



T+2 and You: Equity Administrator's & Our Point of View

July 27, 2017

Global Equity Organization Boston



Notice

The following information is not intended to be “written advice concerning one or more Federal tax matters” subject to the requirements of section 10.37(a)(2) of Treasury Department Circular 230.

The information contained herein is of a general nature and based on authorities that are subject to change. Applicability of the information to specific situations should be determined through consultation with your tax adviser.

Settlement History – U.S.

T+5

1987 Market break
Market-facing activities

T+3

1995
Improve U.S. clearance
Settlement process
Reduce risk

T+2

Aligns U.S. with major
International markets
Oct 2014/ Q4 2015

Why shorten the settlement time?

- Reduced credit risk**
- Operational process improvements**
- Cash deployment efficiencies**
- Increased market liquidity**
- Lower collateral requirements**
- Alignment of settlement with major global markets**



T+2

Which countries are on T+2?

Q4 2015 - Spain
Mar 2016 – Australia & New Zealand

23 EU member states – Oct 2014

Austria	Italy
Belgium	Latvia
Czech Republic	Lithuania
Cyprus	Luxembourg
Denmark	Netherlands
Estonia	Norway
Finland	Portugal
France	Slovakia
Greece	Sweden
Hungary	Switzerland
Iceland	United Kingdom
Ireland	

Q3 – 2017
Canada
United States

T+2

Japan
considering

Source: T+2 Industry Implementation Playbook dated December 18, 2015.

In Scope Asset Classes

Equities

**Corporate
Bonds**

**Municipal
Bonds**

Unit
Investment
Trusts

Other (ADR, ETF,
ETP, Mutual Funds,
Options, Rights,
Warrants)

SEC and IRS

T+2

SEC - Settlement of Security

T+3*

US Payroll

Next day deposit rules for NQ stock option

*Remember Settlement date drives next day rule

When is T+2 coming to the U.S.?

Q3 2017
September 5, 2017*

Are you ready?

- What should I be doing to prepare?
- Are my vendors and service levels aligned?
- Who is impacted?
- What communications and training are needed?
- What about my mobile population?
- What about payroll and treasury?
- What about Section 16 officers?

*Source: *T+2 Industry Implementation Playbook* dated December 18, 2015.
Final effective date subject to regulatory support and completion of industry wide testing In Q2 and Q3 of 2017.

Where should the equity professional be focused?



Documents

Prospectus
Internal control
Process maps

Update prior to
transition date
(Sept 2017)



Contracts &
SLAs

Current Turns

Adjust terms?



Systems &
Interfaces

Evaluate
timing of
transfers

Adjust
transfer
time?



Communication

Participants
Stakeholders
Teams

Prior to
transition date
(Sept 2017)

What should I be doing to prepare?



Update Documents

- Plan documents
- Terms & conditions
- Internal control procedures
- Process maps
- Brochures & FAQs
- Online help guides



Work with Vendors

- Update SLAs & contracts if required
- Obtain guidance
- Confirm testing
- Review changes to support
- Consider early adoption



Systems & Interfaces

- Assess system readiness
- Check interface transfer time movement and update documentation
- Assess contingency plans



Communications

- Discuss changes with US Payroll
- Consider update notice to participants
- Training for international finance, treasury and payroll teams

Key Payroll Issues

Stock Options

- Watch cash flow, 3 days rather than 4 to get cash to the IRS.
Penalties apply if delayed
- Other equity plan distributions are already under the “Next Business Day” deposit timing rule (T+0) and are generally unaffected by the change to T+2.

Related topic – RATES!

- Protect your plan from becoming a liability plan – LIMIT WITHHOLDING IN EQUITY PLANS to no more than 39.6% and watch the timing.
- Protect your payroll system – equity compensation withholding is either withheld at 25% (39.6 only for an individual that already has \$1 m of supplemental wages) or needs a Form W-4 from the employee with the additional withholding box properly filled out – check to make very sure and do not permit this number to go over 39.6%.

Outside the US

- Rules are different – Check with your local country payroll teams

Mobiles

Process to meet turns for obtaining tax rates from tax vendor
Maximum tax rate under FASB - ASC718 and W-4 requirement
>25% or 39.6%

Refined vs. rate on file – contingency
Revisit automation if not already automated
Communication

Address
Mobiles



Interface Transfers & Contingency Plans to Consider

A



B



C

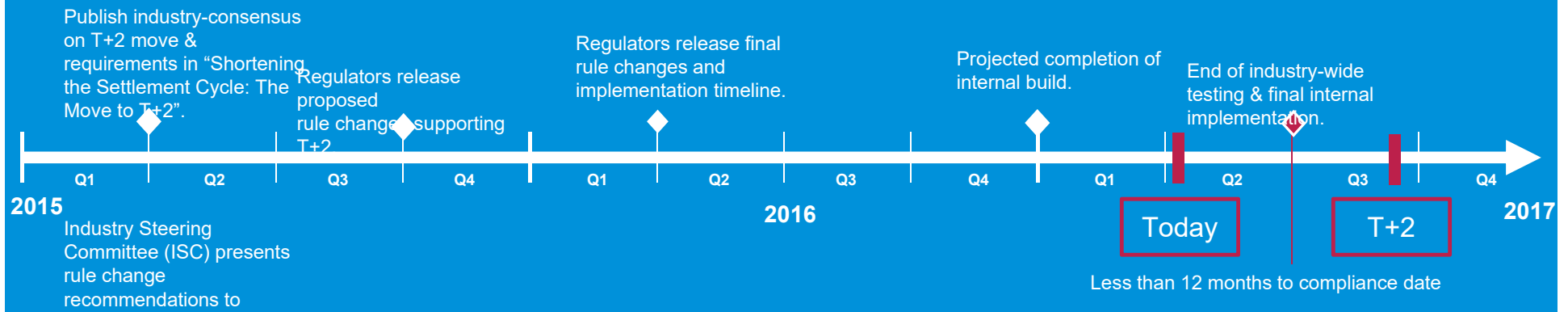


Revisit Section 16 officers process!

Countdown to T+2

T+2 Illustrative Timeline

The September 2017 T+2 regulations effective dates will impact people, process, and technology for all lines of businesses and functions supporting the in-scope products.



Source: KPMG Advisory

What's next?

T+1?

kpmg.com/socialmedia



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