

CSDs: DTC (USA)

Date: 11 Mar 2013

SMI Markets: USA

CMIRR Markets: USA

## DTCC to Introduce Settlement Matching to Reduce Risk and Boost Intraday Settlement Finality

On 8 March 2013, the Depository Trust & Clearing Corporation (DTCC) published a paper outlining the Depository Trust Company's (DTC) implementation of Settlement Matching for all clients in 2013 and 2014. The processing changes at DTC will be subject to appropriate regulatory rule filings and approvals.

DTC will leverage existing infrastructure to provide participants with the ability to "authorise or match" transactions before it attempts to process these transactions for settlement. This will eliminate reclamation transactions or "reclaims" which occur when a participant attempts to return a transaction made earlier in the day. Settlement Matching will also eliminate any credit and liquidity risk associated with same-day reclaims.

The main aspects of Settlement Matching include:

- Only matched transactions will be submitted to DTCC's settlement systems.
- Unmatched transactions will be routed to Receiver Authorisation Delivery (RAD) where they will remain until approved or until the end of the processing day, at which point DTCC will no longer attempt to process the transaction.
- Once a transaction is matched, it will be subjected to the same control checks and processing cut-offs that are currently in place.
- Any transaction that completes in DTCC's settlement system will be considered final and no longer eligible for reclaim processing, i.e., the return of an erroneously approved transaction will be processed by DTCC as any other original transaction, subject to DTCC's controls and the receiver's RAD limits.

In order to provide participants with enough lead time to review their approval process internally and with DTCC to ensure they can authorise a receive earlier in the processing day, DTCC has chosen to implement Settlement Matching in stages:

- **Stage 1 – Reducing DTCC'S RAD default limits** – Targeted for July 2013, DTCC will lower the current RAD thresholds from USD15 million and USD 1 million for securities and payments, respectively, to USD 7.5 million and USD 500,000.
- **Stage 2 – Stock Lending Profiles** – Targeted for Q3 2013, DTCC will enhance the existing RAD functionality by creating a stock lending profile which will allow participants to establish RAD authorisation limits specifically for stock loan and stock loan return activity.
- **Stage 3 – Reducing DTCC'S RAD default limits to zero** – Targeted for January 2014, DTCC will require all transactions to be authorised in the RAD system, lowering the RAD thresholds from USD 7.5 million and USD 500,000 for securities and payments, respectively, to zero.
- **Stage 4 – Subjecting ID transactions to receiver approval** – Targeted for Q1 2014, DTCC will support Passive Matching for all affirmed institutional trades to promote both trade affirmation and straight-through-processing (STP) settlement. DTCC will create an ID receiver authorisation profile in RAD to actively or passively authorise their unprocessed ID receives.

Further information is available here: [DTCC's Paper](#).

## CSD Risk Impact

### DTC (USA)

CSD Rating: AA

CSD Flash Impact: Positive

Impacted Risk Type: Asset Commitment Risk

Current Rating = AA+  
Flash Impact = Positive

Impacted Risk Type: Liquidity Risk  
Current Rating = AA+  
Flash Impact = Positive

Although, technically, reclaims are separate transactions and hence the finality of the original transaction is legally enforced, the existence of the reclaim process compromises the 'practical' finality of all transactions since positions can be reversed after receipt, and also has an effect on the certainty of liquidity received in the system. The reduction and eventual elimination of reclaims, should therefore positively impact Asset Commitment and Liquidity risks.

## Market Information Impact

### USA

This information affects the data contained in the Settlement sections of the Securities Market Information Service.

## Infrastructure Risk Ratings Impact

### USA

Market Rating: AA  
Market Flash Impact: Positive

Impacted Risk Type: Asset Commitment Risk  
Current Rating = AA  
Flash Impact = Positive

Impacted Risk Type: Liquidity Risk  
Current Rating = AA  
Flash Impact = Positive

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