

**MEMO# 30308**

October 14, 2016

# SEC Proposes Amendment to Securities Transaction Settlement Cycle

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TO: ACCOUNTING/TREASURERS MEMBERS No. 28-16  
DERIVATIVES MARKETS ADVISORY COMMITTEE No. 54-16  
ETF (EXCHANGE-TRADED FUNDS) COMMITTEE No. 24-16  
ETF ADVISORY COMMITTEE No. 23-16  
EQUITY MARKETS ADVISORY COMMITTEE No. 43-16  
FIXED-INCOME ADVISORY COMMITTEE No. 35-16  
INTERNATIONAL OPERATIONS ADVISORY COMMITTEE No. 27-16  
OPERATIONS COMMITTEE No. 24-16  
SEC RULES MEMBERS No. 57-16  
SECURITIES OPERATIONS ADVISORY COMMITTEE  
SMALL FUNDS MEMBERS No. 44-16  
TRANSFER AGENT ADVISORY COMMITTEE No. 48-16 RE: SEC PROPOSES AMENDMENT TO  
SECURITIES TRANSACTION SETTLEMENT CYCLE

## I. Background

On October 5, 2016, the Securities and Exchange Commission (“SEC”) issued a release<sup>[1]</sup> (“Release”) proposing to amend Rule 15c6-1(a) under the Securities Exchange Act of 1934 (“Exchange Act”) to shorten the standard settlement cycle for most broker-dealer transactions from three business days after the trade date (“T+3”) to two business days after the trade date (“T+2”). Rule 15c6-1(a) prohibits broker-dealers from effecting or entering into a contract for the purchase or sale of a security that provides for payment of funds and delivery of securities later than the third business day after the date of the contract unless otherwise expressly agreed by the parties at the time of the transaction.

In the Release, the Commission cited a number of reasons for shortening the settlement cycle, which included reducing credit and market risk exposure related to unsettled trades, reducing liquidity risk, encouraging efficiency in the clearance and settlement process, and reducing systemic risk for the US market. The SEC points to a financial services industry-led initiative to shorten the regular-way settlement for equities, corporate bonds, municipal bonds, and unit investments trusts from T+3 to T+2 by September 2017.<sup>[2]</sup>

**ICI plans to file a comment letter on the proposal. Comments are due by December 5, 2016.**

## II. Discussion

The Release indicates that a move to T+2 would improve the clearance and settlement process and better protect investors. Specifically, the Commission believes that a shortened settlement cycle potentially would decrease the number of unsettled trades at any point of time, which in turn, should correspond to a reduction in market participants' exposure to credit, market, and liquidity risk, and improve the stability of the US Markets.

Rule 15c6-1(a) covers all securities except for the exempted securities enumerated in paragraph (a)(1) of the rule. The definition of the term "security" in Section 3(a)(10) of the Exchange Act covers, among others, equities, corporate bonds, unit investment trusts, mutual funds, exchange-traded funds, American depository receipts, and security-based swaps. The Release indicates that some of these securities such as options, and mutual fund shares generally settle on a settlement cycle less than T+3 and therefore will not be impacted by the rule amendment. The Commission seeks comment on whether and to what extent other securities, as defined in Section 3(a)(10) of the Exchange Act will be affected by the amendment to Rule 15c6-1(a). The Commission believes that implementation of a shorter cycle will not impact broker-dealer's ability to comply with the requirement under Rule 10b-10 to send confirmations to customers on trade date.

In the Release, the Commission describes the various aspects and participants of the settlement and clearance process and highlights key developments since the last change to Rule 15c6-1 in 1993. The Commission acknowledges the likelihood of market participant costs and burdens, but believes that the anticipated benefits of a shorter settlement cycle are appropriate with any potential cost of implementation. The Commission contemplates that shortening the standard settlement cycle to T+2 is the appropriate step and that a settlement cycle shorter than T+2 would require market participants to make larger investments and take a longer time to implement than the proposal.

## III. Proposed Compliance Date

The Commission references the efforts of the Industry Steering Committee in identifying September 5, 2017 as the target date for the transition to a T+2 settlement cycle. The Commission notes that if the proposed amendment to Rule 15c6-1(a) is adopted, the Commission would consider September 5 as a potential compliance date. The Commission is seeking comments from participants on whether this compliance date is appropriate or if there are other suitable dates for the transition.

Martin A. Burns  
Chief Industry Operations Officer

### endnotes

[1] Amendment to Securities Transaction Settlement Cycle, SEC Release No. Release No. 34-78962; File No. S7-22-16, available at <https://www.gpo.gov/fdsys/pkg/FR-2016-10-05/pdf/2016-23890.pdf>.

[2] The industry formed an Industry Steering Committee (co-chaired by ICI), an Industry Working Group, and five sub-working groups to facilitate the move to a shorter settlement cycle. For background on the T+2 industry-led initiative and its benefits, see <http://www.ust2.com/>.

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