

U.S. T+1

Trade Affirmation and TradeSuite ID Numbers



Background

The U.S. T+1 May 28, 2024 go-live date is fast approaching. Investment advisers, broker-dealers, middle office providers, custodians, and vendors will have significantly reduced time to solve settlement mismatches, and the impact of eliminating a full day from the securities transaction settlement cycle cannot be underestimated. J.P. Morgan Custody recommends that all clients and their advisers review and implement a trade affirmation process if they have not done so already. Affirmed trades not only have a higher success rate for on-time settlement, but they also have a lower need for trade repair.

This publication supports clients who seek additional clarification about the U.S. trade confirmation and affirmation process, the industry-accepted trade affirmation models available, and the importance of the Depository Trust and Clearing Corporation (DTCC) TradeSuite ID® Numbers in the affirmation process.

“Affirmations are a critical pre-settlement process in the U.S. As we transition to T+1 and compress the settlement period, trade matching efficiency is paramount to on-time settlement.”

Scott Markowitz,
Americas Head of Custody,
J.P. Morgan Securities Services

Trade Allocations, Confirmations, and Affirmations

Definitions

Successful implementation of a trade affirmation model requires that clients or their Third-Party Investment Managers (TPIMs) understand the definitions of trade allocations, confirmations, and affirmations. Additionally, knowledge of which party is responsible for the completion of each, and the deadline for completion, is paramount to navigate the U.S. T+1 securities transaction settlement regulatory change.

- **Trade allocation** is the process performed by investment managers to determine how to apportion securities trades ordered contemporaneously on behalf of multiple funds or non-fund clients. To support U.S. T+1 settlement, the industry via the T+1 Industry Working Group and Steering Committee agreed that, as a best practice, allocations should be **completed by 7:00 PM U.S. Eastern Time on Trade Date.**
- **Trade confirmations** are receipts from a broker-dealer generated after agreeing a trade, which capture the trade details, including (but not limited to) price, value, quantity, execution time, and settlement date. Securities Exchange Commission (SEC) Rule 10b-10 requires broker-dealers to issue trade confirmations. With the settlement cycle compression to T+1, the recommendation remains

that broker-dealers deliver confirmations to counterparties as soon as is practicable.

- **Trade affirmations** are an acknowledgement by the counterparty (e.g., J.P. Morgan Custody clients or their TPIMs) or an agent acting on behalf of the counterparty to the broker-dealer agreeing that the trade confirmation details are accurate. To support T+1 settlement, the industry, via the T+1 Industry Working Group and Steering Committee, agreed that, as a best practice, affirmations should be **completed no later than 9:00 PM U.S. Eastern Time on Trade Date.** Affirming by this cut-off time increases the probability of settling transactions during the nighttime cycle of DTCC and reduces the risk of failed transactions.

Typically, trade confirmations and affirmations in the U.S. are managed through DTCC’s Central Trade Matching (CTM)®/TradeSuite ID platform. When two parties agree to a trade, the CTM/TradeSuite ID systems capture essential trade information. This information may include the parties to the trade, the settling bank(s) that move the shares and cash, an affirmation agent, and other key attributes that constitute a Standing Settlement Instruction (SSI). Parties may view the activity within CTM/TradeSuite ID, or they may utilize their own systems that consume the information automatically. J.P. Morgan Custody has a direct link to CTM/TradeSuite ID.

Affirmation Characteristics

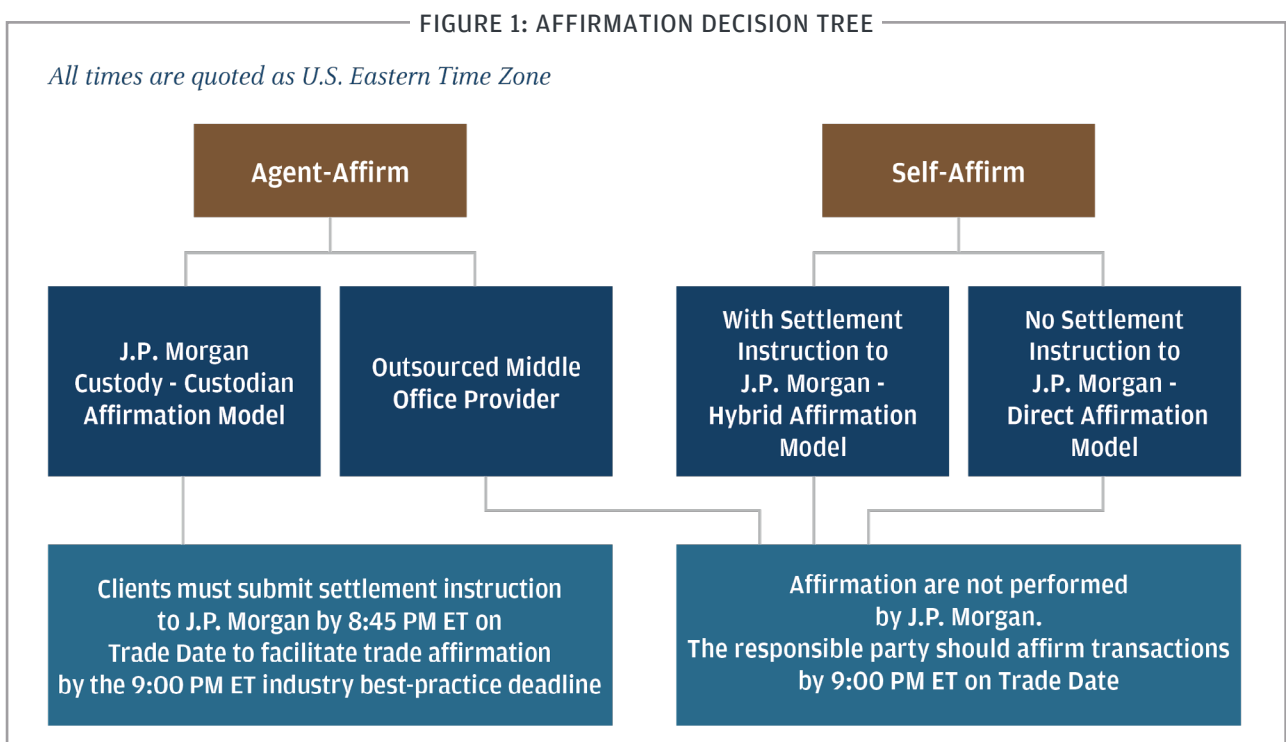
- An affirmation does not guarantee settlement.
- A custodian must evaluate an affirmed trade and confirm that sufficient position inventory and cash is available to effect settlement.
- The SEC requires affirmations to be completed as soon as technologically practicable and no later than the end of the day on Trade Date, but the SEC does not mandate a specific cut-off time. As stated above, the T+1 Industry Working Group and Steering Committee agreed that affirmations should be completed no later than **9:00 PM U.S. Eastern Time Trade Date**.
- J.P. Morgan does not recommend any one affirmation model over another. Each model has its benefits and challenges. Client complexity, location, and internal processes may influence the choice of affirmation model.
- Where J.P. Morgan performs the role of affirmation agent, we will attempt to affirm trades that are received after the industry best practice deadline. Settlement can still occur if an affirmation is not processed in time for the industry best practice affirmation deadline. If settlement instructions are received in good order prior to **settlement deadline**, J.P. Morgan will submit qualified instructions to the market.
- The SEC's final rule, [Shortening the Securities Transaction Settlement Cycle](#) (Final Rule), does 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 Final Rule.

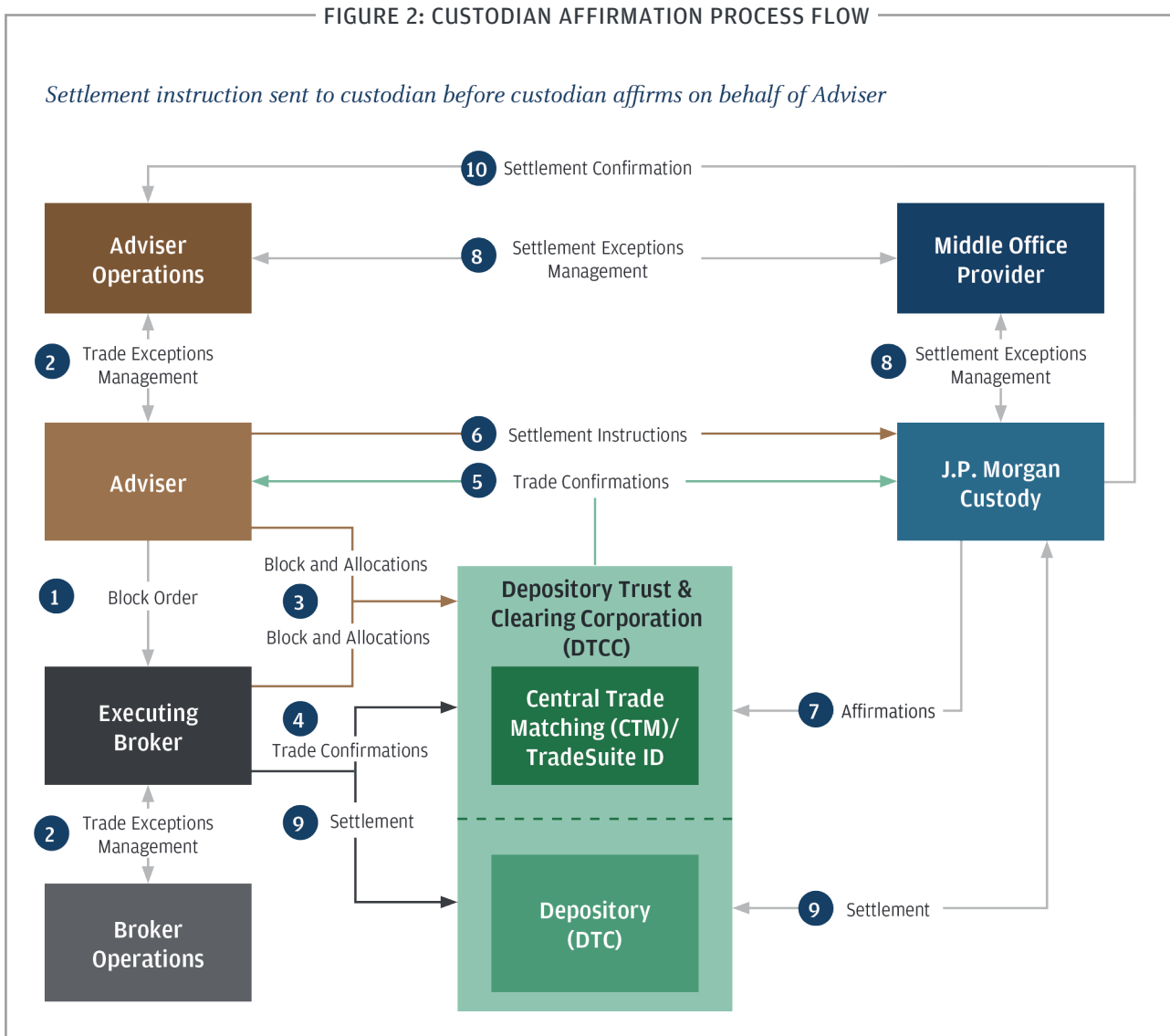
- J.P. Morgan does not currently differentiate pricing based on the release time of a settlement instruction. However, we reserve the right to evaluate our fee structure at any time. J.P. Morgan's preference is to get instructions to the market for Depository Trust Company's (DTC) Night Delivery Order in order to maximize the time that relevant parties have to complete settlement.
- Where J.P. Morgan acts as an affirmation agent, we do not recommend or support affirming a trade without a client settlement instruction. As a directed custodian, we have no knowledge of the intent of the trade, and blindly affirming transactions using only a broker confirmation would very likely lead to settlement conflicts.

Affirmation Models & Process Flows

J.P. Morgan supports the agreed-upon industry affirmation models. Figure 1 displays an affirmation decision tree. Note that when a client uses an outsourced middle office provider, J.P. Morgan views affirmations performed by that middle office provider the same as affirmations performed by a client who is self-affirming and sending settlement instructions.



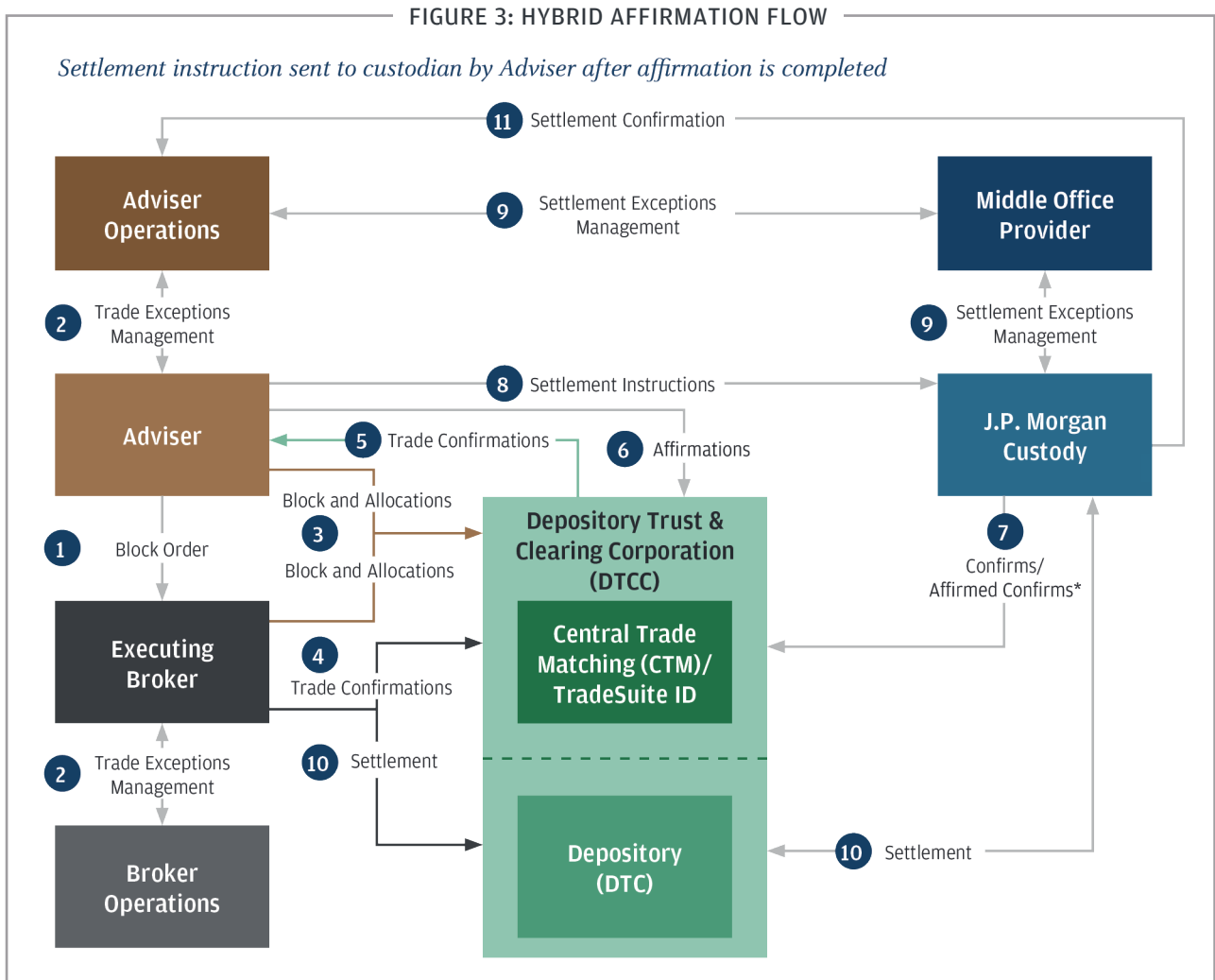
Where J.P. Morgan, as agent, affirms transactions on a client’s behalf, the process is captured below.



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| <ul style="list-style-type: none"> 1 Block Order sent by Adviser to Executing Broker (EB), and EB executes order 2 Adviser works with Adviser Operations and EB works with Broker Operations for any trade exceptions management 3 Block and allocations sent by Adviser, and EB matches blocks and allocations 4 EB sends trade confirmations to DTCC’s CTM/TradeSuite ID 5 Adviser and J.P. Morgan Custody (when designated as “Settlement Bank” on the trade) see trade confirmations on CTM/ TradeSuite ID 6 Adviser sends settlement instructions to J.P. Morgan Custody by 8:45 PM on Trade Date so J.P. Morgan Custody | <ul style="list-style-type: none"> can affirm trades by the 9:00 PM industry best-practice deadline* 7 J.P. Morgan Custody (when designated as “Affirmation agent”) affirms trade confirmations on CTM/TradeSuite ID 8 J.P. Morgan Custody works with relevant Middle Office Support and Adviser Operations team for any settlement exceptions management 9 J.P. Morgan Custody and EB send settlement instructions to DTC (note: this flow reflects no netting through CNS. A CNS flow would be different) 10 J.P. Morgan Custody notifies the Adviser that settlement has been completed |
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* Settlement may still occur if an affirmation is not processed in-time for the industry best-practice deadline. If settlement instructions are received in good order prior to settlement deadline on T+1, J.P. Morgan Custody will submit qualified instructions to the market.

Where a client self-affirms but continues to send settlement instructions to J.P. Morgan, the process is captured below. Note, this flow would capture the model where the client has outsourced affirmations to a third-party middle office provider. J.P. Morgan, as custodian, views affirmations performed by a third-party middle office provider the same as affirmations performed by a client who is self-affirming and sending settlement instructions.

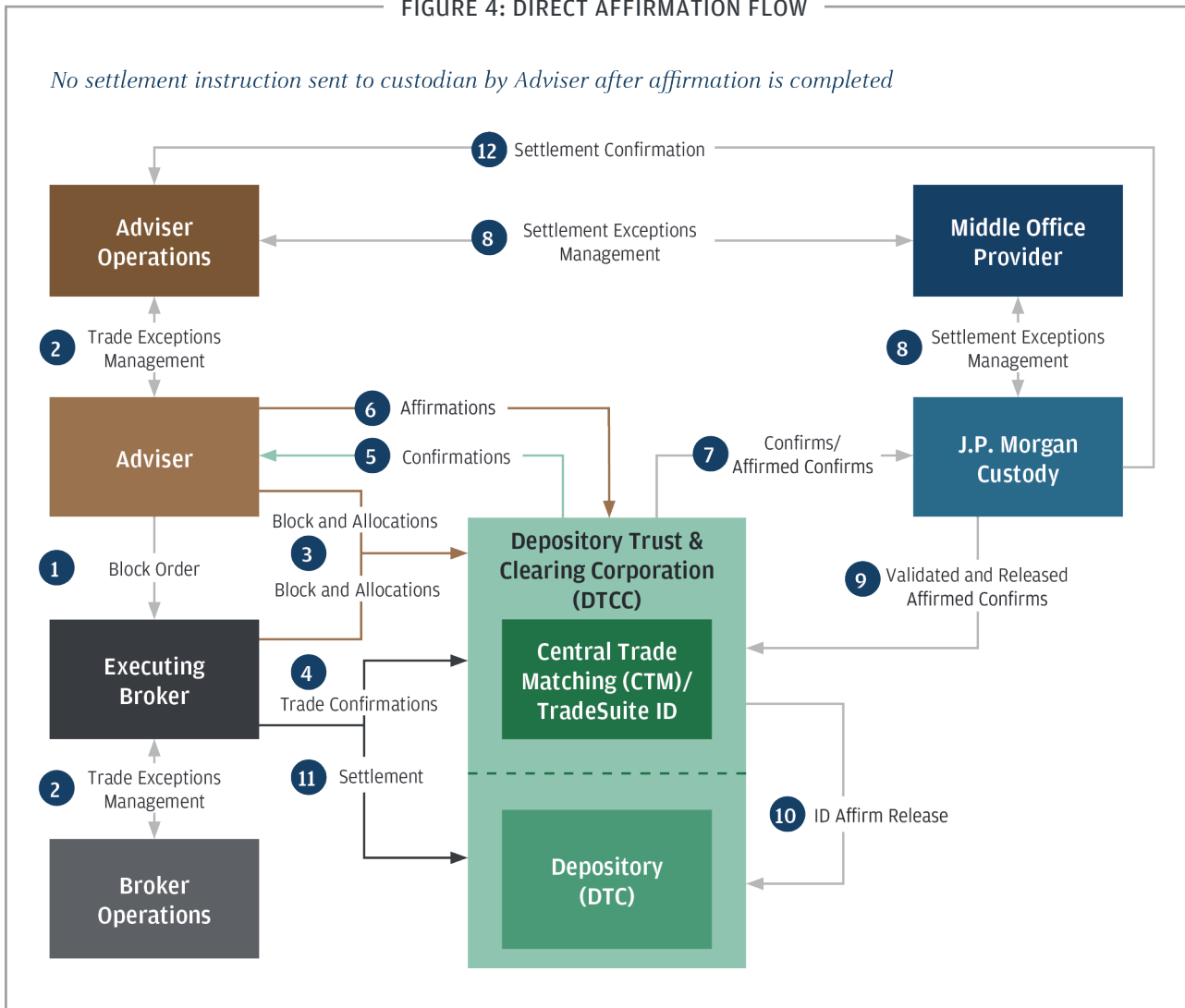


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| <p>1 Block Order sent by Adviser to Executing Broker (EB), and EB executes order</p> <p>2 Adviser works with Adviser Operations and EB works with Broker Operations for any trade exceptions management</p> <p>3 Block and allocations sent by Adviser, and EB matches blocks and allocations</p> <p>4 EB sends trade confirmations to DTCC's CTM/TradeSuite ID</p> <p>5 Adviser sees trade confirmation on CTM/TradeSuite ID</p> <p>6 Adviser affirms trade confirmation*</p> <p>7 J.P. Morgan Custody sees trades confirmations and affirmed trade confirmations in CTM/Trade Suite when designated as</p> | <p>"Settlement Bank" but does not begin actioning settlement until a settlement instruction is received</p> <p>8 Adviser sends settlement instruction to J.P. Morgan Custody</p> <p>9 J.P. Morgan Custody works with relevant Middle Office Support and Adviser Ops team for any settlement exceptions management</p> <p>10 J.P. Morgan Custody and EB send settlement instructions to DTC (note: this flow reflects no netting through CNS. A CNS flow would be different)</p> <p>11 J.P. Morgan Custody notifies the Adviser that settlement has been completed</p> |
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* The Adviser may affirm transactions themselves through several methods including but not limited to DTCC's Match-to-Instruct (M2I), Settlement Instruction Manager, J.P. Morgan's Transaction Initiation Manager (TIM), or a trade order management system. An outsourced middle office provider would be able to affirm in the same manner.

Where a client self-affirms and requests J.P. Morgan to release the affirmed confirmation to the market, the process is captured below. In this model, transaction settlement instructions are not sent to J.P. Morgan.

FIGURE 4: DIRECT AFFIRMATION FLOW



- 1 Block Order sent by Adviser to Executing Broker (EB), and EB executes order
- 2 Adviser works with Adviser Operations and EB works with Broker Operations for any trade exceptions management
- 3 Block and allocations sent by Adviser, and EB matches blocks and allocations
- 4 EB sends trade confirmations to DTCC’s CTM/TradeSuite ID
- 5 Adviser sees trade confirmation on CTM/TradeSuite ID
- 6 Adviser affirms trade confirmation*
- 7 J.P. Morgan Custody sees trades confirmations and affirmed trade confirmations in CTM/ TradeSuite ID when designated as “Settlement Bank”, and begins actioning settlement based on an affirmed trade confirmation
- 8 J.P. Morgan Custody works with relevant Middle Office Support and Adviser Operations team for any settlement exceptions management
- 9 J.P. Morgan Custody validates the affirmed trade confirmation for position/cash check and sends release to CTM
- 10 CTM releases the affirmed trade confirmation to DTC for settlement
- 11 EB sends settlement instructions to DTC (note: this flow reflects no netting through CNS. A CNS flow would be different)
- 12 J.P. Morgan Custody notifies the Adviser that settlement has been completed

* The Adviser may affirm transactions themselves through several methods including but not limited to DTCC’s Match-to-Instruct (M2I) , Settlement Instruction Manager, J.P. Morgan’s Transaction Initiation Manager (TIM) ,or a trade order management system.

DTCC's TradeSuite ID Number

A TradeSuite ID (TSID) Number is an identifier used within DTCC's systems (e.g., CTM and ALERT®) to distinguish between parties on a trade confirmation. The DTCC TradeSuite ID system identifies four different parties: Institution, Agent, Broker, and Interested Party. Each entity is represented with its own TSID Number.

- **Institution:** The party to the trade or the firm that has agreed with a broker-dealer to execute a trade in the U.S. market. This field is the primary focus of our discussion of TSID Numbers in this briefing.
- **Agent:** The party that either receives or delivers shares and cash related to the trade details. This is usually the custodian.
- **Broker:** The counterparty to the Institution and the party that has executed the trade in the market.
- **Interested Party:** This can be various entities including a buy-side firm that is using a TPIM for trading but would like to be apprised of the affirmed activity.

DTCC defines certain rules for the use of the various TSID Numbers. For example, an Agent or Broker TSID Number cannot be the same as the Institution TSID Number. All SSIs require a valid Institution TSID.

J.P. Morgan strongly recommends that clients or their TPIMs obtain their own TSID Numbers to be used in the 'Institution' field regardless of what affirmation model they utilize. The key benefits to clients utilizing their own TSID Numbers include:

- Supports regulatory compliance with the SEC same-day affirmation and record keeping rules. The SEC expects trades to be affirmed on Trade Date and SEC Registered Investment Advisers are required to maintain specified transaction records (including affirmation date/timestamp).
- Promotes transparency in the market.
- Identifies the entity's timely completion of affirmations.
- Facilitates effective reporting across multiple custodians and to multiple broker-dealers i.e., reporting is less burdensome with a TSID Number that represents the client or the TPIM in the market.
- When a client utilizes J.P. Morgan's TSID Number in the Institution field, the client loses the ability to obtain information about their affirmation rates directly from DTCC's CTM reporting/dashboard tools. We believe access to such information will become increasingly important as the SEC performs examination on market participant affirmation rates.
- While J.P. Morgan Custody is not a party to the trade, there are other businesses within J.P. Morgan that do trade and require an Institution TSID. Using

How to Obtain a TradeSuite ID Number:

- Clients and/or their TPIMs who need to obtain a TSID Number should contact DTCC and complete a DTCC TSID Number application.
- Please click the link to [DTCC's TSID FAQ](#) which provides information on how to apply for a TradeSuite ID Number from DTCC.

a J.P. Morgan TSID Number may create difficulty understanding where J.P. Morgan executed a trade or where a J.P. Morgan custody client executed the trade utilizing a J.P. Morgan TSID Number.

- In January 2024, DTCC published a report, [Hitting 90% Affirmation by 9:00 PM ET on Trade Date - The Key to T+1 Success](#). In this report, DTCC dissuades the use of the custodian's TSID Number in the Institution field and states "To bolster omnibus TradeSuite ID confirmation rates, DTCC has been partnering with custodians, particularly those with customers outside the U.S., to educate them on this issue, to highlight the nuances, and to suggest changes that can support higher affirmation rates. One thing custodians can do to boost earlier affirmation rates is to encourage clients to get their own TradeSuite ID number."

Once obtained, clients or their TPIMs must share their TSID Number with J.P. Morgan Custody to ensure the static data defining the parties to a trade are aligned in the market. J.P. Morgan will push the new TSID Number into DTCC's ALERT system if the client is using DTCC's Global Custodian (GC) Direct®. If clients are not on GC Direct, clients must ensure they update their SSI's to reflect the Institution TSID correctly.

Clients should also provide written notice to J.P. Morgan Custody for any affirmation model change that may be required with the TSID Number.

Clients may request more than one Institution TSID Number. J.P. Morgan supports multiple TSID Numbers on a single account, or the TSID Number can be differentiated from one account to another. There are several reasons multiple TSID Numbers may be required, most notably when clients wish to align their trading desks to the market.

In addition, J.P. Morgan is aware that certain middle office providers are applying for TSID Numbers in their own name but for the benefit of their clients. J.P. Morgan Custody can support this construct. A consideration for entities operating under such a model - a change to the middle office provider would result in the client being identified as the middle office agent with whom the entity may no longer have a relationship. This may cause difficulty with reporting affirmation rates to brokers.

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