T+2 shortened settlement cycle update

**Major T+2 milestones are closer than you think**
Ready or not, the migration to a shortened settlement cycle (T+2) is fast approaching. According to the “T+2 Industry Implementation Playbook” (T+2 Playbook), created by the Securities Industry and Financial Markets Association (SIFMA) and the Investment Company Institute (ICI), development and implementation of modified systems and processes should be completed by the third quarter of 2016, which is only months away. Following the T+2 Playbook implementation timeline should enable organizations to complete internal testing and to be prepared for industry testing early next year in order to meet the September 5, 2017, target migration date.

Between now and then, myriad activities need to be done that will require significant changes to a broad range of business areas, from trade processing, asset servicing, and documentation to regulatory compliance and reporting, testing, and migration. What's more, many of the required activities hinge on significant actions from vendors and other external parties. So even business leaders who are confident in their own organization's ability to get things done at the last minute cannot afford to wait. Regulators have strongly stated an intent to move forward with T+2 on schedule—even if some organizations are not ready. Therefore, it is important not to fall behind.

**Are you on track?**
In our work with organizations across the financial services industry, we currently see a wide range of preparation and readiness levels. Some leaders have already defined their organization's business requirements and started working with vendors, while others have not yet established a project team or obtained funding. To see where your organization stands, ask yourself these key questions:

- Do you know which functional areas, processes, and supporting documentation will be affected?
- Have you assessed the cross-functional impact and key dependencies?
- Has your team inventoried the systems that will need to be modified?
- Do you have a budget for these activities?
- Have you created a plan?
- Have you established a team to handle the required changes?
- Are you working with your vendors to prepare for the migration?
Unless you can answer “yes” to all these questions, you probably need to pick up the pace in preparing for T+2. Lagging behind could have significant consequences for your organization’s reputation and financial performance, including trades that fail because they cannot be settled within the required timeframe.

**Getting in front of the curve**

The Securities and Exchange Commission (SEC) has indicated support for the planned transition and expects to issue preliminary proposed rules on T+2 by Q2 2016. In the meantime, other regulators (e.g., Office of the Comptroller of the Currency, Financial Industry Regulatory Authority, Federal Deposit Insurance Corporation, and self-regulatory organizations) have already submitted notifications of proposed rule changes to the SEC.

The transition to T+2 will affect every financial services provider involved in the trade life cycle, including:

- Asset managers
- Retail broker dealers
- Institutional broker dealers
- Issuers
- Global custodians
- Transfer agents
- Vendors
- Service bureaus
- Exchanges
- Clearing firms
- Depositories

The T+2 playbook outlines the key activities and milestones required for a successful migration (Figure 1). While the migration date is currently more than a year down the road, much of the time between now and then is required for extensive internal, external, third-party, and overall industry testing.

**Six steps that should already be done**

Here is a closer look at the migration steps that your T+2 team should already have completed, some of which involve initial coordination with external parties such as customers, system vendors, and major counterparties.

**Step 1: Establish governance structure**

- Organize a program management office (PMO) to guide T+2 implementation activities
- Obtain commitment from management across the organization

**Step 2: Initiate project**

- Determine high-level T+2 requirements, impact, and road map
- Create budgets and project charters for implementation activities

**Step 3: Inventory scope**

- Define an initial list of in-scope systems, processes, and external sources
- Identify technical and operational subject matter experts

**Step 4: Conduct impact assessment**

- Assess requirement impacts, current vs. future state, and gaps
- Evaluate change complexity and dependencies

**Step 5: Create book of work**

- Define remedial activities for implementation
- Evaluate upstream and downstream impacts

**Step 6: Design solutions**

- Design system and process changes
- Develop processes and procedures

Organizations that are on track with the T+2 playbook timeline have already finished these six migration steps and are actively engaged in seventh step tasks: coordinating changes with internal and external stakeholders, and scheduling migration activities. If you think your organization is behind, you should consider immediately becoming familiar with the recommended action steps in the playbook and starting to get organized.

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### T+2 Playbook Timeline

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<tr>
<th>Plan</th>
<th>Develop</th>
<th>Implement</th>
<th>Internal testing</th>
<th>External testing</th>
<th>Industry testing</th>
<th>Migrate</th>
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<tr>
<td>Q4 2015</td>
<td>Q1 2016</td>
<td>Q2 2016</td>
<td>Q3 2016</td>
<td>Q4 2016</td>
<td>Q1 2017</td>
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<td>Internal</td>
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<tr>
<td>Establish inventory scope structure</td>
<td>Establish project impact assessment</td>
<td>Design solutions</td>
<td>Develop internal test plans</td>
<td>Coordinate testing with internal functions</td>
<td>Execute internal testing</td>
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<td>External</td>
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<td>SRO and SEC notification of proposed rule changes</td>
<td>Coordinate activities</td>
<td>Submit SRO rules to the SEC for comment and approval</td>
<td>Develop external test plans</td>
<td>Execute changes</td>
<td>Coordinate testing with external stakeholders</td>
<td>Execute external testing</td>
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<tr>
<td>Industry</td>
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<tr>
<td>&quot;T+2 Industry Implementation Playbook&quot; published</td>
<td>Comment period on proposed SRO and SEC rule changes</td>
<td>Release of final SRO and SEC rules</td>
<td>Development of DTCC detailed industry test plans</td>
<td>DTCC readiness for industry testing</td>
<td>Coordinate testing with counterparties &amp; DTCC</td>
<td>Execute industry testing</td>
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Falling forward

The shift to T+2 is something every affected organization needs to do, and the SEC has strongly indicated its intent to “fall forward”; moving ahead as scheduled and letting organizations that are not ready suffer the consequences and play catch-up. Developing and implementing the required operational and functional changes earlier rather than later can help you avoid a lot of heartburn and headaches and reduce the risk of having to scramble to address issues that pop up at the last minute, as they inevitably seem to do. It can also help you avoid the reputation damage (and failed trades) that could result from missing the deadline and having to operate with settlement capabilities that lag behind those of your competitors.

Financial services executives should monitor future guidance from the Industry Steering Committee and track expected changes to regulatory requirements. Regulators have already started taking concrete steps to make T+2 a reality. In particular, rule changes have been submitted by self-regulatory organizations (SROs), and the SEC has affirmed its plan to take the initiative on regulatory changes. However, executives that wait for formal rule approval before taking action could find their organization far behind the competition and will likely struggle to be ready for industry testing in Q2 2017.

Stay tuned

This update provides an overview of the T+2 Playbook and its associated timeline. Future updates will take a detailed look at the steps required for implementing and executing the changes associated with each of the major playbook components, starting with trade processing.

The migration to T+2 is an important breakthrough for the financial services industry and, as such, it is important to get it right. Financial services providers that fail or fall behind could be in a difficult position as the rest of the industry moves forward. That being said, there is good news for those that are just getting started: It is not too late to pursue and accelerated implementation plan and catch up on the critical path.
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Deloitte is well-qualified to support your T+2 implementation
Numerous leaders across the financial services industry have engaged Deloitte to assist with their organization's T+2 initiatives. Our deep knowledge of the T+2 playbook approach—combined with our advanced tools and in-depth understanding of cross-functional impacts—can help accelerate implementation and migration. Also, our approach to testing and our ability to manage and sequence complex dependencies reduces implementation risk and lays a strong foundation for success.

Active leadership on T+2
- Deloitte facilitated creation of the Industry Steering Committee’s T+2 Playbook
- We developed detailed implementation timelines, milestones, and dependencies in response to the SEC letter
- Our leadership team will be actively engaged with the Industry Steering Committee and your peer institutions throughout the full implementation lifecycle

Deep understanding of financial institutions
- We are a trusted resource, helping companies around the world with their most strategic implementations
- We have a strong track record in securities operations and technology

Leading industry knowledge
- Your engagement leader and advisory team will bring their extensive experience in institutional and retail brokerage, asset management, custody, and exchanges
- Deloitte will provide a dedicated team of professionals with knowledge and experience in trading, clearance, settlement, asset servicing, client reporting, technology, and regulation

Testing capabilities from the ground up
- Deloitte has managed functional, regression, and UAT testing for recent industry regulatory requirements at leading financial institutions
- Leveraging our testing capabilities, we have built automated processes, frameworks, and tools for test planning, test case generation, and defect management

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