

CITI GLOBAL WEALTH T+1 FAQs

Frequently Asked Questions about how Citi Global Wealth is preparing to
transition to T+1

May 2024

FAQ: Getting Ready for T+1

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Background and General Information

What is T+1 and why is it a significant industry initiative?

The U.S. Securities and Exchange Commission along with the Municipal Securities Rulemaking Board has mandated an industry change to shorten the settlement cycle to T+1 beginning on May 28, 2024. The changes will impact the majority of U.S. traded securities including equities, corporate and municipal bonds, and unit investment trusts. These products which currently follow a settlement cycle of Trade Date plus 2 days (T+2) will transition to a settlement cycle of Trade Date plus one day (T+1). The change will have significant impacts across the entire US pre- and post-trade market infrastructure including operating models, processing activities, trade life cycle cut-off times, external dependencies, and technical developments. Understanding the impact of T+1 on current post-trade operations and processing is a critical step towards ensuring industry participants are ready for this move. Furthermore, as the largest market, the US has the potential to drive other markets to adopt a T+1 settlement cycle as a global standard.

For additional information, visit DTCC's "Shortening the US Equities Settlement Cycle" resource page: <https://www.dtcc.com/ust1>.

What triggered the US move to T+1?

The industry believes that moving to a T+1 settlement cycle will increase the overall efficiency of the securities markets, mitigate risk, create better use of capital, and promote financial stability, provided that the appropriate balance between increasing efficiencies and mitigating risk is achieved. The shortened time period between the execution and settlement of trades should reduce the overall number of unsettled trades, the amount of exposure to those unsettled trades, and the potential impact of price movements in the underlying securities of those unsettled trades.

What SEC Rules are impacted with T+1?

Three rules are impacted:

1. Amended Exchange Act Rule 15c6-1(a)

- a. Shortens the standard settlement cycle for most broker-dealer transactions from T+2 to T+1.
2. Amended Advisors Act Rule 204-2
 - a. RIAs to make and keep date and time stamp records of confirmations received, allocations, and affirmations sent or received.
3. NEW Exchange Act Rule 15c6-2
 - a. Requires broker-dealers to establish written agreements or policy and procedures to ensure allocations, confirmations, and affirmations are completed on trade date.

When will the move to T+1 take place?

The SEC confirmed the implementation date of May 28th, 2024.

What is the US's implementation approach, and what instruments are in scope for the T+1 migration?

The US will transition T+1 for all securities in scope, including DTCC equities, corporate bonds, municipal bonds, unit investment trusts (UITs), as well as any financial instrument comprised of these entities such as ADRs and EFTs.

Link to the DTCC published list of product scope: [T-1-Product-List \(dtcc.com\)](https://www.dtcc.com/Products/Products-List)

Are there any other markets expected to move to T+1?

Yes, as follows:

- Canada, Mexico, and Argentina are aligning with the U.S. market move to T+1 with an implementation date of May 27th, 2024.
- Brazil and Colombia have T+1 on their horizons and are continuing discussions.
- Both the UK and EU have developed task forces to assess a move to T+1. The EU is currently considering other regulatory items such as CSDR prior to T+1 implementation with ongoing conversations.

The industry anticipates increased development in 2024 and onwards.

Benefits and Challenges

What benefits can the industry and clients expect from the T+1 movement?

The shortened time period between execution and settlement of trades should reduce the overall number of unsettled trades, the amount of exposure to those unsettled trades, and the potential impact of price movements in the underlying securities of those unsettled trades. Implementing T+1 will also enable investors to access the proceeds from securities transactions sooner than they are able in the current T+2 environment.

Additional benefits include infrastructure optimization due to tech and operational changes to support T+1 triggering increased automation, reduce manual processes and improve standards. Market capital becomes more optimal with reduced margin requirements and increased liquidity.

Despite up-front implementation costs, market participants and financial firms will also ultimately benefit from the infrastructure changes required to support T+1, including improvements to overall operational efficiencies, adoption of technology to achieve automation and reduce manual work efforts, and the ability to identify innovative solutions to facilitate best practices and enhance client services.

What are the other foreseen industry challenges?

In addition to timing impact, other challenges include:

- Full readiness of all industry participants by planned go-live date
- Cash funding requirements to determine where changes are required to the operating model
- Dually listed foreign securities that are eligible for settlement in the US may have different settlement cycles
- Potential for increase in failed trades due to industry readiness

What is the biggest concern on multi-listed securities with impact to T+1 processing?

Securities that trade on multiple exchanges have the potential for misalignment in the settlement cycles. Shares sold in global markets on T+2 basis will not be able to fund T+1 US activity. Additionally, if shares are to be moved from different locations to US to satisfy sales, investors will need to plan accordingly.

Cut-offs and Timing Impact

What are the implications of shortening the settlement cycle to T+1?

Removing one day from the settlement cycle creates timing challenges for allocations, affirmations, and securities lending due to the reduced number of hours for cutoffs.

Trade Cycle	T+2 DTCC Time	T+1 DTCC Time	Time Loss
Allocations	11:30AM on T+1	7:00PM on T	16.5 hours
Affirmations	11:30AM on T+1	9:00PM on T	14.5 hours
Securities Lending (*best practice)	3:00PM on T+1	11:59PM on T	15 hours
Funding	10:00AM on T+1	10:00AM on T+1	N/A
Settlement	3:45PM on T+2	3:45PM on T+1	24 hours

Asia to review processing efforts due to time zone impacts and potential for overnight processing during U.S. hours.

What is the Citi trade cut-off time to meet the new DTCC 9:00PM affirmation cut-off on trade date?

To meet DTCC's affirmation cut-off, Citi's trade cut-off time is 15 minutes before DTCC's for global window clients (8:45PM EST on T) and 10 minutes before DTCC's for US direct

clients (8:50PM EST on T). ****Please note that this is assuming that all trade instructions are received fully straight-through processing (STP) with no credit or sanction issues.*

Is it mandatory to place instructions by Citi's cut-off time above?

It is mandatory for market participants to have in place technology systems, operations, and processes to support trade affirmation before the above cut-off times to ensure trades are affirmed before the DTCC 9PM cut-off on trade date. If trades are not affirmed by 9PM EST on trade date but before Night Delivery Order (NDO) deadline of 11:30PM EST, trades settle as NDO settlement. If a client sends instruction after NDO deadline (11:30PM EST on TD), then trades settle as Day Order (DO).

Will the US market implement penalties similar to CSDR?

While there are no current plans for penalties for non-adherence to the 9:00PM affirmation timeframe or settlement delays/fails, trades affirmed after 9:00PM will incur slightly higher processing fees.

Does Citi have FX product offerings that complement new T+1 cut-offs?

Yes. Citi offers Auto FX and FX Pulse to assist clients with a streamlined solution to convert foreign currency into USD. Funding can be aligned to settlement date through the usage of these two offerings. Citi's current FX cut-offs remain unchanged.

Client's using third-party FX providers to continue to follow Citi's current cash cut-offs as they remain unchanged.

How will the move to T+1 impact OTC Derivative transactions?

OTC Derivatives will settle on a timeline agreed upon by the counterparties involved, both for the derivatives contract itself and the underlying securities which can range from same-day settlement to several days or even longer.

Will Citi's cash cut-offs change with the movement to T+1?

Citi's cash cut-offs remain unchanged with T+1. While currently the cash cut-offs are not changing, we are working internally to assess if there can be any enhancements to the cash cut-offs. Any enhancements will be communicated to clients.

Pre-fund clients to continue to have cash in account on trade date for trades to flow through settlement cycle. All other clients to continue to have cash in account by close of business on settlement date.

What are cost basis implications?

After T+1 goes into effect, any changes to your cost basis method will have to be made within one business day of the trade, not two.

What are margin interest implications?

If you place a trade in a margin account and then need to sell money market funds (“MMFs”) to cover your purchase, the funds will need to be available prior to or on the same day as the trade settlement to avoid being charged margin interest. For trades placed for bonds, equities, and other securities, the MMFs will need to be sold by 4 p.m. ET the same day the purchase trade is placed.

To avoid accruing margin interest:

- MMFs will need to be sold by 4 p.m. ET to cover trading in the after-hours market that same day.
- MMFs will need to be sold by 4 p.m. ET to cover purchases of Fixed Income securities that can be traded until 5 p.m. ET the same day.

If trading with an external broker is impacting time to meet T+1, is there a Citi solution to help streamline broker and custody?

Execution-to-Custody (E2C) is a Citi Markets product offering which instantaneously sends the broker trade to Citi Custody to remove client requirement of passing trade information to Citi Custody.

What happens if during the transition, Citi is ready, but a counterparty/broker is not?

In the event a broker is not able to accommodate T+1 settlements, Citi Wealth has the option to choose a different broker for best execution. In addition, we performed some extensive due diligence on vendor agreements and related escalation clauses. Our Legal stakeholders are also engaging vendors for attestations of their respective readiness. There are escalation clauses in place and the exceptions will occur at the matching level (away from Citi). If a counterparty is unable to settle T+1, there is also the option of entering into a bilateral agreement.

Does Citi offer any solution to Global Custody clients to assist with meeting new affirmation cutoffs?

Operationally, Citi is reviewing its current pre-settlement location model to ensure necessary processing is moved to follow the sun model to meet cutoff timeframe. Similarly, clients are encouraged to look into alternative processing locations or shift work for location support for T+1 operations.

Clients can also leverage products like auto-affirmation or Match to Instruct (M2i) to better meet T+1 cutoffs. Citi as a custodian requires clients to send trade instructions by the cutoff to affirm on clients' behalf. The utilization of CTM, auto affirm, or M2i is a viable tool to meet the requirement before 9pm EST affirmation deadline.

E2C is also an excellent option as client can route their trade orders to CGML for execution, which sends custody the confirm within minutes of execution.

In case any trades are stuck due to sanctions, does Citi's standard cutoffs have enough recovery time? If the trade did not make it by market cut-off due to Citi's internal process such as sanction checking, who would be responsible for damage?

Citi's standard cutoff even today under T+2 is 10 min for DCC and 15 for GC before market cut-off. Any cut-off assumes a fully STP processing. Sanctions screening has up to 48 hours to review and process, therefore Citi can never accommodate all sanctions screening in our cut-off times. With that, sanctions screening will process on a follow the sun basis to remove items that are false positives as quickly as possible. This is the same as today so there will be no changes to who is responsible for damages.

What will the securities lending recall process look like in a T+1 settlement cycle?

Where reallocations/substitution is not possible, the lender will issue the recall before 11:59PM 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 SEC Rule 204 close-out requirement would remain at SD+3 (or T+4).

Affirmation Process

What is an affirmation?

Trade affirmation is part of the US market's matching process that serves as an acknowledgment to all parties that the required trade and settlement details for both buyer and seller are matched and ready for settlement.

Why is the affirmation process significant to T+1?

T+1 SEC Rule 15c6-2 requires same day allocation, confirmations, and affirmation.

In addition to the new SEC requirement, the ID/ affirmation settlement allows the market to operate more efficiently and ensure seamless settlement. An Affirmed trade status provides confirmation that the trade is matched and locked in for settlement at DTC. Unaffirmed trades are 54 times more likely to DK (Don't Know), a rejection notification indicating that the counterparty does not recognize the trade, increasing the potential for trades to fail.

What are some potential consequences of clients "never" sending affirmations?

Affirmations are an important step in the trade life cycle that provides assurance to both parties that all trade details are matched, and no further action or amendment is required. In the absence of a timely affirmed confirm, a Deliver Order (DO) will need to be sent by the broker or the custodian. A DO has more expensive processing fees than an affirmed confirm and introduces settlement risk by adding another, unnecessary step to the process. While no penalties have been announced by the SEC for non-adherence, there is the possibility that the additional fees would be passed along to the clients for the unaffirmed trades.

Additionally, as this is a requirement for brokers, they may impose penalties on clients that are not adhering to the requirements and causing them to fail on this specific requirement.

Can E2C clients self-affirm?

Yes, E2C clients can be set up to self-affirm. Affirmation setup is a client preference. We will adjust the settings accordingly. Depending on what setup client wants, we need to update the settings in the system but there are no changes to SWIFT messages/ tags.

Can clients auto-affirm trades and sent Citi a SWIFT confirmation of each trade without risk of duplication instruction by Citi in the market?

Yes, there is an option for clients to self-affirm and send SWIFT MT54X to Citi.

What if no confirm is presented during the matching process?

If no confirm is presented to match, the client instruction will be used for settlement and the trade will settle outside the ID settlement process.

What measures are Citi putting in place to ensure all trades are affirmed before the Trade Date 9PM EST cut off point?

Citi as a custodian requires clients to send trade instructions to us by the cut-off if we are to affirm, thus the utilization of Central Trade Matching (CTM) to match and then auto-affirm or M2I is a viable tool to meet the affirmation deadline. E2C is also an excellent option for clients as the client can route their trade orders to CGML for execution, they will send custody the confirm within minutes of execution so there would not be an issue with the deadline being met. Citi is also leveraging all of our global operational sites to process transactions to ensure seamless processing of all instructions received.

For trades that are not affirmed by 9PM EST on trade date, how does the process for sending a Delivery Order work?

If trades are not affirmed by 9PM EST on TD but before NDO deadline of 11:30PM EST, trades settle as NDO settlement. If a client sends instruction after NDO deadline (11:30PM EST on TD), then trades settle as DO. This is an automated process.

What happens if the settlement instruction sent by a client has a discrepancy from the affirmation record?

It is unlikely that a discrepancy will occur. If a client self-affirms, it will only affirm when trades reach the agreed matched status. Therefore, Citi should not receive an instruction that is different from what was affirmed by the client. However, if this were to occur, the affirmation record would remain unauthorized, and Citi will send a MT548 message informing client of the discrepancy.

If the discrepancy is due to a money difference between the client instruction and the broker, and is within tolerance (\$25 USD standard), then the MT548 MTCH will generate. If the

discrepancy is for something else or above the threshold, they will get a MT548 NMAT (not matched).

Trades settle ID if the trade is matched to the affirmation. If there is a discrepancy and it is not corrected until after affirmation window, then the trade will settle based on when it is received (NDO or DO). The client can adjust the instructions to enable ID settlement, however, they would have to send a cancellation within the cancellation window and send a replacement trade. If the replacement trade matches, it will settle ID but not if received past the affirmation deadline.

In the event of a discrepancy, does a custody client need to re-send an instruction to attempt settlement again or must they correct the affirmation record before sending settlement instruction?

The client can send a cancellation within the cancellation window and send a replacement instruction. If the replacement instruction matches, and is received before the affirmation cutoff, it will settle ID.

What is the cancellation window?

Any cancellations need to be received prior to the start of the night cycle (9:45PM EST). The cancellation window for any cancellation post-affirmation is therefore very narrow (9:00PM-9:45PM EST). Cancellations not received in this window for the above scenario will result in night order processing.

Once the night cycle starts, if we have RVPs pending and the counterparty delivers, it will settle. On the sale side, unless the trade has been exempted, it is out on the counterparty's RAD to take in. Once accepted, it will then settle.

For additional information, please view the Affirmation 101 video link below:

<https://www.veracast.com/webcasts/citigroup/globalcustody/Rit2E0.cfm>

Implementation

What is the last day to settle T+2 trades and how does this transition look over the migration weekend?

U.S. Settlement Cycle T+1 Transition Timeline						
Friday, May 24, 2024	Saturday, May 25, 2024	Sunday, May 26, 2024	Monday, May 27, 2024	Tuesday, May 28, 2024	Wednesday, May 29, 2024	Thursday, May 30, 2024
Last T+2 Trade Date	Conversion Weekend	Conversion Weekend	Markets Closed Conversation Weekend	First T+1 Trade Date	Double Settlement Date	Trade and settle T+1

How will failed trades be minimized?

While an initial increase in failed trades may occur with the transition to T+1, Citi is prioritizing its internal planning, readiness and industry testing approach with DTCC to facilitate a smooth transition and minimize failed trades. However, we do require engagement from all industry participation.

Preparation and Readiness

When is industry testing?

T+1 industry DTCC testing begins August 14th, 2023, through May 31, 2024. DTCC will offer 21 test cycles. Each test cycle will be two weeks long and will focus on a different scenario. Test environment is refreshed every 2 weeks and includes a predetermined list of T+1 testing CUSIPs as published by DTCC. Link to DTCC's published list of testing CUSIPs: [Test CUSIPs for T \(dtcc.com\)](https://www.dtcc.com/test-cusips-for-t)

Please review DTCC's testing document for in-depth details [UST1-Detailed-Test-Document \(dtcc.com\)](https://www.dtcc.com/ust1-detailed-test-document) and testing CUSIPs [DTCC Test CUSIPs for T \(dtcc.com\)](https://www.dtcc.com/test-cusips-for-t)

What recommendations can Citi offer to help clients with preparation and readiness?

Citi recommends for clients to:

- Establish internal project governance and consider the specific business impacts on each department such as Middle Office, Settlements, and Securities Lending to secure funding and management commitment
- Secure necessary resources and develop execution plans and testing strategies
- Proactively engage vendors and other external stakeholders
- Identify processes and functional areas impacted by T+1 to further identify any upstream and downstream dependencies that require system changes
- Prioritize technology development process(es) including BRDs, FRDs, technology design, coding, and internal testing. (While T+1 code will lay dormant for industry testing, it will be released upon implementation date. To meet the industry testing milestone, clients will participate in DTCC's T+1 test environment which will support end-to-end testing and allow members to test in both T+1 and T+2 environments concurrently. Both test environments were made available in Q4 2023.)
- Update all relevant internal and external documentation and prepare tech releases to production
- Leverage Citi T+1 communications such as webinars, training, symposiums, market guide updates and online platform updates-
- Review the DTCC T+1 resource page: <https://www.dtcc.com/ust1>

What Next Steps does Citi encourage clients for T+1 readiness?

- Determine the impact on trading strategies, including time zone differences for operational shift to support shorter T+1 timeframes

- Reassess current process for funding Trading Accounts to ensure ACH and wire transfers are initiated in advance and sufficient cash funds are available in the account to satisfy securities purchases
- Evaluate current instruction process for any anticipated challenges of meeting new cut-offs (e.g., same day affirmation = 9:00PM EST on T)
- Educate underlying clients on Amended Advisors Act Rule 204-2 (RIAs to record keep) and New Exchange Act Rule 15c6-2
- Engage with broker-dealers to understand New Exchange Act Rule 15c6-2 requirements for same-day affirmations
- Review with custodian if you are utilizing a Custodian Omni TradeSuite ID to determine if you require your own TSID set up

Where can I find additional information?

For questions or further information, please contact your Citi Representative or reference the Citi Wealth webpage: <https://www.citigroup.com/global/businesses/wealth>

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