

**MEMO# 27900**

February 20, 2014

# **Institute Releases Statement Supporting DTCC's Shortened Settlement Cycle Proposal for Industry Participants**

[27900]

February 20, 2014

TO: ACCOUNTING/TREASURERS COMMITTEE No. 5-14  
BANK, TRUST AND RETIREMENT ADVISORY COMMITTEE No. 9-14  
BROKER/DEALER ADVISORY COMMITTEE No. 9-14  
EQUITY MARKETS ADVISORY COMMITTEE No. 3-14  
OPERATIONS COMMITTEE No. 8-14  
SECURITIES OPERATIONS ADVISORY GROUP  
SMALL FUNDS COMMITTEE No. 1-14  
TRANSFER AGENT ADVISORY COMMITTEE No. 10-14 RE: INSTITUTE RELEASES STATEMENT  
SUPPORTING DTCC'S SHORTENED SETTLEMENT CYCLE PROPOSAL FOR INDUSTRY  
PARTICIPANTS

The members of Investment Company Institute's Board of Governors recently agreed to support the Depository Trust & Clearing Corporation (DTCC) industry initiative to shorten the U.S. settlement cycle for equities, municipal and corporate bonds, and unit investment trusts from trade date plus 3 days (T+3) to trade date plus two days (T+2). Mutual fund shares transacted through DTCC's National Securities Clearing Corporation (NSCC) would be included in the initiative.

The voluntary move to a T+2 settlement cycle, would afford the industry the opportunity to achieve a meaningful reduction in systemic, liquidity and operational risks and promote significant process efficiencies for market participants that also benefits investors. On February 18 a press release was issued citing the Board's endorsement of this important industry initiative. [\[1\]](#)

## **Background**

In early 2012, DTCC distributed a paper to industry stakeholders entitled "Proposal to Launch a New Cost-Benefit Analysis on Shortening the Settlement Cycle." [\[2\]](#) Following discussions of that paper with regulators and industry stakeholders, the Boston Consulting Group (BCG) was retained in the spring of 2012 to conduct a cost-benefit study that examined the benefits and challenges attendant to moving to T+2 or T+1.

Upon publication of the paper in the fall of 2012, [\[3\]](#) DTCC reviewed the study results with industry participants (including ICI members) to obtain feedback on potential next steps. The initial consensus from institutional brokers, custodians and buy-side participants, showed support for shortening the settlement cycle. However, industry stakeholders cited a variety of issues including the cost and the timing of a change given the multitude of new pending regulatory requirements.

In the first quarter of 2013, DTCC drafted and circulated a preliminary position paper supporting shortening the settlement cycle to T+1 in 2020, with T+2 as an interim step in 2016. DTCC again reached out to the industry to discuss the necessary changes and to obtain additional input from participants on shortening the settlement cycle. In total, DTCC spoke with 125 entities, of which 94% agreed that shortening the settlement cycle is a good idea and should be implemented over the next few years. However, several entities raised opposition including the timing of a change and the significant structural difficulties in moving to a T+1 settlement date. In response to those concerns, DTCC has indicated they will work with the industry to determine the best timing to implement an accelerated settlement cycle rather than continue with the 3 years cited in the DTCC preliminary position paper, and at this time have deferred any further consideration of a T+1 settlement date.

## **Benefits of Accelerating Settlement**

The rationale behind DTCC's recommendation to shorten the settlement cycle describes a number of benefits for buy-side investment managers. Those benefits include a meaningful reduction in systemic, liquidity, and operational risks; better use of capital; and creation of significant process efficiencies for market participants—all changes that could benefit investors. Shortening the settlement cycle also will align the U.S. with international cycles as Europe is moving to T+2 in 2014 and much of Asia has already adopted a T+2 or T+1 standard. Additionally, over 70 percent of mutual fund share trades that are processed through the NSCC settle on a T+1 basis. Therefore, shortening the settlement cycle for portfolio securities further harmonizes the settlement timeframes for fund investment managers.

## **Next Steps**

The Institute will continue to work closely with DTCC, ICI members, and industry stakeholders in evaluating the appropriate next steps and time table for implementing the shortened settlement cycle proposal. We will engage with members through our committees and working groups and via conference calls and meetings as this project progresses. Our activities will include providing status reports, soliciting member participation and feedback in an effort address implementation impacts for investment managers and funds, and in order to ensure a smooth transition for the industry to a shortened settlement cycle.

Kathleen C. Joaquin  
Chief Industry Operations Officer

Martin A. Burns  
Senior Director, Operations & Distribution

## endnotes

[1] The press release is available on the Institute website at [http://www.ici.org/pressroom/news/14\\_news\\_settlement](http://www.ici.org/pressroom/news/14_news_settlement)

[2] This paper is available on DTCC's website at <http://www.dtcc.com/news/2011/december/01/proposal-to-launch-a-new-cost-benefit-analysis-on-shortening-the-settlement-cycle.aspx>

[3] The BCG paper entitled, "Cost Benefit Analysis of Shortening the Settlement Cycle," published in October 2012 can be viewed on DTCC's website at [http://www.dtcc.com/~media/Files/Downloads/WhitePapers/CBA\\_BCG\\_Shortening\\_the\\_Settlement\\_Cycle\\_October2012.ashx](http://www.dtcc.com/~media/Files/Downloads/WhitePapers/CBA_BCG_Shortening_the_Settlement_Cycle_October2012.ashx). The findings in the paper are summarized in Institute Memorandum No. [26620](#), dated October 26, 2012.

---

Copyright © by the Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.