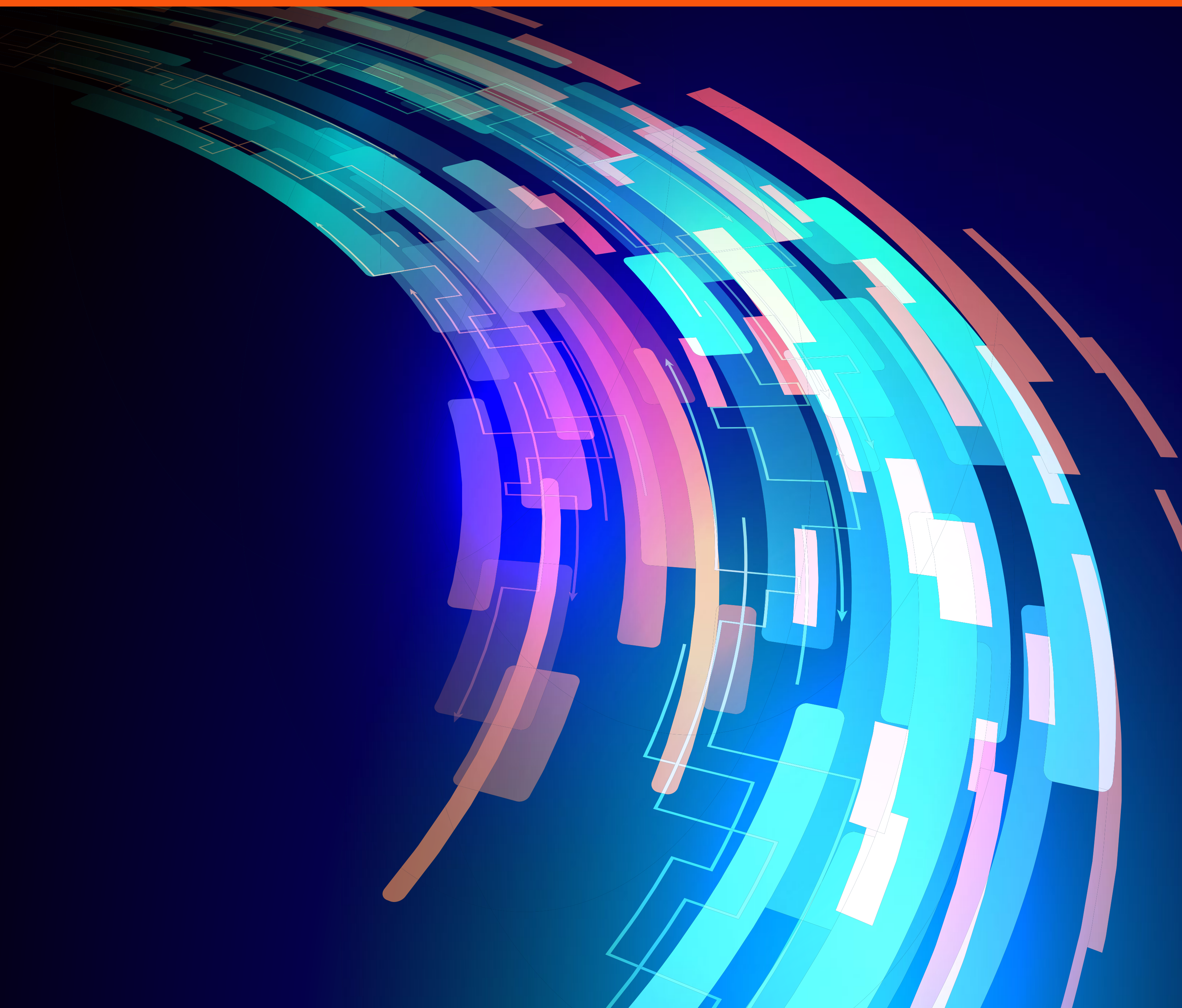
CIBC MELLON

T+1:

Today and Beyond

APRIL 2024



LOU LESNIKA

Director of Product, Strategic Client Solutions

As Director of Product, Lou is part of a team responsible for developing products and services that meet the sophisticated and evolving needs of CIBC Mellon's clients.

As the financial industry gears up for the transition to T+1 settlement, Canadian institutional investors are bracing for impactful changes and challenges. In anticipation of this milestone, CIBC Mellon recently hosted a virtual discussion to delve into the intricacies of this impending shift and equip clients with the knowledge needed to navigate this new landscape more easily.

Janice Allen, Executive Director, CIBC Mellon, opened the discussion by acknowledging the significance of the upcoming move to T+1 settlement. Fewer than 70 days remain until the transition in Canada, and Janice emphasized the importance of addressing concerns and uncertainties surrounding this change. The event aimed to provide clarity on the challenges ahead and empower attendees to position themselves for success beyond May 2024.

THE PANEL INCLUDED:

John Templeton
Global Head of Securities Finance Sales and Relationship Management, BNY Mellon

Emma Purcell
FX Platform & Program Sales, BNY Mellon

Chris Butler
Director and Head of Direct Market Strategy, BNY Mellon

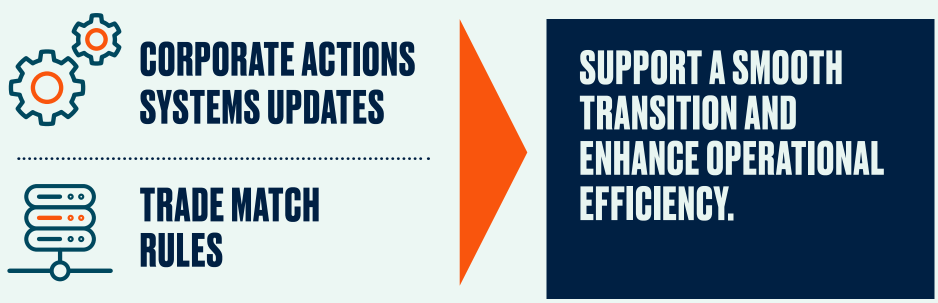
Natali Vuckovic-Mendes
Director, Commercial, Custody Product, BNY Mellon

Together, they delved into various facets of the transition, starting with custody.

EXPLORE WITH US

We would be pleased to discuss these themes further, including exploring them in the context of our ongoing Canadian and global research efforts. Please don't hesitate to contact your relationship manager to arrange a discussion.

The panel opened with the impact of the shortened settlement cycle on clients and investment managers. Notable changes include the earlier submission of security trades for matching and the need for heightened attention to cash availability on settlement dates. From a technological standpoint, CIBC Mellon's custody platform has already transformed to ensure compliance with T+1 settlement requirements. These adjustments, including updates to corporate actions systems and trade match rules, aim to support a smooth transition and enhance operational efficiency.



The Canadian Securities Administrators made changes to National Instrument 24-101, the trade match rule in Canada. The benchmarks were updated and 90 per cent of trades must be matched by 3:59 a.m. ET on T+1.

SECURITIES LENDING

The discussion then shifted to securities lending, addressing concerns around asset recall and settlement timeliness. The focus lies in the quantity of assets currently loaned to borrowers for potential recall, as well as the available strategies to ensure their prompt settlement. The role of scale and automation in optimizing securities lending programs, particularly in mitigating settlement risks and improving trade efficiency was emphasized.

In the realm of foreign exchange[1], the challenges posed by the compressed settlement timeline were underscored. Increased settlement and operational risks, coupled with liquidity constraints during critical trading hours, necessitate a proactive approach to FX management. Global investor activity in T+1 has significantly increased as we approach the implementation deadline. Operational process flows are under review, with the smaller and mid-size APAC and EMEA firms identifying challenges in their funding process due to the time constraints. How participants are currently funding may not work in a T+1 environment, but there are several avenues to explore to make sure that the funding exists to minimize fails. It was suggested to review how funding is currently working, what the operational and financial impacts would be of coming up with the cash in the right jurisdictions, and finding a solution that works best for each firm.

The panelists also delved into client impacts across North America and beyond, focusing on the regulatory changes in the U.S. and their implications for Canadian clients conducting trading activities. As there is not a pre-matching rule akin to National Instrument 24-101 in the U.S. market, the SEC have focused on the confirmation/affirmation process. The emphasis has been on maintaining the high settlement rates in the U.S. market. It was noted that affirmed trades have a higher settlement efficacy compared to unaffirmed trades. As such, the SEC has placed the requirement on the broker to affirm trades and a recordkeeping requirement on registered investment advisors and central matching service providers. Noticeably as one of the key changes is moving this process from the morning of T+1 to trade date, this puts pressure on all parties to ensure processes are STP from execution on to settlement with the allocation, confirmation and affirmation completed by 9 p.m. ET.

Addressing challenges related to varying settlement cycles, the importance of automation and real-time data transmission in ensuring operational efficiency was underscored. It was observed that the impact of changes varies based on the complexity of clients' operating models and the global reach of their activities. Given that U.S. securities are among the most traded global assets, these changes are particularly significant for clients. With a focus on FX and securities lending, this compression of time is prompting clients to reassess their overall operating models, seeking opportunities to reduce time lags, batch processing, and enhance control over cross-border activities. Cash management emerges as a prominent theme, influenced by factors such as settlement cycle disparities and mismatches in fund subscription/redemption, emphasizing the growing importance of real-time cash management for clients. Expedited data acquisition is essential for maintaining settlement efficiency, as manual issue resolution is no longer feasible, and automated, trade date-driven processing becomes paramount. Furthermore, it is noteworthy that settlement compression is not exclusive to the three North American markets undergoing changes in May; similar trends are observed in various other markets such as India, UAE, etc. Europe is also progressing towards a T+1 settlement cycle, although achieving alignment will likely take several years. Nevertheless, there is a consensus that other markets will eventually follow suit.

Data transparency in imperative when it comes to empowering clients to make informed decisions amidst the transition to T+1 settlement. What initially started out as a conversation about the allocation, confirmation, and affirmation challenges turned into an opportunity to embrace automation and drive efficiency. Manual processing in a T+1 environment is not sustainable long-term. Clients are encouraged to look at leveraging automation to drive straight-through processing. Many participants still use legacy systems that rely on batch processing, and should consider moving to real-time data transmission to allow them to be compliant in the new environment.

AS THE DISCUSSION DREW TO A CLOSE, THE PANELISTS REITERATED THE IMPORTANCE OF:

- Proactive planning
- Collaboration across the ecosystem
- Technological innovation

FOR MORE INFORMATION

CIBC Mellon is pleased to provide T+1 resources designed to equip institutional investors with the tools and insights needed for informed decisions leading up to May 2024. We will continue to provide clients with updates as they relate to T+1 settlement in Canada and CIBC Mellon's supportive efforts. Please contact your Relationship Manager if you would like more information.

1. CIBC Mellon supports FX processing and settlement services for clients and investment managers who choose to execute FX with CIBC, BNY Mellon, or third party providers. CIBC Mellon is neither "principal" nor "agent" on the execution of FX transactions. CIBC Mellon is a service provider allocating trade execution to CIBC or BNY Mellon as accounts are designated. CIBC and BNY Mellon act as principals in all their FX transactions. They do not act as "agent" or "on behalf" of clients or investment managers. CIBC Mellon, in the normal course, will receive a portion of any revenue generated by CIBC and BNY Mellon, as the case may be, resulting from FX execution. CIBC Mellon shall not be accountable for any revenue earned as a result nor shall it be responsible or liable in any manner for the rates applied to the FX transactions. Services offered via traditional auto-processing options are typically priced at the outer bounds of the range for the day. The pricing of these transactions should be viewed in light of the full range of services and benefits provided, which come at a cost to the service providers. In addition to traditional auto-processing options, CIBC and BNY Mellon offer alternative auto-processing options. Clients and their investment managers control how, when and with which counter-party FX is executed and are ultimately responsible for evaluating the competitiveness of rates offered by FX providers. CIBC Mellon would be pleased to arrange introductions to CIBC and/or BNY Mellon at any time to discuss the full foreign exchange offerings and choices that they make available.

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