



**THE FOUNDATION
FOR SECURE
MARKETS®**

#54436

Date: April 05, 2024

Subject: T+1 Equity Settlement Cycle Conversion
REMINDER

OCC is issuing this Information Memo to alert members to the upcoming transition to the new T+1 settlement cycle on May 28, 2024, as well as the corresponding changes to OCC's rules, systems and processing that will be implemented on that date.

OCC has reviewed its rules to identify required changes to support the industry-wide conversion to shorten the standard equity settlement cycle from T+2 to T+1. OCC has identified relatively minor changes related to the number of days in the settlement cycle and a more significant change that will eliminate the ability of clearing members to initiate a late exercise. OCC's rule changes have been approved by the SEC ahead of the May 28, 2024, implementation date. There will not be any changes to daily or expiration processing timeframes associated with the move to T+1 settlement.

OCC'S IMPLEMENTATION SCHEDULE

The implementation of a T+1 settlement cycle requires system and processing changes at OCC. OCC's production environment will conform to a T+2 settlement cycle until close of business on Friday, May 24, 2024, and will be fully converted to the new T+1 settlement cycle prior to start of business on Tuesday, May 28, 2024. OCC's internal T+1 conversion process will be fully supported by a robust implementation plan and schedule for the technical deployment of T+1 code into the production environment.

INDUSTRY TESTING

On specific, designated testing dates, DTCC and OCC will provide Members the opportunity to test the full lifecycle of OCC trades under T+1 scenarios. Testing will be conducted over a two-week cycle beginning Monday prior to given expiration dates and continuing through the delivery settlement the following week. OCC has participated in DTCC Test Cycle 13 (1/29/24 through 2/9/24), 15 (2/26/24 through 3/8/24), and 17 (3/25/24 through 4/5/24), and will participate in test cycle 18 (4/8/24 through 4/19/24).

To facilitate this testing, OCC will copy all production data from start-of-day backup as of the Monday prior to the given options expiration dates to its test environment.

- ☐ Products/series will include the applicable production series available as of the market open Monday prior to the expiration dates.
- ☐ Members will be able to interact with this data in OCC's test environment (e.g., to exercise options) between 8:00 am CT and 12:00 pm CT on regular business days.
- ☐ OCC will run its normal assignment process in the test environment.
- ☐ Delivery obligations from OCC to NSCC's UTC in the test environment would be driven off position Exercise / Assignment processing at OCC's test environment and would be received by NSCC's UTC in the test environment.

- NSCC will replicate production clearing and settlement processing of OCC trades in the test environment.
 - NSCC will utilize the SMF data in the test environment, to determine eligibility of securities underlying test trades (such as CNS eligibility) and will process the test trades accordingly.
 - OCC trades will be reported on CTS Cycle 2, which will be produced on T+1.
- OCC generated trades will be netted with other trades received by NSCC, resulting in a net settlement obligation which will ultimately be routed to DTC for settlement.
- Firms that want to test OCC trades under T+1 conditions must connect with OCC's and DTCC's respective test environments.
- Firms will be required to register for each two-week testing window and there will be a firm cutoff for registration with OCC.
- Please contact the OCC External Test team ext_test@theocc.com to register for testing or request new connectivity to the OCC's test environment – note: the existing external test connectivity can be leveraged.
- As stated before, firms that are only interested in testing NSCC processing of OCC trades can utilize NSCC's Transaction Management Tool to simulate an OCC E&A trade and directly submit these trades to NSCC's trade capture application (UTC) in the test environment for processing.

T+1 SYSTEMS AND PROCESSING CHANGES

The following systems and processing changes will take effect upon implementation of the T+1 settlement cycle on May 28, 2024.

Late Exercise

Due to the reduced amount of processing time between exercise and settlement, OCC will no longer accept or process late exercise.

DDS Product Data

All products with the T+2 Settlement Cycle will be changed to a T+1 Settlement Cycle. OCC will update all products to reflect the change from T+2 to T+1 on the weekend prior to May 28, 2024. While firms will be able to see updated information in Tag 975 of the Security Definition Full File on Tuesday, May 28, 2024, update DDS messages reflecting this change will not be distributed.

Collateral System

In conjunction with the move to a T+1 settlement cycle, the auto-takedown of Specific Deposits and Escrow Deposits covering expired equity options will be modified to occur on the business day following expiration.

Corporate Actions

In today's T+2 settlement environment, regular-way ex-date is considered to be one business day prior to the record date. As the industry moves to T+1 settlement, regular-way ex-date calculations will be shortened by one business day. There is a corporate action process that begins the process of applying Stock Split/Special Actions to collateral that could be affected by a corporate action – Valued Securities (VS), Specific Deposits (SD) and Escrow Deposits (ED). The process applies a corporate action stock split to VS, SD, and ED Collateral 2 business days after ex-date. This date will be changed to apply the corporate action 1 business day after ex-date.

Delivery Advice Report

The Equity Option Delivery Advice report provides each Clearing Member with information regarding their exercise and assignment activity from the previous business day for equity options. This report displays a

Settlement Method column in the Totals page that reflects a settlement of "CASH (T+2)", which corresponds to how the current Delivery Settlement Group Cycle is currently set to T+2 for Equity. Starting on May 28, 2024, the row "CASH (T+2)" under the Settlement Method column on the Equity Option Delivery Advice report will change to "CASH (T+1)". Additionally, a second line item will be added labeled "CASH FLEX (T+1)" which will display cash settling from Equity Flex options.

ALL CLEARING MEMBERS ARE REQUESTED TO IMMEDIATELY ADVISE ALL BRANCH OFFICES AND CORRESPONDENTS ON THE ABOVE.

For questions regarding this memo, please email the Investor Education team at options@theocc.com. Clearing Member Firms of OCC may contact Member Services at 1-800-544-6091 or, within Canada, at 1-800-424-7320, or email memberservices@theocc.com.