envisage any further material changes to our instruction deadlines.

J.P. Morgan T+1 implementation and service/operating model changes

30. How will J.P. Morgan and the broader industry manage the "go live" date and the double settlement day?

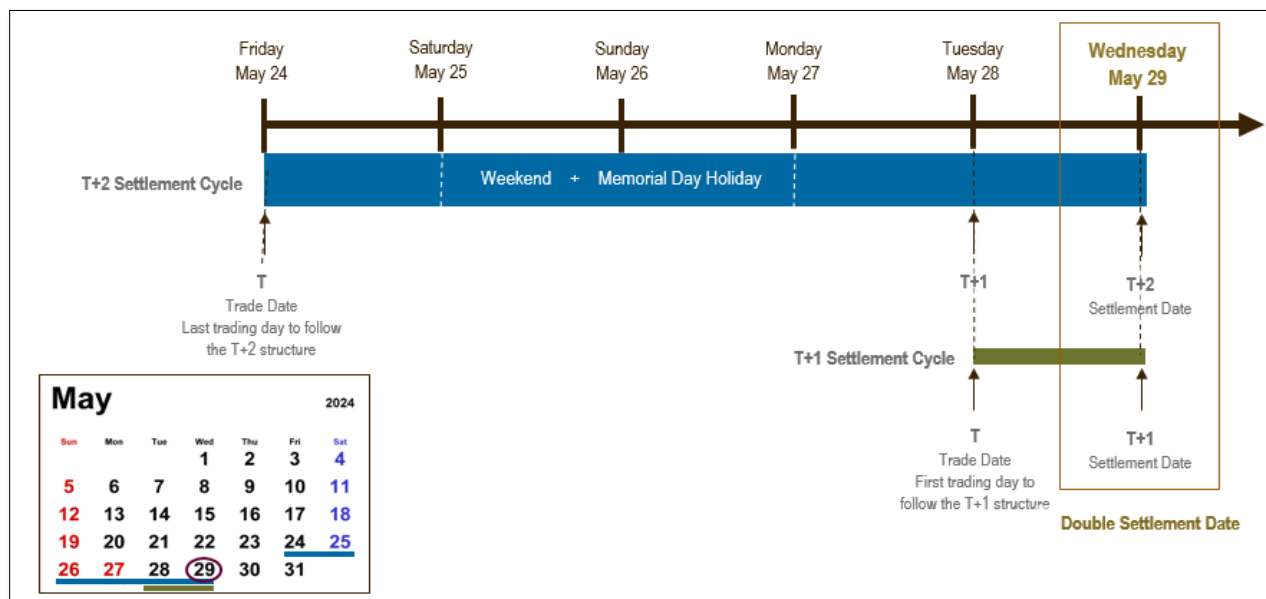
Similar to the migration from T+3 to T+2, JPM and DTCC will each have a command center in place to help execute a seamless and coordinated transition. JPM's readiness plans include assessing staffing to support increased processing volume and the ability to assist clients. Settlements including volumes, trade fails, and trade repairs will be monitored throughout the implementation period and post "go live."

Double Settlement Date:

- DTC eligible securities traded prior to May 28, 2024, will settle on a T+2 basis. A transaction executed on Friday May 24, 2024, will settle with a settle date of Wednesday May 29, 2024.
- DTC eligible securities traded after May 28, 2024, will settle on a T+1 basis. A transaction executed on Tuesday, May 28, 2024, will settle with a settle date of Wednesday, May 29, 2024.
- As a result, May 29, 2024, will be a double settlement date to settle transactions executed on May 24, 2024 (T+2) and transactions executed on May 28, 2024 (T+1).

⁵ CLS eligibility is subject to JPM's credit and legal review and is provided solely at JPM's discretion.

Figure 3: U.S. T+1 Double Settlement Date Illustration:



31. How is J.P. Morgan as a custodian impacted by T+1 settlement and what are some of the key readiness activities being undertaken by J.P. Morgan?

JPM has performed a thorough impact analysis of its systems, processes and documentation, including legal agreements. Regarding custody contracts, no change is expected as JPM custody agreements do not reference specific settlement cycles.

JPM readiness activities include, but are not limited to the following:

- Reference data and trade processing systems must be configured for T+1 as the standard settlement
- National Securities Clearing Corporation supported transactions, including ETF creation and redemptions, will reflect a standard settlement cycle of T+1
- Where JPM acts as an affirmation agent, submission deadlines will be adjusted to align with the industry best practice cut-off time of 9 PM ET on T. The current cut-off is T+1 at 11:30 AM ET.
- JPM asset servicing will be adjusted to reflect the shorter settlement period for ex-date (for regular-way ex-date calculations) and due bill activity
- Cover/protect expiration date will be one business day instead of 2 business days after the offer expiration date

JPM's internal testing will be iterative. Changes to our technology platforms, once completed, will be tested as with any technology release.

32. How is J.P. Morgan as an agent lender impacted by T+1 Settlement?

JPM does not anticipate significant changes to the securities lending operating model and service to clients. JPM has processes in place (and will make updates, where needed) to manage liquidity and to facilitate effective settlement as required. Stock loan recall time frames will be aligned to the revised settlement cycle, which is supported today by JPM for a number of markets that already operate on a T+1 basis.

In preparation for the U.S. migration to a T+1 settlement cycle JPM recommends that:

- Lending clients send their sale notifications as close to the U.S. market close on T as feasible to ensure timely delivery of recall notices to the borrowers
- Clients recalling securities for upcoming proxy votes should begin the recall notification process as far in advance to ensure the securities are returned in time for the upcoming vote. This would be particularly important if the lending client has a large number of voting shares on-loan and/or the materiality of the vote is important to the lending client.

JPM will continue to work with the borrowers to emphasize the importance of timing pertaining to the upcoming market change and work with them to adapt their processes accordingly. For example, the current proposed industry best practice recall deadline to the borrowers is 11:59 PM ET on calendar date T. This can be interpreted as the “party at fault” deadline, and it should be assumed that recalls sent to the borrowers prior to 11:59 PM ET on T can be expected to be returned on T+1.

Lending clients should anticipate that the U.S. market will incur a period of adaptation in the near term following the May 28, 2024 go-live date.

33. How is J.P. Morgan, as a provider of administration services to ETFs, impacted by T+1 settlement?

There is an expectation that Authorized Participants (APs) will be required to post larger amounts of cash collateral for Creation orders. The rationale for this expectation is that post T+1 compliance date, Creation orders will settle on T+1 with a higher frequency than they do in the current state, while the underlying markets for the portfolio trades will, in many cases, continue to settle in cycles longer than T+1 for the foreseeable future. As a result of this mismatch in the ETF settlement cycle and underlying portfolio trade settlement cycles, APs will have to post collateral in order for the ETF issuer to release/deliver the ETFs shares.

For ETF redemptions, APs have expressed concern about the ability of ETF issuers to raise cash to pay ETF redemption order cash components in the T+1 timeframe. This potential cash shortfall is due to the fact that issuers will raise cash, at least in part, by trading in foreign markets which have longer settlement cycles. Issuers have agreed to take this point away and discuss further.

34. How is J.P. Morgan, as a provider of FX services, impacted by T+1 Settlement?

JPM’s AutoFX product is capable of executing same-day value FX for WMR-eligible freely convertible currency pairs until the end of the New York trading day. For clients’ T+1 U.S. trades instructed to JPM by the published custody deadlines, AutoFX can execute the FX at any time of the client choosing until 4 PM ET on T+1. In addition, Standalone FX is available for same day FX until 1:45 PM ET on T+1. AutoFX has a strategic roadmap to expand its execution capabilities to include position-based rules and enhanced execution methods such as live pricing in competition, Algo strategies, and support for additional local market fixings.

Clients executing through AutoFX do not need to separately instruct the cash settlements to Securities Services.

Product Documents	Location of Published info on Market Intelligence
FX Execution Guide	Product - Securities Services Foreign Exchange
Global Custody Trade Deadlines (<i>Used for FX SI</i>)	Product - Trade Deadlines
Global Custody FX Deadlines	Product - Securities Services Foreign Exchange
Funds FX CLS Cut-Off Times	Product - Securities Services Foreign Exchange
Securities Services Global Custody Cash Deadlines (<i>Used for Free Cash and 3rd Party FX</i>)	Product - Cash Deadlines

35. How is J.P. Morgan, as a provider of services to ADRs, impacted by T+1 settlement?

Clients who rely on the issuance of ADRs for onward delivery in the U.S. market may see an increased risk of fails due to the longer settlement cycle of the non-U.S. market of the underlying ordinary shares (ORDs). For example, if an asset manager or BD needs to settle an ADR delivery by converting the underlying ORDs, the ADR delivery runs the risk of failing for at least a day if the ORDs need to be procured from the market. The reason is the settlement cycle of the ORDs will likely be longer than the T+1 settlement cycle which will apply to ADRs.

36. How is J.P. Morgan tracking progress in support of the T+1 transition?

JPM has a cross-product program in-place to track progress and deliver against the industry milestones required to achieve success in the move to T+1. JPM has built a robust program governance model and a milestone plan that is in sync with the industry playbook. The goals of the program are to deliver requisite JPM technology and operating model changes, share information with clients to keep them informed of regulatory, industry and our own developments and also to engage with clients (where necessary) to improve client settlement practices/processes.

37. How will J.P. Morgan engage clients and keep clients updated on its readiness for implementation of T+1 settlement?

JPM is communicating with client using multiple forms including briefings, pre-recorded audio discussions, webinars, regional events and Newsflashes. Clients can access our T+1 Settlement Cycle content on the Securities Services Regulatory Solutions page of JPM.com⁶.

JPM is also engaging clients on a one-to-one basis driven either by client request or as proposed by JPM to work with clients to identify opportunities to improve select areas of their current settlement processes.

⁶ <https://www.jpmmorgan.com/securities-services/securities-services-regulatory-solutions>

For additional information, please contact your J.P. Morgan representative.

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