DTCC
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April 11, 2022

VIA ELECTRONIC TRANSMISSION
rule-comments@sec.gov

Ms. Vanessa A. Countryman
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: Proposal to Require Compliance with a T+1 Standard Settlement Cycle (Release Nos. 34-94196, IA-5957; File Number S7-05-22)

Dear Ms. Countryman:

The Depository Trust & Clearing Corporation ("DTCC"),[1] in conjunction with its subsidiaries, The Depository Trust Company ("DTC") and National Securities Clearing Corporation ("NSCC"), appreciates the opportunity to provide comments to the U.S. Securities and Exchange Commission ("Commission") regarding its proposed rules ("Proposal") to facilitate shortening the standard settlement cycle in the U.S. from two business days after the trade date ("T+2") to one business day after the trade date ("T+1").[2] We also welcome the opportunity to provide comments regarding potential pathways to achieving a same-day ("T+0") settlement cycle.[3]

At DTCC, we are continually working to enhance efficiency and reduce risk in post-trade processing, and we recognize the importance of the Proposal to investors and the financial services industry. We therefore applaud the Commission for its support of shortening the standard settlement cycle to T+1. As laid out in the Joint Industry Report on T+1 ("T+1 Report"),[4] and consistent with our own significant efforts

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1 DTCC, through its subsidiaries, is the largest post-trade market infrastructure for the U.S. securities industry and supports clearance and settlement activities in the U.S.

2 Securities Exchange Act Release No. 94196 (February 9, 2022), 87 FR 10436 (February 24, 2022) (S7-05-22) ("Proposing Release").

3 T+0 settlement, in which trades are netted and settled at the end of the same trading day, should not be confused with real-time gross settlement, in which trades are settled instantly.

4 Deloitte, DTCC, ICI & SIFMA, Accelerating the U.S. Securities Settlement Cycle to T+1 (December 1, 2021), available at https://www.sifma.org/wp-content/uploads/2021/12/Accelerating-the-U.S.-Securities-Settlement-Cycle-to-T1-December-1-2021.pdf.

to facilitate the prior move from a T+3 standard settlement cycle to the current T+2 cycle in 2017, DTCC continues to work closely with the industry to explore the benefits of moving to T+1 and to prepare for a smooth transition to T+1. At the same time, we continue to evaluate with our stakeholders ways to continue apace towards T+0 settlement. Indeed, and as explained further below, in our role as the largest post-trade market infrastructure for the U.S. securities industry, DTCC stands ready and able to support a move to a T+1 standard settlement cycle and to advance efforts to further shorten the settlement cycle beyond T+1, including T+0.

Recognizing that the Commission is requesting comment on all aspects of the Proposal, below are thematic responses to the issues and questions in the Proposal regarding the proposed T+1 standard settlement cycle and potential pathways to a T+0 standard settlement cycle.[5]

Introduction

DTCC is the parent company of DTC and NSCC. DTC is the U.S. central securities depository, providing settlement services for virtually all equity, corporate and municipal debt trades and money market instruments in the U.S. NSCC is a registered clearing agency and a central counterparty ("CCP") providing clearing, settlement, risk management, and CCP services for trades involving equities, corporate and municipal debt, exchange-traded funds, and unit investment trusts in the United States. DTC and NSCC have each been designated as a systemically important financial market utility by the U.S. Financial Stability Oversight Council[6] pursuant to Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.[7]

Proposals for T+1

- *DTCC fully supports the move to a T+1 standard settlement cycle because we believe it will deliver significant benefits to the industry and investors by reducing risk, lowering margin requirements, and improving capital liquidity, all while maintaining the resilience and soundness of the U.S. capital markets.*

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5 DTCC's comments to the Proposal's request for comment and related questions covering the same-day affirmation process are addressed in the Letter from Matthew P. Stauffer, DTCC Managing Director and Head of Institutional Trade Processing, to Vanessa A. Countryman, Secretary, U.S. Securities and Exchange Commission, dated April 11, 2022.

6 U.S. Department of the Treasury, Designations, Financial Market Utility Designations, available at https://home.treasury.gov/policy-issues/financial-markets-financial-institutions-and-fiscal-service/fsoc/designations.

7 DTC and NSCC also are registered clearing agencies under the Securities Exchange Act of 1934, as amended, and, as such, are supervised by the Commission. In addition, DTC is a New York Limited Purpose Trust Company and state member bank of the Federal Reserve System and, as such, is subject to supervision and examination by the Federal Reserve Bank of New York under delegated authority from the Board of Governors of the Federal Reserve System and the New York State Department of Financial Services.

Reducing Risk. As set forth in the T+1 Report,[8] and consistent with DTCC's prior comments to the Commission in support of the transition in 2017 from a T+3 standard settlement cycle to T+2,[9] DTCC believes that moving to a T+1 standard settlement cycle will serve to reduce the risk to clearing corporations, their members and investors that is inherent in settling securities transactions. A reduction in the period of time for settlement of most U.S. securities transactions will correspondingly decrease the number of unsettled trades in the national clearance and settlement system at any given time. This reduction in unsettled trades results in fewer unsettled trades that will be subject to market and counterparty risk.

Lowering Margin Requirements. One of NSCC's responsibilities as a CCP that is a registered clearing agency is to calculate and collect margin from its members at the start of each day and intraday to support the members' open, guaranteed clearance and settlement activity. NSCC's margin requirements are a part of its market risk management and designed to mitigate potential losses to NSCC and its members associated with liquidating a member's portfolio in the event that NSCC ceases to act for that member.[10] In this way, NSCC's margin requirements support market stability and protect the marketplace in the event of a member default. However, a move to T+1 would be expected to decrease the market value presented by members' portfolios. Thus, NSCC expects that members should see a reduction in the amount of margin that NSCC would need to collect in a shortened settlement cycle.[11] This is due to a shorter period of time between trade submission and settlement date, which may reduce the period of risk exposure to NSCC, and, as a direct result, decrease the amount of margin NSCC would need to collect from members. While the potential margin reduction would vary based on the characteristics of a member's portfolio and trading activity, NSCC's internal analysis conducted in 2020 suggests that the aggregate volatility component of NSCC's margin calculation could potentially be reduced by 41% by a move to a T+1 settlement cycle.[12]

Improving Capital Efficiencies. While margin is a central risk management tool used by NSCC, in times of market volatility, increased margin demands can create greater liquidity demands on its members because amounts on deposit at NSCC are not available to members for other business purposes.[13] As such, another benefit of moving to a T+1 settlement cycle is to reduce the length of time unsettled positions are subject to NSCC's margin requirements, making assets that would otherwise be on deposit at NSCC available to be

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8 T+1 Report, supra note 4.

9 Letter from Larry E. Thompson, DTCC Vice Chairman & General Counsel, dated December 5, 2016, https://www.sec.gov/comments/s7-22-16/s72216-15.pdf ("Thompson Letter").

10 DTCC White Paper, Building the Settlement System of the Future (September 2021), available at https://www.dtcc.com/dtcc-connection/articles/2021/september/16/building-the-settlement-system-of-the-future.

11 DTCC White Paper, Advancing Together: Leading the Industry to Accelerated Settlement (February 2021), available at https://www.dtcc.com/-/media/Files/PDFs/White%20Paper/DTCC-Accelerated-Settle-WP-2021.pdf.

12 Id.

13 DTCC, Moving to One Day Settlement: A Win for Everyone (February 2022), available at https://www.dtcc.com/dtcc-connection/articles/2022/february/03/moving-to-one-day-settlement-a-win-for-investors-and-the-industry.

redeployed for alternative uses. Further, the increased availability of liquidity resources at member firms has the potential downstream impact of enabling greater access to liquidity for the benefit of members' customers, including those members that provide services to retail investors. In terms of benefits to investors, as the Commission points out in the Proposing Release, a shorter settlement cycle might serve to reduce liquidity risk "by allowing investors to obtain the proceeds of their transactions sooner."[14]

- *DTCC believes that the Commission should choose a date no earlier than May 28, 2024, as the compliance date for the transition to T+1. As was the case in the move from a T+3 settlement cycle to a T+2 settlement cycle, this will provide the industry the collective benefit of a three-day weekend to manage any outstanding operational risk before effectuating this important transition.*

As the Commission rightfully points out in the Proposing Release, "[…] failure to appropriately implement an orderly transition to T+1, if a T+1 standard settlement cycle is adopted, may heighten certain operational risks for the U.S. securities markets."[15] Based on DTCC's successful experience in working jointly with the industry and the Commission on the transition from T+3 to T+2, we strongly recommend that the proposed compliance date of March 31, 2024 be moved to a day following a three-day weekend in the second quarter of 2024.

Following the Commission's 2016 proposal to shorten the standard settlement cycle from T+3 to T+2, the industry identified September 5, 2017 (the Tuesday following the Labor Day holiday) as the least disruptive migration date for a move to a shorter settlement cycle. As we noted in our comments to the Commission's T+2 proposal,[16] that date had the added benefit of following a three-day holiday weekend, which allowed industry members an additional day to migrate and test systems and procedural changes. The result was a smooth and collective industry launch of the T+2 standard settlement cycle.

We believe that the same overall rationale and approach applied in the T+3 to T+2 transition should apply for a move to T+1, and therefore our recommendation is that the compliance date be moved to no earlier than May 28, 2024 (the Tuesday following the 2024 Memorial Day holiday). This date is only two months after the date the Commission has initially proposed, and DTCC believes that allowing this limited extension would serve to address the Commission's policy goals of realizing the risk reduction and other benefits of T+1 as soon as possible,[17] while also affording industry members and other market participants enough time to implement an orderly transition that minimizes any outstanding operational risk related to launching a T+1 standard settlement cycle.[18]

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[14] Proposing Release, supra note 2, at 175.

[15] Proposing Release, supra note 2, at 108.

[16] Thompson Letter, supra note 11.

[17] Proposing Release, supra note 2, at 108.

[18] In the event the alternative date of May 28, 2024, is not workable for market participants, DTCC remains open to other possible dates in 2024, so long as, for the reasons we have explained, the transition occurs over an extended weekend.

Pathways to T+0

- *While the industry should continue to aspire to and embrace opportunities that provide for T+0 settlement, DTCC believes that it is pragmatic to reduce the standard settlement cycle in stages.*

As reflected in the T+1 Report, DTCC has worked extensively with industry members and stakeholders to evaluate the benefits of moving to a T+1 or T+0 standard settlement cycle.[19] Through this engagement with the industry and DTCC's own internal assessment, we believe the industry is prepared to move to T+1, which, as described herein, can be achieved in a reasonable period that maintains a strong focus on risk management while reducing NSCC's margin requirements.

However, from conversations with our members and other stakeholders, and based on our own internal analysis, implementing T+0 as the required standard settlement cycle across the industry remains a significant undertaking that would require foundational changes to the way securities trade and settle today. Moreover, moving the entire industry to a T+0 standard settlement cycle would necessitate significant changes in industry conventions and major investments in automating processes and technology that will greatly exceed similar investments needed for T+1.

Our view is that an actual transition to a T+0 standard settlement cycle is not a function of whether one particular market infrastructure or participant (or group of market infrastructures or participants) is ready. Rather, such a transition depends on the ability of the entirety of the U.S. securities markets, and interconnected global markets, to make an orderly and coordinated transition. Thus, we believe that the most prudent next step is for the industry to proceed with full implementation of the move to T+1. Once the industry has established the full scope of work for T+1 and is actively progressing towards implementation, we believe the industry should conduct a full review to identify the scope of changes that are needed to effectuate a move to a T+0 standard settlement cycle. We recommend that such review consider, among other things, the varied costs of moving to T+0 for different types of industry stakeholders and their respective client bases. The scoping analysis could also benefit from a review of the comments submitted in response to the Proposal's questions regarding potential implementation of a T+0 standard settlement cycle, which may inform the creation of a framework for this and other potential next steps by industry participants and regulators alike. We look forward to working with the industry to address and solve for the issues that are identified.

In terms of other actions towards accomplishing acceleration of the settlement cycle, DTCC appreciates the points made by the Commission in the Proposing Release regarding the importance of accomplishing full dematerialization of physical certificates and how the benefits of doing so would assist in facilitating the industry's move to T+0 settlement.[20] We welcome any further near-term policy initiatives in this area. DTCC firmly believes that in order for investors and all market participants to fully benefit from a T+1 or T+0 settlement cycle, a streamlined process for the transfer of securities into DTC for settlement is critical. Through its longstanding dematerialization initiatives, DTCC is ready to support the industry in this respect with the DTC FAST program, the Direct Registration Program (DRS), e-CDS, and other new DTCC

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[19] T+1 Report, supra note 4.

[20] Proposing Release, supra note 2, at 145.

dematerialization platforms in development. DTC continues to progress with industry stakeholders on dematerialization.

We also would like to emphasize that, although we do not believe the industry is currently ready to move to a T+0 standard settlement cycle for the reasons given above, at present and going forward DTCC can and will continue to support an optional T+0 settlement process for those market participants that would like to use such a solution. As we have noted elsewhere, NSCC and DTC already have the operational capability, and offer members the optionality, to clear and settle transactions same day, on T+0 with existing technology.[21] DTC currently processes over 1 million daily same-day transactions, with many settling almost instantly. As such, we continue to make same-day trade processing and settlement available to members on a voluntary basis. We also are supportive of efforts by others in the industry to explore ways to facilitate greater availability of a T+0 settlement environment, such as the recent initiative by BSTX LLC to bring automation and liquidity to firms that want to voluntarily opt-in to a shorter settlement cycle, including T+0 settlement.[22]

Further, in anticipation that the market structure will continue to evolve and aligned with DTCC's ongoing efforts to add efficiency to the settlement cycle, DTCC is working with the industry to explore a netted T+0 end-of-day settlement cycle as part of its modernization of its core clearing and settlement services. Modernization could include greater clearance and settlement functionality leveraging distributed ledger technology and other modernized technologies (e.g., API, data warehouse and machine learning), and improved access to data, analytics and models. The modernized platforms would be capable of supporting a range of settlement cycles, including T+2, T+1, T+0, providing the flexibility to meet the needs and settlement timelines of various market participants. Multiple DTCC clients participated in workshops and provided feedback to DTCC, and we are working on the next steps to build out a production ready workflow and a roadmap for industry integration.

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DTCC appreciates this opportunity to comment on the merits of shortening the standard settlement cycle to T+1 and on potential pathways to T+0 settlement and your consideration of the views expressed in this letter. We look forward to continuing to engage with our members, the Commission, and the broader industry on this important initiative. We welcome the opportunity to further discuss any of these comments with you at your convenience. If you have any questions or need further information, please contact me at mpozmanter@dtcc.com.

Sincerely,

Murray Pozmanter

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[21] DTCC, Ask the Expert: Same Day, Every Day-How Same Day Settlement Works at DTCC (April 19, 2021), available at https://www.dtcc.com/dtcc-connection/articles/2021/april/19/ask-the-expert-same-day-every-day-how-same-day-settlement-works-at-dtcc.

[22] Securities Exchange Act Release No. 94092 (January 27, 2022) 87 FR 5881 (February 2, 2022) (SR-BOX-2021-06).