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SEC Adopts Final Rule Shortening Settlement Cycle to T+2

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On March 22, 2017, the U.S. Securities and Exchange Commission (SEC) adopted a final rule amending Rule 15c6-1(a) under the U.S. *Securities Exchange Act of 1934* to shorten the standard settlement cycle from three to two business days (i.e., from T+3 to T+2) for most broker-dealer securities transactions. The SEC believes that shortening the settlement cycle will reduce credit, market and liquidity risk and, as a result, reduce systemic risk for U.S. market participants. Broker-dealers are required to comply with the final rule commencing September 5, 2017.

As amended by the final rule, Rule 15c6-1(a) prohibits a broker-dealer from effecting or entering into a contract for the purchase or sale of securities that provides for payment of funds and delivery of securities later than the second business day after the date of the contract unless both parties expressly agree otherwise at the time of the transaction. The final rule does not apply to contracts for the purchase or sale of the following securities:

- exempted securities, government securities, municipal securities, commercial papers, bankers' acceptances and commercial bills;
- limited partnership interests that are not listed on an exchange or for which quotations are not disseminated through an automated quotation system of a registered securities association;
- securities sold for cash that are priced after 4:30 p.m. (Eastern Standard Time) and that are:
  - sold by an issuer to an underwriter in a firm commitment underwritten offering registered under the U.S. *Securities Act of 1933*; or
  - sold to an initial purchaser by a broker-dealer participating in such offering;[1] and
- securities that the SEC may from time to time exempt by order, taking into account existing market practices at the time.

The shorter settlement cycle will result in fewer unsettled trades at any given time and in a shorter period of exposure to such trades, which in turn will reduce liquidity risks for clearing agencies and their members and will benefit other market participants, such as broker-dealers, institutional investors and retail investors, who will gain quicker access to their funds and securities following trades.

The shorter settlement cycle will also more closely align the settlement cycle in the United States with certain non-U.S. markets that have already moved to a T+2 settlement cycle or are planning to do so. According to the SEC, this may reduce the need to hedge risks stemming from mismatched settlement cycles for market participants who engage in cross-border trades in the U.S. and other markets.

[1] These trades must settle no later than the fourth business day after the date of the contract unless otherwise expressly agreed to by the parties at the time of the transaction.

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