



Goldman
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U.S. ACCELERATED SETTLEMENT: T+1

Client Guide

June 2023

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The document is not meant to be a comprehensive list of all the factors and issues to be considered by you when designing and implementing operational processes and/technology solutions with respect to T+1 settlement for your business. The scope of this document is limited solely to post-trade operational considerations. You will need to consider your own circumstances and uniquely tailor your operational processes to properly address your business in the context of your overall operational control infrastructure.

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This document discusses what Goldman Sachs institutional clients may consider when designing and implementing post-trade operational processes in support of their trading activity after a T+1 standard settlement cycle goes into effect. You will need to consider your own circumstances and uniquely tailor your operational processes to properly address your trading activities in the context of your overall operational control infrastructure.

BACKGROUND

The purpose of this document is to provide our clients and counterparties with information regarding the U.S. Securities and Exchange Commission's (SEC) approved rule amendments and new rules, finalized on February 15, 2023, which will change the standard securities settlement cycle in the United States from two business days after trade date (T+2) to one business day after trade date (T+1), and facilitate timely settlement, effective Tuesday May 28, 2024¹. At a high-level, this document also considers the implementation of a T+1 settlement cycle in the Canadian securities market, assuming an expected effective date of Monday May 27, 2024, given the interconnectedness and anticipated similar timeframe to the U.S.

The standard settlement cycle, set forth in Exchange Act Rule 15c6-1, defines when the parties to a purchase or sale of securities are obligated to settle a trade by paying for, and delivering, the securities. It applies to most securities that trade in the U.S., but excluded from its scope are U.S. Treasuries, municipal securities, and several other types of securities. However, the Municipal Securities Rulemaking Board (MSRB) have filed proposed amendments with the SEC to MSRB Rules G-12 and G-15 to include municipal securities in the scope². While T+1 will become the default settlement cycle, the SEC has retained the important longstanding exception that allows the parties to a trade to expressly agree at the time of the trade to an alternative settlement cycle.

The SEC expects T+1 settlement cycle will provide risk-reducing benefits, such as reducing credit risk (e.g. counterparty defaults), market risk (e.g. the market value of the security materially changes by settlement date) and liquidity risk (e.g. the counterparty has insufficient available cash or securities to timely settle the trade) to the parties to the trade. The SEC also believes that it will reduce systemic risk by lowering these same risks for central counterparties, who, in turn, might reduce the margin and clearing fund requirements they impose on their participants.

Additionally, the SEC believes that a T+1 settlement cycle may reduce volatility of securities markets by reducing incentives for investors to trade excessively in times of high volatility by having them bear the full cost of settlement risk, and by decreasing liquidity demands in times of adverse market conditions.

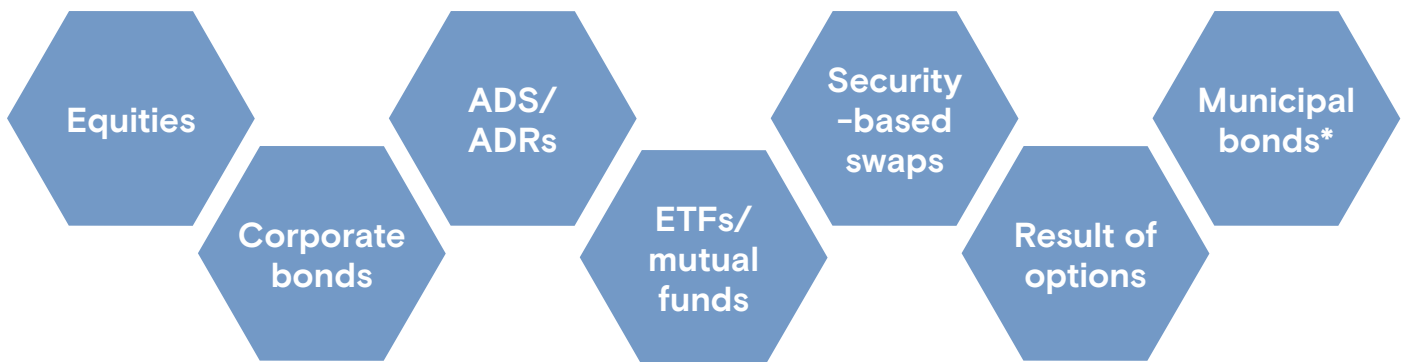
The SEC initially issued the Proposing Release on February 9, 2022. Notable changes from the Proposed Rule include:

- The May 28, 2024, compliance date, instead of a March 31, 2024, compliance date;
- The option for U.S. broker-dealers to adopt policies and procedures instead of being obligated to enter into written agreements with their customers as to the completion of the allocation, confirmation, and affirmation on trade date (T); and
- A standard T+2 settlement cycle exception for firm commitment underwritings priced after 4:30 p.m. ET.

¹<https://www.sec.gov/rules/final/2023/34-96930.pdf>

²<https://msrb.org/sites/default/files/2023-03/SR-MSRB-2023-03.pdf>

HIGH-LEVEL PRODUCT SCOPE FOR U.S. AND CANADIAN T+1 SETTLEMENT CYCLE



Subject to there being transfer or delivery facilities in the U.S. and 10% or more of the annual trading volume occurring in the U.S., (including private label mortgage-backed securities and exchange-listed partnership interests).

Please note that this scope list is not complete and for Canada is indicative only.

*The Municipal Securities Rulemaking Board (MSRB) are required to make additional rule changes.

GLOBAL PERSPECTIVES

Around the globe we have begun to see an intensified momentum towards accelerating the standard settlement cycle to T+1. Across the rest of the Americas, the Brazilian and Mexican markets have started exploring a move to T+1, whilst in Canada a formal announcement to move to T+1 as of May 27, 2024 has been made by the Canadian Capital Markets Association (CCMA), but remains subject to the Canadian Securities Administrators (CSA) making expected changes to National Instrument 24-101 for this to be committed. In the meantime, industry workshops are underway.

In Asia, India led the way with a move of over 5,200 select stocks to T+1 in a phased manner, completed on January 27, 2023. In Europe, the European Union's (EU) Parliament and the UK's HM Treasury have both announced in Q4 2022 that they propose to begin an assessment of the benefits, challenges, and costs of moving towards an accelerated settlement cycle. In the UK, formal taskforce meetings have commenced with a mandate to produce a draft report by December 2023 and a final report by December 2024. Goldman Sachs is actively represented on these external working groups and staying close to developments globally.

The table below highlights the current global trend towards the implementation of a T+1 settlement cycle:

Region	Jurisdiction	T+1 Status	Implementation Date	Notable Updates
Americas	U.S.	Committed	May 28, 2024	SEC rules finalized on February 15, 2023
	Canada	In Progress	May 27, 2024	Pending regulatory approval by the Canadian Securities Administrators, industry workshops in progress
	Brazil	Analyzing	TBC	Expected to align with the U.S. implementation date
	Mexico	Analyzing	TBC	Expected to align with the U.S. implementation date
	Others	TBC	TBC	Peru and Argentina may align with the U.S. as per previous settlement cycle change in 2017
Europe	EU	Analyzing	TBC	The European Parliament proposed an assessment for shortening the settlement cycle under the CSDR Refit
	UK	Analyzing	TBC	UK HM Treasury has setup an Accelerated Settlement taskforce, draft report due December 2023 and final report due December 2024
	Others	TBC	TBC	n/a
Asia	India	Complete	January 27, 2023	Phased migration completed
	Others	TBC	TBC	n/a

FURTHER RULE DETAILS

In addition to setting the new T+1 standard settlement cycle for the U.S. market, the SEC rule changes will, among other changes:

- Change the unique standard settlement cycle that currently applies to firm commitment offerings that are priced after 4:30 p.m. ET from T+4 to T+2;
- Require U.S. broker-dealers who rely on allocation, confirmation, or affirmation processes to settle securities trades to
 - Enter into a written agreement with the relevant parties to ensure completion of such processes, or
 - Establish, maintain and enforce policies and procedures reasonably designed to ensure completion of such processes (as further detailed below),

In each case, as soon as technologically practicable and no later than the end of trade date (T+0) in such form as necessary to achieve the settlement of the transaction;

- Explicitly exclude security-based swaps from the T+1 standard settlement cycle;
- Require registered investment advisers that are parties to contracts requiring same-day allocation, confirmation, and affirmation to make and keep records of confirmations received and allocations and affirmations sent or received;
- Require each clearing agency that provides post-trade central matching services to (a) implement policies and procedures reasonably designed to facilitate straight-through processing (STP), and (b) submit an annual report that sets out its procedures, progress, and steps it intends to take to facilitate STP; and
- Revise registered investment adviser recordkeeping obligations under Advisers Act Rule 204-2.

TRANSITION TIMELINES

The first trade date where the T+1 standard settlement cycle will become the standard for the U.S. market will be May 28, 2024, whilst for the Canadian market this has been provisionally set for May 27, 2024. As a result, the U.S. will have a three-day migration weekend and Canada likely only two-days.

As with previous settlement cycle reductions, this transition to T+1 will result in a double settlement day, for both the U.S. and (provisionally) Canadian markets, where the industry is likely to see a significant increase in settlement volume. This will occur on settlement dates May 29, 2024, and May 28, 2024, for the U.S. and (if finalized) Canadian markets, respectively.

It is important to ensure that system capacity and staffing levels are sufficiently resourced to meet the demands of double settlement dates to avoid any adverse impact to settlement efficiency.

U.S. T+1 Settlement Cycle Transition Schedule

Day	Friday	Saturday	Sunday	Monday	Tuesday	Wednesday
Date	May 24, 2024	May 25, 2024	May 26, 2024	May 27, 2024	May 28, 2024	May 29, 2024
Settlement Cycle	Last T+2 Trade Date	Transition Weekend			First T+1 Trade Date	Double Settlement Date

Canada T+1 Settlement Cycle Transition Schedule (Provisional)

Day	Friday	Saturday	Sunday	Monday	Tuesday
Date	May 24, 2024	May 25, 2024	May 26, 2024	May 27, 2024	May 28, 2024
Settlement Cycle	Last T+2 Trade Date	Transition Weekend		First T+1 Trade Date	Double Settlement Date

POST-TRADE PROCESSING TIME

With the implementation of a T+1 standard settlement cycle, our clients and counterparties should expect a potential 70% reduction in available post-trade processing time compared to today, for DTC-eligible trades to settle in a timely matter in the overnight net settlement processes¹. According to DTCC, trades must be allocated by 7 p.m. ET and then confirmed and affirmed prior to 9 p.m. ET on T to meet the overnight net settlement processes to settle on T+1. Given the global nature of U.S. securities trading, this change may create challenges for our clients and counterparties outside of U.S. time-zones to ensure that relevant post-trade functions are completed in time to enable successful settlement on T+1.

We recommend that our clients and counterparties review their current technology infrastructure to identify any time-dependent systems and batches, and evaluate if these need to be enhanced or brought forward to enable compliance with the required market deadlines on T.

As part of their T+1 preparedness, our clients and counterparties should consider the changes that are required for operational support models to ensure that allocations and affirmations can be completed by the respective deadlines by the end of T. This may include automating existing manual processes by using a systematic allocation solution such as FIX or DTCC's Central Trade Matching (CTM), or alternatively increasing adoption of pre-trade allocation methodologies. Functions with low straight-through processing (STP) rates and high manual intervention are most likely at risk of being adversely impacted by the change to a T+1 standard settlement cycle. Clients can speak with their Goldman Sachs representative to discuss various options Goldman Sachs has learned about for adopting STP solutions for their workflow.

In addition, our clients and counterparties may need to consider their operational footprint given the need to provide allocations and affirmations late in the U.S. day on T. Solutions to consider include using a U.S. based service provider to provide support during local hours, utilizing U.S. based employees for international funds, or utilizing an industry solution such as DTCC's Match to Instruct (M2i) (CTM clients only) which facilitates auto-affirmation at point of allocation matching, thus helping to reduce operational overhead, processing time and removing the need for their custodian to further affirm the trade post allocation.

We expect our clients and counterparties to aim for full trade affirmation for DTC-settling trades by the DTCC defined cut-off of 9 p.m. ET on T. Failure to do so may result in GS having to take steps impacting its business relationship with you, given the SEC requirement that broker-dealers enforce policies and procedures reasonably designed to ensure completion of allocation, confirmation or affirmation processes as soon as technologically practicable and no later than the end of the day on T in such form as necessary to achieve the settlement of the transaction. Further, at the individual trade level, failure to do so may result in the trade failing to settle on time and/or the obligation having to settle on a gross basis as a Delivery Order (DO) at DTC. Goldman Sachs will communicate exact daily cut-off times to clients in due course.

¹On the basis that U.S. market close remains at 4 p.m. ET on T, whilst the affirmation cut-off is brought forward from 11 a.m. ET on T+1 to 9 p.m. ET on T.

KEY IMPACTS & RECOMMENDATIONS

The requirement from DTCC to complete the allocation process by 7 p.m. ET and affirmation by 9 p.m. ET on T for timely settlement on T+1 will have varying impacts to our clients and counterparties who are based in different time-zones. Each location will have its own impacts and requirements which will need to be addressed ahead of the implementation date. The global footprint of Goldman Sachs means that we are well-positioned to support our clients across multiple geographical locations.

The grid below highlights the respective local times in London, Frankfurt, Hong Kong, and Tokyo in relation to the defined cut-offs for the U.S. market as of Tuesday, May 28, 2024¹ :

	T+0														
New York City	08:00	09:00	10:00	11:00	12:00	13:00	14:00	15:00	16:00	17:00	18:00	19:00	20:00	21:00	22:00
	T+0											T+1			
London	13:00	14:00	15:00	16:00	17:00	18:00	19:00	20:00	21:00	22:00	23:00	00:00	01:00	02:00	03:00
	T+0											T+1			
Frankfurt	14:00	15:00	16:00	17:00	18:00	19:00	20:00	21:00	22:00	23:00	00:00	01:00	02:00	03:00	04:00
	T+0			T+1											
Hong Kong	20:00	21:00	22:00	23:00	00:00	01:00	02:00	03:00	04:00	05:00	06:00	07:00	08:00	09:00	10:00
	T+0			T+1											
Tokyo	21:00	22:00	23:00	00:00	01:00	02:00	03:00	04:00	05:00	06:00	07:00	08:00	09:00	10:00	11:00
	T+0			T+1											
												Allocation cut-off		Affirmation cut-off	

MIS-ALIGNMENT OF GLOBAL SETTLEMENT CYCLES

The U.S. and Canadian markets moving to a T+1 standard settlement cycle will result in a misalignment with other markets where the standard settlement cycle remains as T+2. The impact of this misalignment will be most pronounced for market participants who transact in securities with cross-border dependencies, such as Exchange Traded Funds (ETFs) and American Depository Receipts (ADRs). Such misalignment of settlement cycles is likely to result in inefficiencies including potential impact to fails, inventory management, funding and balance sheet.

¹Note that these times may adjust after May 28, 2024, for daylight savings time changes

Exchange Traded Funds (ETFs)

ETFs which track international components within the underlying basket potentially will experience higher operational, financial, and liquidity impacts in a T+1 environment. As ETF primary market trading activity is based on the settlement of ETF shares, moving U.S. ETFs to T+1 settlement would increase financing costs for market participants supporting U.S. ETFs with international market exposure as settlement of these funds' international components will become misaligned with the ETF leg. GS and others across the industry are continuing to develop solutions to mitigate the impacts of T+1 settlement migration and best maintain efficiency in the Create/Redeem process.

American Depositary Receipts (ADRs)

For ADRs, T+1 may result in an increased risk of failure for transactions which rely on issuances to fill orders. This is likely to be most pronounced in Asia-Pacific programs, where settlement misalignments between the U.S. and local market, including time-zone differences, will result in challenges for market-makers to deliver underlying securities (e.g. ordinary shares) to depositary banks on time to meet T+1 settlement requirements for ADRs. This may increase operational and settlement risk for market participants, which could in turn decrease liquidity and increase costs.

Goldman Sachs is working with SIFMA and its members to discuss potential ways to minimize these risks.

POLICIES & PROCEDURES

The Exchange Act Rule 15c6-2 requires U.S. broker-dealers who rely on an allocation, confirmation, or affirmation process to settle securities trades to enter into a written agreement with the relevant parties to ensure completion of such processes, or establish, maintain, and enforce policies and procedures reasonably designed to ensure completion of such processes.

Goldman Sachs, as a recognized U.S. broker-dealer, is planning to implement a set of policies and procedures to comply with this rule requirement. As such, there will be key dependencies on Goldman Sachs, our clients and counterparties and their service providers (e.g. global custodians and prime brokers). We actively encourage dialogue and analysis amongst our clients and counterparties with their service providers (where applicable) to ensure readiness for the requirements of such policies and procedures.

Under the Rule, policies and procedures should be reasonably designed to:

1. Identify and describe any technology systems, operations, and processes that the broker-dealer uses to coordinate with other relevant parties, including investment advisers and custodians, to ensure completion of the allocation, confirmation, and affirmation process on T for the transaction.
2. Set target time frames on trade date for completing the allocation, confirmation, and affirmation for the transaction.

3. Describe the procedures that the broker-dealer will follow for the below to help ensure that the allocation, confirmation, and affirmation can be completed by the target time frames on trade date.
 - a. Ensure the prompt communication of trade information,
 - b. Investigate any discrepancies in trade information,
 - c. Adjust trade information
4. Describe how the broker-dealer plans to identify and address delays if another party, including an investment adviser or a custodian, is not promptly completing the allocation or affirmation for the transaction, or if the broker-dealer experiences delay in promptly completing the confirmation.
5. Measure, monitor, and document the rates of allocations, confirmations, and affirmations completed as soon as technologically practicable and no later than the end of trade date.

Look for future Goldman Sachs client outreach on further details on the impact to our clients and counterparties in relation to these policies and procedures requirements.

SECURITIES BORROWING & LENDING

A successful transition to T+1 will depend on moving towards a more dynamic and real time, end-to-end processing of recalls triggered off of the sell notifications from lending clients to the onward consumption of such recalls on T, and timely settlement of recalled securities, by borrowers. This can be facilitated through use of digitized messaging formats (e.g., SWIFT, and not email) for sell notifications as well as leveraging vendor offerings which will allow (either independently or through interoperability with other vendors) for end-to-end processing and monitoring of the recall lifecycle.

T+1 will compress the time available for lenders to analyze their securities inventory before issuing recalls resulting from their sale of securities, as well as for borrowers to process recalls to return recalled securities. We have some concern this could create a conservative mindset amongst lenders in the initial stages of the T+1 go-live, which could result in lenders retaining (and not lending) a larger buffer of hard to borrow securities in order to maximize the likelihood of timely settlement of their long sale delivery obligations. In the medium to long term, as industry participants materialize benefits from optimizing the process flow, we anticipate seeing greater straight through processing in the end to end flow.

CORPORATE ACTIONS

Due to the shorter period between ex-date and record date, our clients and counterparties are reminded to review operating procedures, in particular with corporate action notifications. There are ongoing industry discussions around how the U.S. voluntary corporate actions cover/protect process will work in a T+1 standard settlement cycle environment, including whether it will still be utilized. Clients and counterparties will need to adjust trading behavior for voluntary corporate actions accordingly.

We also recommend that our clients and counterparties increase their already existing efforts to avoid late (“as of”) trading activities as much as possible under a T+1 settlement cycle, given operational teams will have significantly less time for any adjustments.

FOREIGN EXCHANGE (FX)

If clients are trading on a non-standard currency, it is important to note that the reduced period between trading and settlement will place increased focus on timely FX transactions to be completed. Alignment of FX trades to fund T+1 settlement transactions may lead to an increase same-day or tom-next FX activity. Please consult your FX provider to ensure readiness.

TESTING

DTCC plans to provide market participants the opportunity to test their changes and readiness over 21 test cycles being offered. Goldman Sachs plans to participate in testing. More information on testing can be found at www.ust1.org.

TESTING & MIGRATION

Where can I find more information about the T+1 settlement cycle change and testing?

Industry information and documentation for the U.S. migration to T+1 can be found at www.ust1.org and for the Canadian market at www.ccma-acmc.ca/en/t1-resource.

Will there be a double settlement day at DTC upon go-live?

Yes, Wednesday, May 29, 2024, will be a double settlement date at DTC, for trades executed on trade dates Tuesday, May 28, 2024, and those executed on Friday, May 24, 2024. Likewise, we expect Reg SHO Rule 204 timelines for closing out fails to deliver with a May 29, 2024 settlement date would be the same, irrespective of whether the trade that caused the failure was executed on May 24, 2024, or May 28, 2024.

SCOPE & REQUIREMENTS

What is affirmation and why is it important?

The process of affirmation involves the agreement of the details of a transaction between the executing broker and prime broker or custodian, post execution and prior to settlement at DTC. Affirmed trades are less likely to fail than unaffirmed trades, given their eligibility for the continuous net settlement process and likelihood of being authorized by the receiving DTC participant.

Will markets in other jurisdictions move to a T+1 settlement cycle?

We expect over time other markets globally will consider a move to a shorter settlement cycle. Implementation timeframes are likely to vary given each jurisdiction's individual regulatory frameworks and infrastructure arrangements. The Canadian market has confirmed its intention to migrate to a T+1 settlement cycle on May 27, 2024 (pending regulatory approval by the Canadian Securities Administrators to National Instrument 24-101). Similar to previous settlement cycle changes, whilst unconfirmed, it is likely that Brazil, Mexico, Argentina and Peru may follow the U.S. to T+1. Goldman Sachs will continue to monitor developments across global markets closely.

How can my organization reduce the risk of settlement failure on T+1?

Ensuring timely allocation and affirmation on T by 7 p.m. ET and 9 p.m. ET respectively, or any earlier daily cut-off time subsequently communicated to you by Goldman Sachs. This can be supported by leveraging automated industry solutions for both transaction and reference data management (e.g., DTCC ALERT for SSIs and Match to Instruct for allocations and affirmations). Reducing manual processes and increasing STP will help to ensure a smooth transition to T+1.

We get contractual settlement, does T+1 really impact us?

Yes, there may be a street-side settlement on the back of a contractual settlement offered to a client, hence there is a need to ensure all trades are allocated and affirmed by the respective deadlines on T by 7 p.m. ET and 9 p.m. ET respectively. As provided in the client account agreement, clients may remain subject to risks of being passed buy-ins or the reversal of provisional entries in their Goldman Sachs account in the event of settlement failures.

Shouldn't the industry just move directly to a T+0 settlement cycle?

After a detailed assessment, SIFMA believes that a transition to a T+0 settlement cycle is not achievable in the near term. This is due to the need for a fundamental redesign of long established and widely adopted trading practices, operational processes, and securities law liability regimes.

Does Goldman Sachs support clients' use of DTCC Match to Instruct (M2i)?

Yes, Goldman Sachs was an early adopter of DTCC M2i and has many clients already live and using this service for U.S. equities. We are working on expanding support for global clients trading both U.S. equities and fixed income. Please reach out to your respective Goldman Sachs sales or operations contact to be connected with our M2i team.

INDUSTRY UPDATES

Is there an industry working group we can join for updates and collaboration opportunities leading up to the implementation of T+1 in the U.S. market?

SIFMA, ICI and DTCC are working jointly with their respective members and clients at an industry level to provide updates and collaborate on industry-level requirements. More information can be found at www.ust1.org.

For any questions or queries please contact your regular Goldman Sachs client service representative or our U.S. T+1 Project Team at gs-t1settlement@gs.com.

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