MEMO# 30908

October 12, 2017

ICI Submits Comments on OCC, FDIC Proposal to Align Their Rules with T+2 Settlement Cycle for Securities Transactions

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October 12, 2017 TO: ICI Members SUBJECTS: Operations
Systemic Risk RE: ICI Submits Comments on OCC, FDIC Proposal to Align Their Rules with T+2 Settlement Cycle for Securities Transactions

ICI has submitted a comment letter to the Office of the Comptroller of the Currency (OCC) and Federal Deposit Insurance Corporation (FDIC) expressing strong support for their proposal to modify OCC and FDIC rules governing the settlement of securities purchased or sold by national banks, federal savings associations, and FDIC-supervised institutions.[1] This memorandum briefly describes the context for this proposal and ICI's comments.

As of September 5, 2017, the timeframe for settlement of most securities transactions in the United States was shortened from the third business day after trade date, or T+3, to the second business day after trade date, or T+2. In preparation for the September 5 migration date, the Securities and Exchange Commission, the Federal Reserve Board, and various self-regulatory organizations modified their rules to require T+2 settlement. OCC and FDIC likewise signaled their commitment to the transition to T+2 settlement. Staff from each agency issued written guidance highlighting the actions that banking institutions should take to prepare for shortening of the settlement cycle as of the September 5 migration date.[2]

OCC and FDIC now are proposing to modify their rules to require T+2 settlement. ICI strongly supports this rulemaking. Our letter highlights the following points:

- In addition to providing greater clarity and certainty for banking institutions, the proposed changes would make OCC and FDIC rules consistent with the regulation-based requirements that apply to nearly all other market participants in the United States.
- Failure to align OCC and FDIC rules with those of other US regulatory bodies could have negative consequences. We explained that: (1) possible fragmentation in US rules could cause fragmentation in market practices, as has been the experience in European markets; (2) any discrepancy in the rules for settlement could become

particularly problematic in stressed markets; and (3) any inconsistency among US regulations could prove problematic for securities settlement in Canada and Mexico, whose markets are highly integrated with US trading and have moved to T+2 settlement in concert with the United States.

- Responding to the agencies' inquiry as to how to frame their rule changes, we expressed a preference for having applicable OCC and FDIC rules cross-reference the standard settlement cycle provided under SEC Rule 15c6-1(a). This approach is consistent with the Federal Reserve Board's corresponding regulation for state member banks. It also would allow OCC and FDIC to avoid the time and resources associated with additional rulemaking (*e.g.*, if the settlement cycle is shortened further to T+1).

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Attachment

endnotes

[1] OCC and FDIC, Securities Transaction Settlement Cycle, 82 Fed. Reg. 42619 (Sept. 11, 2017). The proposal would modify 12 C.F.R. § 12.9(a) (for national banks), 12 C.F.R. § 151.130(a)(1) (for federal savings associations), and 12 C.F.R. § 344.7(a) (for state nonmember banks and savings associations and insured branches of foreign banks) by requiring these institutions to effect settlement of certain securities transactions by the second business day after the trade date, unless otherwise agreed to by the parties.

[2] *See Shortening the Settlement Cycle*, OCC Bulletin 2017-22 (June 9, 2017), *available at* https://www.occ.treas.gov/news-issuances/bulletins/2017/bulletin-2017-22.html; FDIC, *Securities and Exchange Commission Rule Amended to Shorten the Securities Transaction Settlement Cycle*, FIL -32-2017 (July 26, 2017), *available at* https://www.fdic.gov/news/news/financial/2017/fil17032.html.