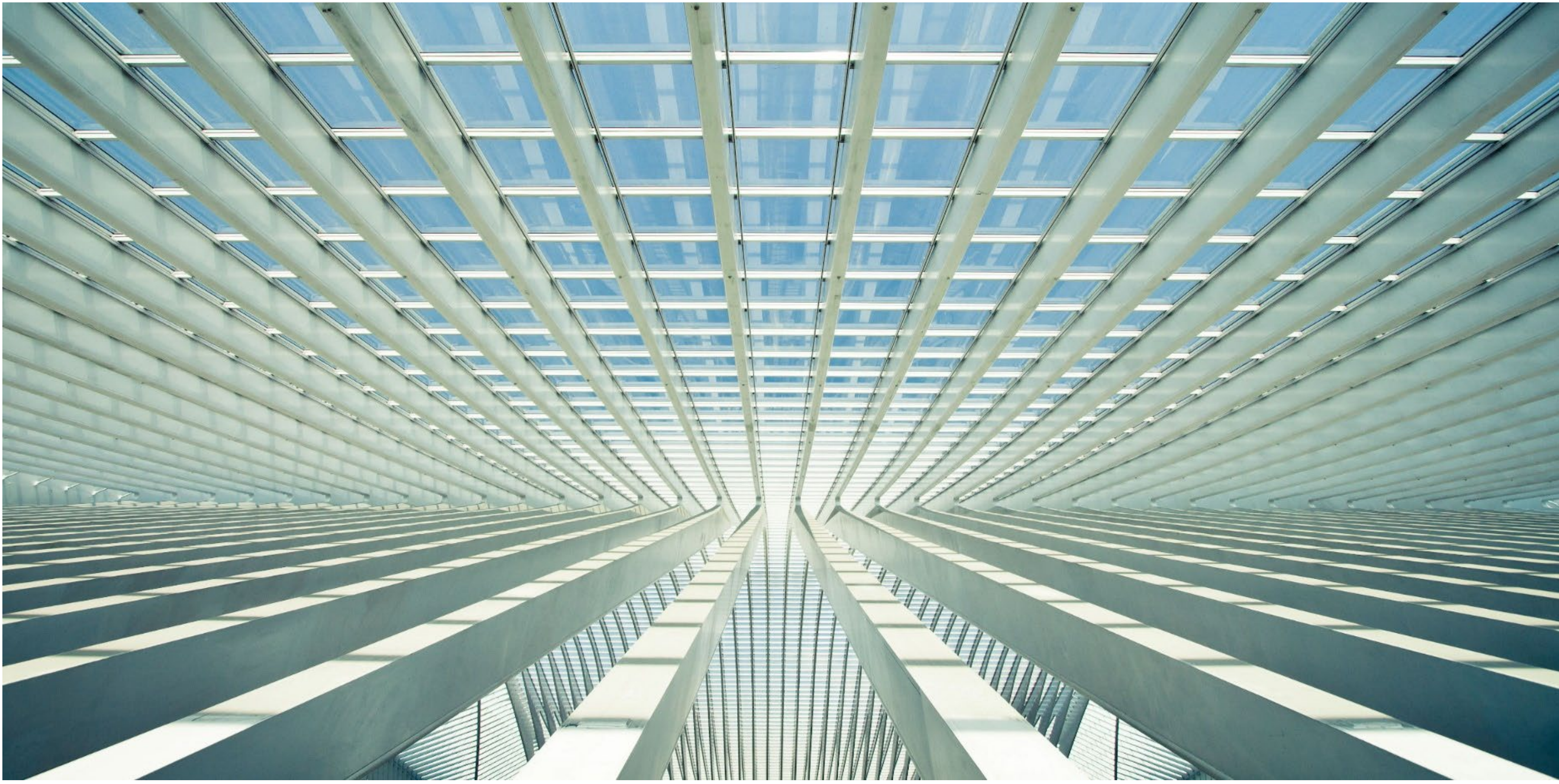

J.P. Morgan
U.S. T+1 Securities Settlement – Frequently Asked Questions: Markets Clients

May 2024

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 COVID-19 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 Depositary 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.

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.

[1]FMIs 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.

- New Rule 15c6-2 (same day allocation, confirmation[1], 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. How does J.P. Morgan intend to comply with rule 15c6-2(a)?

J.P. Morgan will be complying with the requirement to establish, maintain, and enforce policies and procedures reasonably designed to ensure completion of such processes.
Whilst we cannot share detailed information regarding the content of those policies and procedures, they will generally follow and adopt agreed industry best practices.

6. 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, and non-agency MBS bonds. See the DTCC's list of instruments[3] in scope of T+1 settlement.

U.S. Government-issued securities are not in scope as they clear through the Federal Reserve system.
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. Market participants should consider the impact of such trading arrangements on their funding requirements and processes.

7. 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, 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.

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[1] "Confirmations" for the purposes of Rule 15c6-2 are not the confirmations required per Rule 10b-10 to be delivered at or before completion of a transaction.

[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

- The Canadian Securities Administrators proposed rule amendments to support T+1 settlement. The final rule amendment is still pending. The draft rule proposes 9 p.m. Eastern Time (ET) on T as the industry matching deadline, although the industry recommended a matching deadline of 3:59 a.m. 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 (U.K.) 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 U.K. The Chair of the Taskforce, Charlie Geffen, is now expected to publish his report in Q1 2024 which will set out his opinion on UK T+1 with a set of recommendations which will set the Taskforce's agenda in 2024 culminating in a full and final report by the end of the 2024. JPM is taking part in this Taskforce.
- In the European Union (EU), the Central Securities Depositary 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.

8. 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.

9. Where can I find information with regards to the treatment of foreign securities

Please refer to the following links with regards treatment of foreign securities including voluntary recommendations

https://www.dtcc.com/ust1/-/media/Files/PDFs/T2/Foreign-Securities-Voluntary-Recommendations.pdf
https://www.dtcc.com/ust1/-/media/Files/PDFs/T2/Foreign-Securities-FAQ.pdf

Impacts

Pre-settlement

10. 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.

11. Do all BDs send confirmations?

With respect to the requirements of Rule 15c6-2, not all transactions require the allocation, confirmation, affirmation process. Pursuant to SEC Rule 10b-10, all BDs are required to issue a trade confirmation at or before completion of a transaction that includes specified disclosures. These two types of "confirmations" are not the same.

12. Does J.P. Morgan, as custodian, 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.
Note that this does not apply where J.P.Morgan is the BD.

13. 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.

14. 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 and 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 p.m. ET on T. J.P.Morgan is requesting that clients complete their allocations by 6:00 p.m. ET on T.
- Affirmations should be completed no later than 9:00 p.m. ET on T.

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

JPM recommends that clients review their current affirmation model and consider which processes/models work 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 p.m. 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.

16. What happens if the 9:00 p.m. 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, as custodian, 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.

17. What affirmation models does J.P. Morgan, as broker-dealer, offer/support?

Confirmations and affirmations in the U.S. are managed through Tradesuite. When two parties execute a trade, information is captured in the Tradesuite 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 Tradesuite or they may have their own systems that consume the information automatically. JPM has a direct link to Tradesuite.
JPM is encouraging clients to align transmission of settlement instructions to JPM with the same day affirmation best practice of 9:00 p.m. ET on T. The earlier a settlement instruction can be submitted, the more likely the trade details can be matched/agreed and successfully settled.

18. 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.
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.

19. Will J.P. Morgan, as broker-dealer, be utilizing M2I?

JPM continuously evaluates opportunities to improve our processes by leveraging proprietary and third-party systems. Currently M2I is not available for our Fixed Income flow, but is fully live for Equities.

20. Will J.P. Morgan, as custodian, accept settlement instructions up to 9:00 p.m. 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 8:40 p.m. ET. This deadline is to allow sufficient time to process and update DTCC prior to the 9:00 p.m. ET industry best practice cut-off.

Settlement

21. 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 p.m. ET on settlement date. The cut-off for free movement (FoP) settlement is 6:00 p.m. 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.

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

No. J.P. Morgan, as broker-dealer, follow DTCC cut-off timings.

23. 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

24. 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.

25. 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.

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

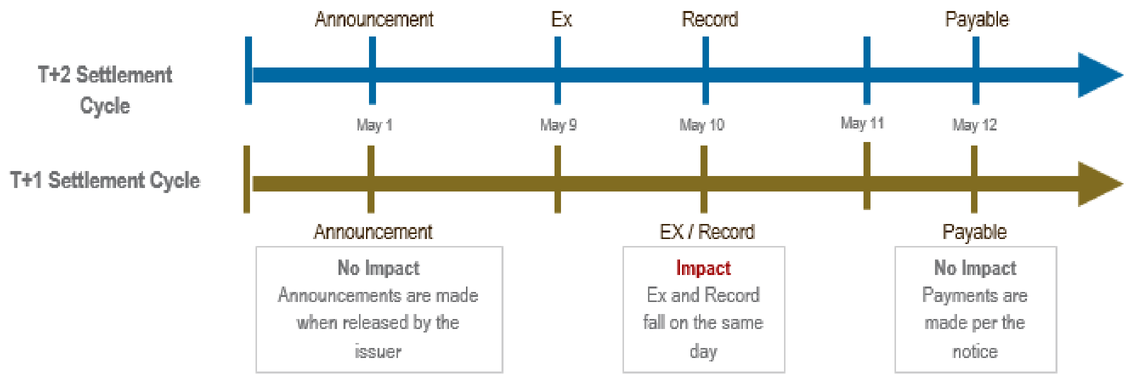
With the move to T+1, clients can expect compressed timelines to impact the following components:

- 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 business dayand 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 trading day.

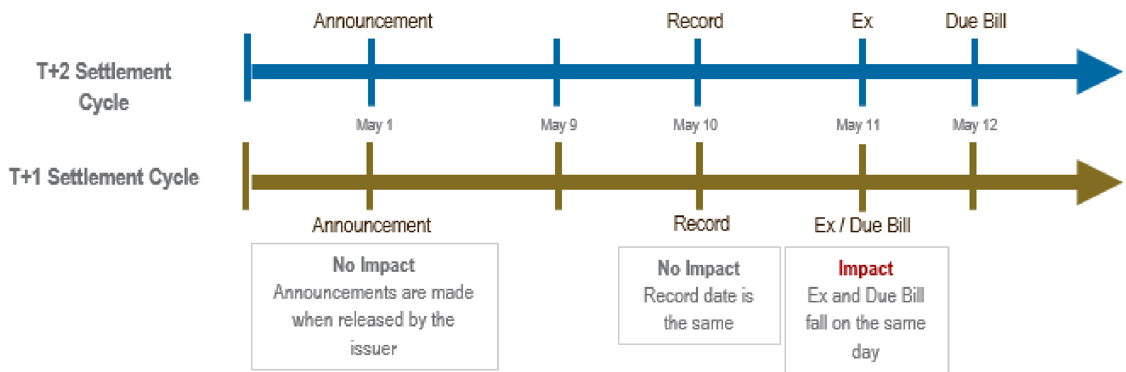
Event reconciliation and entitlement calculations on voluntary asset servicing events is performed up to the market deadline, thus late trading with the compressed settlement cycle adds risk to the process so timely and accurate instructions will help alleviate some of that risk.

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.

Regular Ex Date Processing:



Irregular Ex Date Processing:



Funding

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

Like all funding markets, this will be dependent on demand and supply for the underlying currency, which will drive currency basis. We expect there to be an increase in T+0 and T+1 transactions, and demand for dollars will likely be strong as a result of the change to security settlement. Dollar markets are extremely deep and liquid, but we would advise to trade as early as possible in the session to access the best liquidity.

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.

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

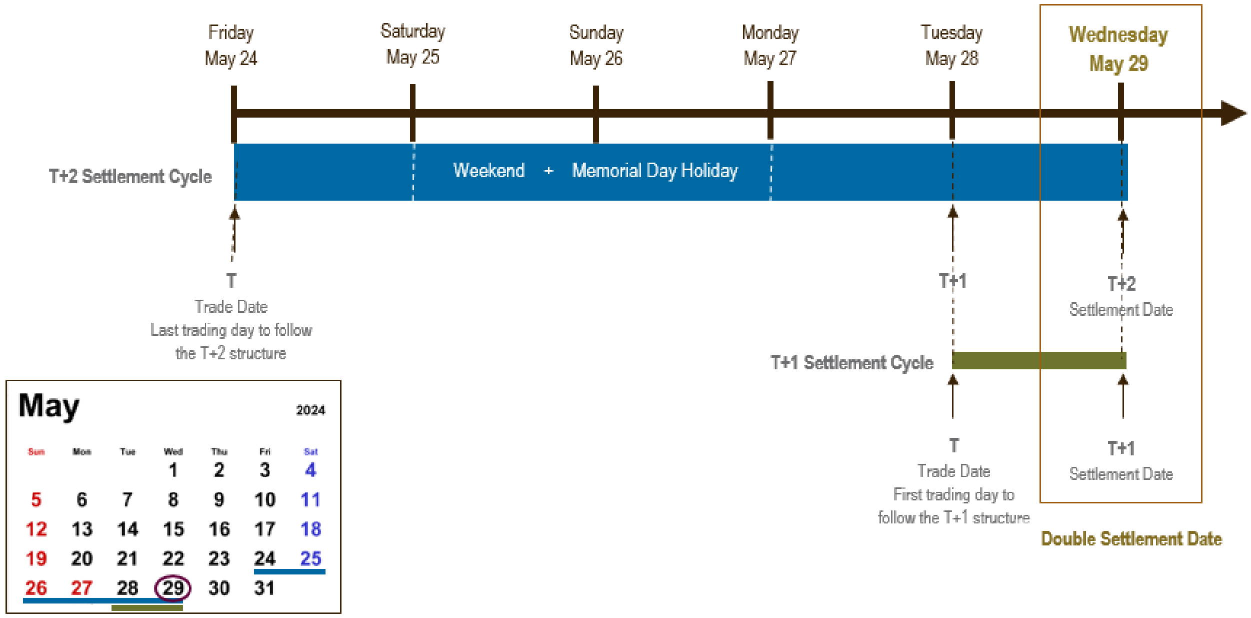
29. How will J.P. Morgan and the broader industry manage the "go live" date and the double settlement day?

Similar to the migration from T+3 to T+2, JPM and DTCC will each have support 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:



30. 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.
JPM readiness activities include, but are not limited to the following:

- Reference data changes in booking and settlement application configurations, and batch timing enhancements, to adhere to the new T+1 DTCC/CNS cut-off times.
- Enhancing reporting capabilities to comply with Rule requirements.
- Participation in DTCC testing cycles and industry testing.

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

31. 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 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 p.m. 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 p.m. 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.

32. How is J.P. Morgan, as an Authorized Participant 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 where funds have non-U.S. listed underlying assets. 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 with a view to arranging credit lines to facilitate timely settlement of cash obligations.

Issuers are also expected to offer T0 settlement cycles on create/redeems for some funds. The T0 offering will be enabled at the issuers discretion and operate under dedicated order windows. The industry is working to deliver solutions that will facilitate settlement on a T0 basis in a scalable way that mitigates risk to issuers and APs.

33. 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. JPM will offer an option to clients to match the ADR and ORD settlement cycle to reduce the risk of fails.

34. 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.

As JPM continues to prepare for T+1 we are engaging in a client outreach for education and review of current performance metrics and to proactively discuss any areas that can be commonly worked on. We view this as an opportunity to focus across five key areas: reducing exceptions, expediting resolution of exceptions, inventory optimization, data standardization and streamlined communication frameworks. There are various options and vendors that provide services and STP (Straight Through Processing) tools to this end, including DTCC and its Institutional Trade Processing suite of products and services. We are developing client specific scorecards with metrics including allocation timeliness, trade count per day/month, STP rates, fails data and affirmation rates by agent which can be used to facilitate client engagement.

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

JPM is communicating with clients using multiple forms including briefings, pre-recorded audio discussions, webinars, regional events and Newsflashes.
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.

Additional FX Considerations

36. What are the FX considerations clients should be thinking about?

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.

37. Is there any impact to clients who use FX spot trades to fund their securities actitivity?

Clients are encouraged to perform an end-to-end review of cash funding involving FX and corresponding time zone requirements to mitigate failed trades due to insufficient funds to meet their securities needs.
CLS is also working with its participants to assess the impact and considerations to a possible extension to the existing CLS cut-off for FX settlements.
While these shifts are not without operational challenges, JPM is happy to work with the industry on initiatives that will help reduce the impact of T+1 on clients.
Please reach out to your Relationship advisor or FX salesperson for any assistance on FX requirements.

38. With the move to T+1, will J.P. Morgan, as broker-dealer, be looking to update your current cut off times to allow clients more time to trade to meet funding requirements?

Currency cut offs for trade settlement is closely aligned with Market cuts offs which will remain unchanged. Please discuss any extended trade execution support with your JPM FX representative.

39. Are there any currency pairs that are causing you concern regarding FX Markets settling on T+1?

For markets where T+1 FX settlement is required, as long as there is sufficient time to ensure full trade lifecycle – allocation, confirmation and settlement (e.g. the shorter window executing AUD/USD during NY close for T+1), this should not be an issue. Client support outside of core coverage hours will need to be considered especially for those clients who do not use electronic platforms for post trades activities and are email/phone dependent.

40. Which currency pairs is J.P. Morgan, as broker-dealer, able to settle on T+0? Please list the cut-off for each pair?

Although we have a list of currencies that can settle same day, this depends on several factors such as such as: Legal Entity, banks in chain, Custody cut offs, Liquidity etc.
Please contact your FX representative to discuss.
Clients executing through FX Services AutoFX can settle T+0 FX across most freely convertible currencies (including Asian/Australian) that are linked to the underling trade instruction (FX Services Product).

41. Does J.P. Morgan believe in the future T+0 trades will be able to settle through CLS?

CLS CORE is not looking to extend to include T+0 but clients can consider adopting CLS NET that can be used to improve operational timelines and reduce manual intervention.

42. Does J.P. Morgan, as broker-dealer, believe there will be sufficient details transmitted in SWIFT messages or will J.P. Morgan be seeking to get new fields added?

Yes, sufficient details are transmitted. There should be no change.

Equity Derivative Swaps

43. What is the impact to EDG Swap trading?

Any swap transactions that reference instruments that are traded in the impacted markets (US, Canada and Mexico) will also be affected by this change. Due to additional Lifecyle Events on swap transactions, there may be impact beyond normal trading activity.

44. Which lifecyle events are impacted by this change?

• All trading activity – New trades, Increase trades and Unwind trades.
• Reset events – Regular scheduled Equity-leg reset events.
• Termination events – Rolling of existing trades which reach the end of their existing term.

45. What is the impact to trading activity?

Swap trades that are executed before the effective date of May 28, 2024, will follow the regular T+2 settlement cycle. Unwinds and Increases on these swaps will also follow the T+2 settlement cycle. Swap trades that are executed on and after the effective date of May 28, 2024, will follow the new T+1 settlement cycle. Unwinds and Increases on these swaps will also follow a T+1 settlement cycle.

46. What is the impact to equity reset events?

Swap trades that are executed before the effective date of May 28, 2024 will continue to follow a T+2 settlement cycle. Swap trades that are executed on and after the effective date of May 28, 2024, will follow the new T+1 settlement cycle.

47. What is the impact to termination/expiry events?

Swap trades that are executed before the effective date of May 28, 2024 will continue to follow a T+2 settlement cycle for termination/expiry events. If these swaps are rolled on or after May 28, 2024, then the new Final Valuation and Termination Dates will adopt a T+1 settlement cycle. Swap trades that are executed on and after the effective date of May 28, 2024, will follow the new T+1 settlement cycle.

48. What is the impact to any USD financed swaps on underliers not trades in the impacted markets?

This change impacts the securities settlement cycle for underliers traded in the impacted markets (US, Canada and Mexico).
Any underliers traded outside of these markets, even if financed in USD, will not be impacted by this change.

49. What is the impact to swaps that are traded on Custom Baskets that have securities that are settling T+1 as well as Non US/CAD/MX Securities that are settling T+2, T+3, etc.?

For Custom Baskets, the settlement cycle that we will use on the swap will be longest one. Therefore even if we have a US name with a T+1 settlement cycle in a Custom Basket, the settlement cycle for the swap will be T+2 if there is a NON US name in the Basket that settles T+2.

Equity Derivative OTC Options

50. What is the impact to EDG OTC Options and other OTC Equity Derivatives (EDG OTC Options) trading?

Any EDG OTC Option transactions that reference instruments that are traded in the impacted markets (US, Canada and Mexico) will also be affected by this change. Due to additional Lifecyle Events on option transactions, there may be impact beyond normal trading activity.

51. Which lifecycle events impacted by this change?

• All trading activity – New trades, Increase trades and Unwind trades.
• Termination events – Rolling of existing trades which reach the end of their existing term.

52. What is the impact to trading activity?

EDG OTC Options that are executed before the effective date of May 28, 2024, will follow the original T+2 settlement cycle for the effective date of Inceases and the effective date of Cash Settled Unwinds. EDG OTC Option trades that are executed on and after the effective date of May 28, 2024, will follow the new T+1 settlement cycle. Unwinds and Increases on these trades will also follow a T+1 settlement cycle.

53. What is the impact to termination/expiry events?

EDG OTC Option trades that are executed before the effective date of May 28, 2024 will continue to follow a T+2 settlement cycle for termination/expiry events that are cash settled; whilst termination/expiry events on Physically settling EDG OTC Options will settle T+1. If these trades are rolled on or after May 28, 2024, then the new Final Valuation and Termination Dates will adopt a T+1 settlement cycle. EDG OTC Option trades that are executed on and after the effective date of May 28, 2024, will follow the new T+1 settlement cycle.

54. What is the impact to any USD financed EDG OTC Options on underliers not trades in the impacted markets?

This change impacts the securities settlement cycle for underliers traded in the impacted markets (US, Canada and Mexico).
Any underliers traded outside of these markets, even if financed in USD, will not be impacted by this change.

55. What is the impact to EDG OTC Options trades that are traded on Baskets/Indices that are settling T+1 as well as Non US/CAD/MX Securities that are settling T+2, T+3, etc.?

For Global Baskets/Indices, the settlement cycle that we will use on the OTC Option will be longest one. Therefore even if we have a US name with a T+1 settlement cycle in a Basket/Index, the settlement for the EDG OTC Option will be T+2 if there is a NON US name in the Basket/Index that settles T+2.

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