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April 11, 2022

Via Electronic Submission

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

Re: File Number S7-05-22: Shortening the Securities Transaction Settlement Cycle

Dear Ms. Countryman,

R3 welcomes the publication of this proposed rule and the move toward shortening the settlement cycle, with the appropriate emphasis on the technology to facilitate such a transformation. The proposal by the U.S. Securities and Exchange Commission (SEC or Commission) is timely, as the market has evolved since T+2 was established and innovative technologies including distributed ledger technology (DLT) have emerged to support the compressed settlement time. We support the SEC's effort to move toward a shorter, more efficient settlement time while keeping in mind the commercial and practical realities of the functioning of the securities market. Combining that with embracing innovative technologies will help ensure that the United States equities market remain the most robust in the world.

Introduction

R3 is an enterprise software firm enabling digital transformation through our "trust technologies," connected networks, and regulated markets expertise. With a foundation in DLT, our solutions are purpose-built for use in regulated financial industries, including by financial market infrastructure operators.

Corda is R3's signature DLT software and is used throughout regulated financial industries by institutional market participants to record, manage and execute financial transactions in perfect synchrony with their peers. Corda is unique in the blockchain space by offering an open core licensing model alongside privacy, settlement finality, and scalability.

Originally built by the financial services industry for the financial services industry, Corda leverages the power of distributed ledgers to address specific business challenges in highly regulated markets. Corda is fit for purpose in such markets, and therefore promotes financial security and market integrity.

Today, Corda is being used around the world by financial market infrastructure providers and banks including London Stock Exchange Group, Swiss Digital Exchange (SDX), Deutsche Bank AG, Euroclear, and NASDAQ. Additionally, 40 participants, including central and commercial banks, are working on the R3 led Central Bank Digital Currency Sandbox.

We submit this letter as a technology provider in financial services to support shortening the securities transaction settlement cycle to T+1 (and beyond) and to share that it is currently possible from a technology perspective. We are available and keen to engage with the Commission further on the proposal and our response.

R3 Responses to Selected Questions

T+1 Settlement Cycle

R3 is supportive of shortening the securities transaction settlement cycle to T+1. We believe that this would be beneficial to market participants and help to mitigate counterparty settlement risk while freeing up the corresponding capital allocated to this post trade process. R3 is confident that the technology to make such a change is sound and ready to be used by market participants without introducing significant burden or operational risk. Below are several questions from the proposal we have answered that we believe illustrate both the benefits of shortening the settlement cycle, and why we believe it can be done in a relatively straightforward manner.

Question: Should the Commission shorten the standard settlement cycle to T+1? Why or why not? What impact would shortening the cycle to T+1 have on cross-border transactions?

Answer: Yes, as a technology company with its roots in financial services with significant experience in the space, we believe the Commission should shorten the standard settlement cycle to T+1 as this would benefit market participants and markets as a whole and is also possible from a technological perspective. The move to T+1 would be following the market's lead. As the SEC notes, the Depository Trust & Clearing Corporation (DTCC) issued a report on moving to T+1 in February 2021, which was followed by formation of two industry groups, the Industry Steering Committee (ISC) and an Industry Working Group (IWG) to develop consensus on a compressed settlement cycle transition, which is summarized in a report issued December 1, 2021. That report is well cited in the proposed rule and strongly supports moving to T+1, enumerating the benefits to the market and market participants. R3 supports that view.

Given the role of the U.S. Dollar in international foreign exchange markets, it is likely that other markets naturally follow and contribute to a systemic settlement risk reduction across the globe.

Question: Are the current technology and processes used by market participants ready to support a T+1 settlement cycle? How many months would market participants need to plan, test, and implement a transition to T+1? What data points would market participants use to assess the timing for planning, testing, and implementation? Are any specific operational or technological issues raised by the proposed compliance date? What is the extent of planning and testing necessary to achieve an orderly transition to a T+1 standard settlement cycle, if adopted?

Answer: From a technology perspective, R3's Corda platform is already supporting atomic settlement for SDX, which is the digital exchange built by Swiss company SIX and regulated by the Swiss Financial Market Supervisory Authority (FINMA). The digital asset exchange and digital central securities depository are now live trading and settling.

Each implementation is bespoke and varies across participants due to integration with their respective legacy systems. The financial industry is well versed in accommodating change and with appropriate prioritization and resourcing, to which R3 would gladly contribute, could adopt the T+1 settlement by or within 60 days of the proposed compliance date of March 31, 2024. It should be noted that some markets already operate T+1 (most notably USDCAD) from which lessons can be drawn.

Question: Would a T+1 settlement cycle impact the levels of liquidity risk as a result of mismatches between settlement cycles for different markets?

Answer: Currently the industry must perform significant amounts of Tom/Next and O/N Swaps for overnight funding. In addition, this swap funding activity is recognized to be largely done outside CLS and other Payment vs Payment solutions, which adds significant systemic settlement risks. With T+1 settlement as the new convention, this activity could drop significantly and therefore reduce this short-term activity significantly. Technology is not the challenge but more so the governance and workflow changes within financial institutions around their funding and assets and liabilities desks. Another point to bear in mind is the potential that technology, specifically DLT, has to reduce mismatches by ensuring "what you see is what I see" between relevant participants is achieved more rapidly, which brings the opportunities for disagreement and dispute earlier in the process.

T+0 Settlement Cycle

T+0 settlement as discussed is technologically in principle possible today, albeit contingent on sufficient time buffers between close of market and start of settlement. R3 supports the assessment of market participants, including the contributors to the ISC and IWG, of the feasibility from practical and commercial perspectives on compressing settlement time down to T+0. That current view is that T+0 does not make sense today. However, we believe that further compression from T+1 should continue to be considered.

The Commission seeks to identify paths to achieving T+0 and, as part of that, to ensure that technology investments to get to T+1 remain useful in moving to T+0. DLT can be used for both transitions. However, to achieve the Commission's goal of having investments to get to T+1 continue to be valuable as compression gets beyond T+1, it is important that the DLT platform itself be chosen carefully. Key attributes of the right DLT are privacy and scalability, both of which R3's Corda platform offers.

Question: Is it possible to shorten the settlement cycle in the U.S. markets to T+0 and retain multilateral netting? If real-time settlement is not possible without eliminating or substantially curtailing multilateral netting activity, please explain. How would the elimination of multilateral netting impact overall levels of market, liquidity and credit risk in the clearance and settlement system and how might such risks be distributed among market participants?

Answer: An end of day multilateral netting remains feasible from a technology perspective even with T+0 settlement.

Question: What would be the impact on market participants (clearing agencies, broker-dealers, buy side participants, retail investors, etc.) of any changes in processes necessary to accommodate T+0? What risks, if any, arise by the compression of the settlement cycle to accommodate T+0, particularly as it relates to market, credit, liquidity, and systemic risk? What are the associated costs of these risks? How might these risks affect the market, trading behaviors, investors (both retail and institutional), and innovation? Is mitigation of these risks feasible, and if so, how? What, if anything, should the Commission do to facilitate T+0, particularly as it relates to the standardization of reference data, the use of standardized industry protocols by broker-dealers, asset managers, and custodians, and the use of matching services?

Answer: An end of day T+0 settlement would still require the same market structure (e.g., central counterparties, broker dealers) as exists today, but would significantly reduce systemic risk and margin, which would allow the industry to redeploy capital faster and therefore promote growth. Real-time T+0 settlement is a different proposition and would require additional investigation in terms of its impact to market structure. In our view, all efforts to standardize data and protocols are desirable as these enable pre and post trade market transparency, promote interoperability and choice.

Conclusion

R3 believes that it would be beneficial for the SEC to shorten the securities transaction settlement cycle to T+1 and supports the SEC's continued exploration of the possibility of shortening the settlement cycle further to T+0. R3 stands ready to support the SEC and market participants in the transition to a compressed settlement time.

Thank you for your consideration of our comments on this proposal. We are available to discuss our views on this issue or other issues should that be helpful. Please contact the undersigned if we can be of further assistance.

Respectfully Submitted,

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