MODERN MARKETS INITIATIVE

April 4, 2022

By electronic mail to rule-comments@sec.gov

Vanessa Countryman
Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-0609

Re: Shortening the Securities Transaction Settlement Cycle 17 CFR Parts 232, 240, and 275 [Release Nos. 34-94196, IA-5957; File No. S7-05-22] RIN 3235-AN02

Dear Ms. Countryman:

Modern Markets Initiative ("MMI"), the education and advocacy organization devoted to the role of technological innovation in creating the world's best markets, is grateful for the opportunity to offer comments for consideration before the U.S. Securities and Exchange Commission (the "SEC" or "Commission") in connection with the "Shortening the Securities Transaction Settlement Cycle" (the "Proposal").[1] MMI stands in broad support of global regulatory efforts to establish holistic, data-driven policies to best ensure the stability of the markets for all participants, and to offer tools for the advancement of secure savings and investment through innovation. In particular, MMI stands in strong support of the Commission's proposal to reduce the settlement cycle to T+1, as a means to enhance efficiency and reduce risk, as a positive step for market stability and efficiency.

By way of background, MMI members collectively employ more than 2000 people in over 50 markets globally, and account for approximately 20 percent of daily trading volume in the US equity markets. MMI's members are routinely engaged in providing liquidity across a variety of asset classes, and deploy automated trading technology systems to enhance efficiency of trading for retail and institutional investors.[2] Market automation has reduced the cost of trading for the average investor, both in direct trading costs and savings through tighter bid-ask spreads.[3] Investors saving for college, retirement, and institutional investors such as pension funds and university endowments have benefited from what are now the best markets ever when it comes to low cost trading and dependable liquidity.[4]

[1] Shortening the Securities Transaction Settlement Cycle 17 CFR Parts 232, 240, and 275 [Release Nos. 34-94196, IA-5957; File No. S7-05-22] RIN 3235-AN02 *at* https://www.sec.gov/rules/proposed/2022/34-94196.pdf

[2] "A Report on Market Automation and Democratizing Markets: Narrowed Bid Ask Spreads" by Kang, Wegner (June 2021), *at* https://www.modernmarketsinitiative.org/reports-studies

[3] Vincent Van Kervel and Albert J. Menkveld, "High-Frequency Trading around Large Institutional Orders" (Jan 29, 2016) (HFT provides liquidity for six hours to large buy side orders, to their benefit, and in doing so challenges the belief that HFT profits from quick "electronic front-running." This prolonged period of HFT leaning reduces institutional trading costs by 39% and by extension all the individual investors they represent.")

[4] Prof. Terrence Hendershott, Haas School of Business University of California at Berkeley, Ryan Riordan, Department of Economics and Business Engineering Karlsruhe Institute of Technology, "Algorithmic Trading and

Specifically, over a decade, automation of the electronic intermediaries has brought down trading costs by 50 percent,[5] and yielded 30 percent more in lifetime savings for investors.[6]

With rising participation of retail investors using automated trading technology, it is vital that during periods of market volatility and high trading volume, that investors have a settlement cycle that optimizes efficiency and risk mitigation. The Commission's Proposal to shorten the settlement cycle to T+1 from T+2 would be beneficial to investors, whether retail or institutional, by reducing settlement risks and clearing costs.

In particular, MMI notes the following responses to the Commission's request for comment: "**Should the Commission amend Rule 15c6-1 to shorten the standard settlement cycle to T+1 as proposed? Why or why not?"**

MMI broadly supports shortening to a T+1 settlement cycle, noting the key benefits include:

1. Enhanced efficiency of the equity markets;
2. Risk Mitigation - In particular during periods of high volatility and volume, the shortening of the settlement cycle from T+2 to T+1 shortens the period between trade execution and trade settlement, reducing the risk posed at various levels including systemic risk, counterparty risk, and operational level risk;
3. Better use of capital – the reduction of settlement period would allow broker-dealers to better manage their capital and liquidity by reducing the margin requirements posted to NSCC by its members; and
4. Promotes financial stability.

Information" (August 18, 2009), (algorithmic trading "contributes more to the discovery of the efficient price than human trading. Contrary to conventional wisdom we find no evidence of AT behavior that would contribute to volatility beyond making.")

[5] Menkveld, Albert J., "The Economics of High-Frequency Trading: Taking Stock" (June 1, 2016). Annual Review of Financial Economics, Volume 8, Forthcoming. Available at SSRN: https://ssrn.com/abstract=2787542 (In the decade of migration to electronic trading and HFT arrival, transaction cost decreased by over 50% for both retail and institutional investors.")

[6] April 21, 2010: Vanguard Comment letter on SEC Concept Release on Equity Market Structure ("…we conservatively estimate that transaction costs have declined 50 bps, or 100 bps round trip. For example, if an average actively managed equity mutual fund with a 100% turnover ratio would currently provide an annual return of 9%, the same fund would have returned 8% per year without the reduction in transaction costs over the past decade. Today's investor with a 30 year time horizon would see a $10,000 investment in such a fund grow to approximately $132,000 in 30 years, compared to approximately $100,000 with the hypothetical return of 8% associated with the higher transaction costs. Thus, any analysis of "high frequency trading" must recognize the corresponding benefits that long-term investors have experienced through tighter spreads and increased liquidity.")

On the question of feasibility of a move to T+O (collectively referenced in Questions 73-80), MMI expresses concern that such a move to T+O would be more costly, potentially infeasible in the short term given the state of the current market ecosystem, and has the potential to increase fails.

Conclusion

MMI stands in broad support of reducing the settlement cycle to T+1 as a means to achieve greater efficiency and risk mitigation for investors.

Thank you for your consideration.

Very truly yours,

Kirsten Wegner
Chief Executive Officer
Modern Markets Initiative

cc: Haoxiang Zhu, Director, Division of Trading and Markets