

MEMO# 35245

April 17, 2023

MSRB Proposes to Shorten the Settlement Cycle to T+1 for Municipal Securities Transactions

[35245]

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TO: Municipal Securities Advisory Committee

Operations Committee

Securities Operations Advisory Committee RE: MSRB Proposes to Shorten the Settlement Cycle to T+1 for Municipal Securities Transactions

On April 6, the Municipal Securities Rulemaking Board (MSRB) proposed amendments to facilitate shortening the settlement cycle for transactions in municipal securities.^[1] The proposed amendments aim to promote regulatory consistency and follow the adoption by the Securities and Exchange Commission (SEC) of rule changes to shorten the settlement cycle for most broker-dealer transactions in securities from two business days after the trade date ("T+2") to one business day after the trade date ("T+1").^[2]

Comments on the Proposal are due on May 3. ICI plans to prepare a brief comment letter in support of this proposal. If you have any questions or concerns about our proposed approach, please contact Nhan Nguyen (nhan.nguyen@ici.org) or Nico Valderrama (nvalderrama@ici.org).

The Proposal would amend certain MSRB rules that currently establish a T+2 settlement cycle^[3] to instead reflect settlement as occurring on T+1. Although the SEC's T+1 settlement requirement technically does not apply to municipal securities transactions,^[4] the MSRB explains that the settlement cycle for municipal securities transactions in the secondary market should be consistent with that for equity and corporate bond transactions.^[5]

Moreover, the Proposal states that the MSRB will publish a notice with a compliance date for the proposed amendments that will correspond with the compliance date for the SEC's amendments to Exchange Act Rule 15c6-1, which is currently May 28, 2024.^[6] The Proposal notes, however, that if the SEC's compliance date changes, the MSRB would issue a notice to modify and align its compliance date with the SEC's date.

Notes

[1] Notice of Filing of a Proposed Rule Change to Amend MSRB Rules G-12 and G-15 to Define Regular-Way Settlement for Municipal Securities Transactions as Occurring One Business Day after the Trade Date and to Amend Rule G-12 to Update an Outdated Cross Reference, Release No. 34-97257 (April 6, 2023), 88 FR 22075 (April 12, 2023) ("Proposal"), available at <https://www.govinfo.gov/content/pkg/FR-2023-04-12/pdf/2023-07612.pdf>.

[2] Shortening the Securities Transaction Settlement Cycle, Release Nos. 34-96930; IA-6239 (Feb. 15, 2023) 88 FR 13872 ("SEC T+1 Adopting Release"), available at <https://www.govinfo.gov/content/pkg/FR-2023-03-06/pdf/2023-03566.pdf>. Amended SEC Rule 15c6-1(a) prohibits a broker-dealer from effecting or entering into a contract for the purchase or sale of a security (other than an exempted security, a government security, a municipal security, commercial paper, bankers' acceptances, or commercial bills) that provides for payment of funds and delivery of securities later than T+1, unless the parties expressly agree to a different settlement date at the time of the transaction. For a summary of the SEC T+1 Adopting Release please see ICI Memorandum No. 35173, available at <https://www.ici.org/memo35173>.

[3] MSRB Rule G-12(b)(ii)(B)-(D) and MSRB Rule G-15(b)(ii)(B)-(C).

[4] The SEC also adopted a "same-day affirmation" requirement under new Exchange Act Rule 15c6-2, to "improve the processing of institutional transactions" in a T+1 environment. SEC T+1 Adopting Release at 13890. Relatedly, the Proposal notes that, while "Rule 15c6-2 does not apply to municipal securities, the MSRB is evaluating whether a like requirement should be considered under MSRB Rules." Proposal at 22076.

[5] Proposal at 22075; see SEC T+1 Adopting Release at 13880. The MSRB took a similar approach in 2017 by adopting a T+2 settlement cycle for municipal securities in response to the SEC's expected shortening of the settlement cycle for most broker-dealer transactions in securities from three days after the trade date ("T+3") to T+2. See Proposal at 22076.

[6] See SEC T+1 Adopting Release at 13916.