April 11, 2022

Via Electronic Submission

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

Re: Shortening the Securities Transaction Settlement Cycle (SEC Rel. Nos. 34-94196, IA-5957; File No. S7-05-22)

Dear Ms. Countryman:

The Investment Adviser Association[1] (**IAA**) appreciates the opportunity to comment on the Commission's recent proposal to shorten the standard settlement cycle for most broker-dealer transactions from two business days after the trade date ("T+2") to one business day after the trade date ("T+1") (**Proposal**).[2]

The IAA commends the Commission for and is generally supportive of its thoughtful Proposal. We agree with the Commission that these amendments can reduce the credit, market, and liquidity risks in securities transactions faced by market participants and U.S. investors and that the amendments can provide capital and operational efficiencies, including long-term reduction in costs for market participants and U.S. investors.

We offer several recommendations that we believe will better balance the Commission's desire for information with the technical and operational realities of how investment advisers engage in securities trading and obtain and retain trading information. As the Commission considers the proposed changes, we urge it to balance the benefits of any new requirements against investment advisers' business and compliance costs and consider potentially less burdensome ways to meet its regulatory objectives. We also ask the Commission to examine the

[1] The IAA is the leading organization dedicated to advancing the interests of investment advisers. For more than 80 years, the IAA has been advocating for advisers before Congress and U.S. and global regulators, promoting best practices and providing education and resources to empower advisers to effectively serve their clients, the capital markets, and the U.S. economy. The IAA's member firms manage more than $35 trillion in assets for a wide variety of individual and institutional clients, including pension plans, trusts, mutual funds, private funds, endowments, foundations, and corporations. For more information, please visit www.investmentadviser.org.

[2] *Shortening the Securities Transaction Settlement Cycle*, SEC Rel. Nos. 94196, IA-5957 (Feb. 9, 2022), 87 Fed. Reg. 10436 (Feb. 24, 2022), available at https://www.govinfo.gov/content/pkg/FR-2022-02-24/pdf/2022-03143.pdf. The IAA is only commenting in this letter on the Proposal as it relates to investment advisers.

impact the Proposal will have on small and mid-sized firms, which make up the vast majority of SEC-registered investment advisers.[3]

The IAA also recommends that the Commission consider the impact of statements in the Proposal relating to the Commission's goal to shorten the settlement cycle further by achieving a same-day settlement cycle ("T+0"). We believe it is more pragmatic to reduce the settlement cycle in stages to ensure that the U.S. and global markets can adequately adapt market practices incrementally using lessons learned from the move to T+1 in order to implement the most robust and investor protective practices. We strongly believe that the Commission should not take steps to mandate shortening the settlement cycle from a new T+1 requirement to T+0 until the new rules implementing T+1 settlement are fully implemented and sufficient time has elapsed to enable market participants and the Commission to analyze data and identify potential operational solutions that may remain after the move to T+1.

Specifically, we recommend that the Commission:

- Allow investment advisers that are parties to agreements under Proposed Rule 15c6-2 under the Securities Exchange Act of 1934 (**Exchange Act**) to rely on compliance by third parties to meet obligations for allocations and affirmations;

- Allow these investment advisers to rely on third parties to satisfy compliance with the proposed recordkeeping obligations under the Advisers Act;

- Coordinate and engage with global regulators and market participants when overseeing the T+1 settlement cycle in order to minimize disruptions;

- Set the T+1 settlement cycle compliance date for May 28, 2024; and

- Require Commission staff to provide a T+0 report to the Commission within two years of the compliance date of T+1 implementation.

We discuss our recommendations below.

We are submitting our comments within the 30-day deadline following publication in the *Federal Register* set by the Commission for this Proposal. However, we are concerned that this

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[3] *See IAA-NRS Investment Adviser Industry Snapshot 2021* (July 2021), available at https://higherlogicdownload.s3.amazonaws.com/INVESTMENTADVISER/aa03843e-7981-46b2-aa49-c572f2ddb7e8/UploadedImages/publications/industry-snapshots/Investment_Adviser_Industry_Snapshot_2021.pdf. (The median number of non-clerical employees of SEC-registered investment advisers was eight at the end of 2020, with 58 percent of SEC-registered advisers having fewer than 10 non-clerical employees and 87.9 percent having fewer than 50 non-clerical employees.).

exceedingly short comment period is inadequate to provide stakeholders with an appropriate amount of time in which to evaluate and comment thoroughly on the Proposal.[4]

I. Agreements Should Allow for Third-Party Allocations and Affirmations

The IAA requests that the Commission confirm that third parties such as custodians may conduct allocations and affirmations under Rule 15c6-2 agreements with investment advisers. The Proposal requires that where parties have agreed to engage in an allocation, confirmation, or affirmation process, broker-dealers would be prohibited from entering into agreements with their institutional customers (including investment advisers) unless the agreement requires allocations, confirmations, and affirmations to be completed by no later than the end of the day on trade date.[5]

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[4] We note that the Proposal is one of several concurrent rule proposals, many of which are interrelated, that, if adopted, will have an enormous effect on investment advisers, investors, the markets, and the U.S. financial system as a whole. Each of these proposals, standing alone, is complex and potentially consequential, with the accompanying releases asking a very large number of questions and seeking a very large amount of data. Given the significant amendments proposed, we continue to be concerned that the very short comment period – for this and all the other proposals – is insufficient for us and other commenters to provide comprehensive and sufficiently thorough responses, including proposing thoughtful alternatives that would better achieve the Commission's stated objectives. *See* IAA and Joint Trade Associations Letter re: Importance of Appropriate Length of Comment Periods (Apr. 5, 2022), available at https://investmentadviser.org/resources/iaa-and-trade-associations-urge-sec-to-lengthen-short-comment-periods/ and IAA and Joint Trade Associations' Letter Requesting Extension of Comment Period for Private Fund, Form PF Proposals (Mar. 1, 2022), available at https://investmentadviser.org/wp-content/uploads/2022/03/Extension-Request-File-Nos.-S7-03-22-S7-01-22.pdf.

Some of the other significant rule proposals concurrently or very recently out for comment are: *Amendments to Form PF To Require Current Reporting and Amend Reporting Requirements for Large Private Equity Advisers and Large Liquidity Fund Advisers*, 87 Fed. Reg. 9106, 9114 (Feb. 17, 2022), available at https://www.govinfo.gov/content/pkg/FR-2022-02-17/pdf/2022-01976.pdf, *Private Fund Advisers; Documentation of Registered Investment Adviser Compliance Reviews*, 87 Fed. Reg. 16886 (Mar. 24, 2022), available at https://www.govinfo.gov/content/pkg/FR-2022-03-24/pdf/2022-03212.pdf, *Cybersecurity Risk Management for Investment Advisers, Registered Investment Companies, and Business Development Companies*, 87 Fed. Reg. 13524 (Mar. 9, 2022), available at https://www.govinfo.gov/content/pkg/FR-2022-03-09/pdf/2022-03145.pdf (**Adviser Cybersecurity Proposal**), *Modernization of Beneficial Ownership Reporting*, 87 Fed. Reg. 13846 (Mar. 10, 2022), available at https://www.govinfo.gov/content/pkg/FR-2022-03-10/pdf/2022-03222.pdf, *Short Position and Short Activity Reporting by Institutional Investment Managers; Notice of Proposed Amendments to the National Market System Plan Governing the Consolidated Audit Trail for Purposes of Short Sale-related Data Collection*, 87 Fed. Reg. 14950 (Mar. 16, 2022), available at https://www.govinfo.gov/content/pkg/FR-2022-03-16/pdf/2022-04670.pdf, *Money Market Fund Reforms*, 87 Fed. Reg. 7248 (Feb. 8, 2022), available at https://www.govinfo.gov/content/pkg/FR-2022-02-08/pdf/2021-27532.pdf, *The Enhancement and Standardization of Climate-Related Disclosures for Investors*, 87 Fed. Reg. 21334 (Apr. 11, 2022), available at https://www.govinfo.gov/content/pkg/FR-2022-04-11/pdf/2022-06342.pdf, *Further Definition of "As a Part of a Regular Business" in the Definition of Dealer and Government Securities Dealer*, Release No. 34-94524 (Mar. 28, 2022), available at https://www.sec.gov/rules/proposed/2022/34-94524.pdf, and *Special Purpose Acquisition Companies, Shell Companies, and Projections*, Rel. Nos. 33-11048; 34-94546; IC-34549 (Mar. 30, 2022), available at https://www.sec.gov/rules/proposed/2022/33-11048.pdf.

[5] 87 Fed. Reg. at 10436.

The Commission notes that while investment advisers may perform affirmations, in many instances this may not be the case, and instead these may be performed on the investment adviser's behalf by a third party, such as a middle-office outsourcing provider, a custodian, or a prime broker. Indeed, 70 percent of investment adviser trades are affirmed by their custodian.[6] This is consistent with information we have received from IAA members. IAA members also have varied trade allocation processes, including through the use of internal systems or through portfolio management systems and order management systems (collectively **OMS**) and automated trade allocations subject to portfolio compliance requirements and model-based trade allocations. Investment advisers may also utilize separately managed accounts where trading and allocations are conducted by a third-party investment manager under an agreement with the investment adviser.

The current language in the Proposal is not clear on whether affirmations and allocations could continue to be performed by an OMS, sub-adviser, or custodian on the investment adviser's behalf. The Proposal is silent on whether an investment adviser may utilize a third party to meet the requirements under the agreement. This is important for investment advisers that rely on third parties such as an OMS, sub-adviser, or custodian to allocate or affirm some trades.

II. Investment Advisers Should be Allowed to Rely on Third Parties for Recordkeeping

The Commission proposes to amend Rule 204-2 under the Investment Advisers Act of 1940 (**Advisers Act**) by adding a requirement in paragraph (a)(7)(iii) that, if the investment adviser is a party to a contract under proposed Rule 15c6-2, the investment adviser must maintain records of each confirmation received, and any allocation and each affirmation sent, with a date and time stamp for each allocation (if applicable) and affirmation that indicates when the allocation or affirmation was sent to the broker or dealer.[7] As with other records required under Rule 204-2(a)(7), investment advisers would be required to keep originals of confirmations, and copies of allocations and affirmations described in the proposed rule, but would be permitted to maintain records electronically if they satisfy certain conditions.[8]

The IAA understands that the Commission intends for the recordkeeping requirement to help investment advisers establish that they have met contractual obligations under proposed Rule 15c6-2 on a timely basis. The Commission also believes that this requirement would ultimately help ensure that trades involving investment advisers timely settle on T+1.[9] In

[6] 87 Fed. Reg. at 10457.

[7] 87 Fed. Reg. at 10456.

[8] *Id.*

[9] 87 Fed. Reg. at 10453, n.159. ("In an effort to also encourage investment advisers to ensure that their own operations and procedures for institutional trade processing can accommodate T+1 or shorter settlement timeframes,

addition, the Commission believes that the proposed requirement would aid Commission staff in preparing for examinations of investment advisers and assessing compliance.

The IAA supports these goals, but we do not believe that investment advisers need to obtain and maintain these records themselves on an ongoing basis to meet the Commission's objectives. As an alternative, investment advisers should be able to rely upon third parties to meet this requirement, and the Commission should confirm this in the adopting release. This approach would align with the Commission's previously-stated belief that investment advisers have flexibility to make business decisions about recordkeeping and, when appropriate, utilize electronic storage with potential cost savings and other benefits.[10] The Commission has provided no-action guidance that "an investment adviser may delegate certain record creation and retention responsibilities to a third party"[11] and that "if an adviser has essentially immediate access to a record (on the adviser's proprietary system or otherwise) through a computer located at an appropriate office of the adviser, then that record is being maintained 'at an appropriate office of the adviser'" as required by the Advisers Act.[12]

The Commission has also previously made specific allowances for investment advisers to utilize third-party service providers to retain certain trading records. In an August 14, 2009, no-action letter, the Commission did not recommend enforcement action against investment advisers that permitted Omgeo, a provider of post-trade efficiency applications, to maintain and preserve trade confirmations on behalf of investment advisers that participated in its TradeSuite service in satisfaction of Advisers Act recordkeeping rules.[13]

The IAA notes that the Commission has also taken this view with other market participants – for example, under the Investment Company Act of 1940, required records of investment companies are allowed to be maintained by a third-party recordkeeper for the required records of investment companies.[14] Allowing investment advisers to rely on third parties for recordkeeping would also reduce cybersecurity risk and align with the goals of the

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in Part III.C the Commission proposes an amendment to an existing recordkeeping rule for registered investment advisers.").

[10] *See Electronic Recordkeeping by Investment Companies and Investment Advisers*, SEC Rel. Nos. IC-24991 and IA-1945 (May 30, 2001), 66 Fed. Reg. 29224, 29227 (May 30, 2001), available at https://www.govinfo.gov/content/pkg/FR-2001-05-30/pdf/01-13526.pdf.

[11] OMGEO, LLC, SEC Staff No-Action Letter (Aug. 14, 2009), n.3, available at https://www.sec.gov/divisions/investment/noaction/2009/omgeo081409.htm (citing First Call and National Regulatory Services, SEC Staff No-Action Letter (Dec. 2, 1992)).

[12] First Call Corporation, SEC Staff No-Action Letter (Sep. 6, 1995), available at https://www.sec.gov/divisions/investment/noaction/1995/firstcall090695.pdf.

[13] OMGEO, LLC, SEC Staff No-Action Letter, *supra* note 11. Omgeo's TradeSuite service electronically transmitted trade confirmations to investment advisers on behalf of broker-dealers that effected transactions for advisory clients of such investment advisers.

[14] 17 C.F.R. § 270.31a-3 (2021). The recordkeeping obligation is met if the third party agrees in writing to make any records available upon request and to preserve for the periods prescribed under the Investment Company Act.

Commission's recent cybersecurity proposal.[15] Reducing the frequency and quantity of information transferred between the investment adviser and any third party creating and retaining the record can significantly decrease the probability of a cybersecurity incident occurring.[16]

We request that the Commission codify its previous guidance and allow investment advisers to rely on third parties, including custodians and OMS (or similar systems),[17] to meet the investment adviser's recordkeeping obligations. We believe that this would allow the Commission to meet its stated goals of ensuring that trades involving investment advisers would timely settle on a T+1 basis and aiding Commission staff in preparing for examinations of investment advisers and assessing compliance.

As provided in the previous no-action guidance and to meet the Commission's stated goals, the Commission could require the investment adviser ensures that the third party:

- Stores the electronic copies of the trading records for a period of no less than five years from the end of the fiscal year during which the last entry was made.
- Allows investment advisers to access the trading records through computers located at the investment adviser's office at any time during the retention period specified in the Advisers Act recordkeeping rules.
- Makes arrangements reasonably acceptable to the Commission or its staff to ensure the continued availability of documents for regulatory purposes during the remainder of the applicable recordkeeping period in the event that the third party ceases operations.
- Has internal systems for making and keeping trading records on behalf of investment advisers that meet the requirements of Rule 204-2(g) under the Advisers Act.

The IAA notes that allowance for the use of third parties would in no way reduce the investment adviser's obligations under the Advisers Act. Investment advisers would need to have policies and procedures reasonably designed to ensure that the records are being maintained properly and that they can access the records within the regulatory proscribed time period. This would include engaging in an appropriate level of due diligence of the third party to ensure compliance with the stated conditions.

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[15] *See* Adviser Cybersecurity Proposal.

[16] *Id.* Investment advisers should, as part of their cybersecurity compliance programs, consider cybersecurity risks presented by the use of service providers that provide trade order management systems that allow the investment adviser to automate all or some of the investment adviser's trading.

[17] The Commission should not limit in the text of the rule the types of third parties on which an investment adviser can rely to allow the provision to remain evergreen.

The IAA is concerned that the Commission has underestimated the time and cost burdens for implementing the proposed recordkeeping requirements. The Commission believes that investment advisers generally have recordkeeping processes that include keeping originals and/or electronic copies of allocations, confirmations, and affirmations. On the contrary, as explained above, most investment advisers use third parties to perform or communicate allocations or affirmations and do not necessarily currently maintain the records. Thus, if investment advisers, which rely on third parties, are required to obtain and maintain those records on an ongoing basis, they are likely to incur costs associated with directing the third parties to electronically copy the investment adviser on any allocations or affirmations and to ensure that their own systems can adequately accommodate these additional records.[18]

The Commission's economic analysis notes that investment advisers that do not currently maintain the proposed trading records would incur an initial burden of two hours per adviser, to update procedures and instruct personnel to retain the proposed required records in the investment advisers' electronic recordkeeping systems.[19] According to the Proposal, investment advisers whose trades are affirmed by their custodians would incur an initial burden of two hours to (i) direct the custodians to electronically copy the investment adviser on any affirmations sent to the broker via email, or (ii) use the investment adviser's systems to issue affirmations.[20]

In addition to the unrealistically low staffing costs suggested by the Commission, investment advisers, especially smaller and mid-sized investment advisers, will incur costs to update their infrastructure not only to obtain and maintain the proposed trading records – which, as noted above, most advisers do not currently do – but to do so efficiently and securely. Depending on an investment adviser's trading volume, the updated infrastructure would need to support thousands (likely tens of thousands) of additional records. We also note that there will be ongoing costs and updating of systems if new service providers and/or custodians are engaged. Accordingly, we recommend that the Commission update its unrealistic assessment of initial, ongoing, and annual compliance costs in the economic analysis and also request that the Commission review the potential cost savings from allowing investment advisers to utilize third parties to maintain required records under the Proposal.

III. The Commission Should Further Coordinate and Engage its Global Partners and Market Participants When Implementing T+1 Settlement to Minimize Disruption

The foreign exchange (FX) market supports currency exchange needs involved in the purchase and sale of U.S. securities in the global capital markets. FX market participants engage in currency exchange transactions across many different jurisdictions and time zones, and many international markets will remain at T+2 with no current announced plans to accelerate the

[18] 87 Fed. Reg. at 10457.

[19] 87 Fed. Reg. at 10494.

[20] *Id.*

settlement cycle. As the Commission considers how best to move from T+2 to T+1, it is important that it more thoroughly evaluate the implications of T+1 settlement on the FX markets. While the Proposal very briefly discusses the potential mismatches of settlement cycles in light of these differences in settlement timeframes, in our view the Commission does not sufficiently acknowledge how the move to T+1 raises greater time zone challenges than did the move to T+2, and how it is likely to create a significant misalignment scenario for the United States.

Currently, spot FX transactions typically settle via the exchange of two payments in two different currencies on T+2. In certain situations, a spot FX transaction is executed by the buyer of a security denominated and sold in a currency different than the purchaser's local currency to obtain the requisite currency needed to purchase the security. Some currency pairs are more difficult to trade for T+1 settlement. For example, for investors in countries such as Australia, there will be tight cut-off times to ensure settlement of the currency trade. This might necessitate FX being traded through the client's custodian bank. If the custodian's operations team is based outside of Australia in its home country, this may also increase the risk of failed trades.

The IAA recommends that, as the Commission considers both adoption and implementation of the new settlement cycle, it engage more fully with its partners, including the Federal Reserve, global Central Banks, global market infrastructure providers, and vendors to address how the proposed changes will affect this market and how best to minimize disruption. We also recommend that the Commission engage with global FX market participants – particularly non-U.S.-based investors located in different time zones – to better understand the potential impacts on them of the move to T+1.

IV. The T+1 Compliance Date Should be Delayed Until May 28, 2024

The IAA requests that the date for complying with T+1 be delayed from the proposed date of March 31, 2024 to May 28, 2024. In IAA members' experiences, it is helpful for significant operational and technological changes to occur over a long weekend to allow relevant parties to complete and test changes to their systems outside of active trading days. Due to Memorial Day, the markets will be closed on May 27, 2024, and starting compliance on May 28, 2024 would allow firms an important additional day to finalize testing and changes before the markets open that day, making disruptions less likely.

V. The Commission Staff Should Study and Report on the Impacts of a Move to T+1 Before the Commission Moves to T+0

While the Commission is proposing rules to shorten the standard settlement cycle to T+1, the Commission states its belief that now is the time to begin identifying potential paths to achieving T+0 and is actively assessing the benefits and costs associated with accelerating the standard settlement cycle to T+0.[21] In addition to soliciting comment on the move to T+1, the Commission also solicits comment on potential approaches to overcoming the operational and

[21] 87 Fed. Reg. at 10465.

other barriers identified by market participants for shortening the standard settlement cycle beyond T+1.[22] The Commission notes that the transition to a T+1 settlement cycle can be a useful step in identifying potential paths to T+0.[23]

The IAA is concerned with the Commission's implicit position that the move to a T+1 settlement cycle is only an intermediate step to chart a path to T+0. This position is illustrated by the fact that approximately 44 percent of the Commission's questions relate to how the industry can move toward a T+0 settlement cycle.[24] The Commission seeks comment on what the impact would be on market participants (clearing agencies, broker-dealers, buy side participants, retail investors, etc.) of any changes in processes necessary to accommodate T+0. It is simply impossible to know at this point without having the benefit and experience of moving to T+1 first. Thus, we urge the Commission to recognize that moving to a T+0 settlement cycle would require a wholesale transformation of the current settlement infrastructure, changes to business models, revisions to industry-wide regulatory frameworks, and the implementation of real-time currency movements.

For the reasons discussed below, many of which are also noted in a December 2021 industry report that was provided to the Commission,[25] we strongly believe that the Commission should not consider any regulatory action to mandate a move to a T+0 settlement cycle until at least two years after the compliance date of a move to T+1.

a. Review of Implementation of T+1

The Commission should not consider moving to a T+0 settlement cycle until the T+1 settlement cycle has been implemented for at least two years and the Commission has had adequate time to gather and analyze data from all stakeholders involved in the transition. In the meantime, current and new technologies can be developed and tested and operational and legal challenges can be identified as part of mapping out a move to a T+0 settlement for various investment products. Moving more deliberately would allow the Commission to avoid any potential pitfalls of rushing to T+0 before fully understanding how T+1 has been implemented and is operating in the real world.

The Commission can look to the process it used during its 2017 amendment to the securities settlement cycle, when it reduced the settlement cycle from T+3 to T+2.[26] In the

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[22] *Id.*

[23] *Id.*

[24] Proposal Questions 73-141.

[25] *See* Deloitte, DTCC, ICI, & SIFMA, *Accelerating the U.S. Securities Settlement Cycle to T+1* (Dec. 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.

[26] *See Securities Transaction Settlement Cycle*, SEC Rel. No. 80295 (Mar. 22, 2017), 82 Fed. Reg. 15564 (Mar. 29, 2017), available at https://www.govinfo.gov/content/pkg/FR-2017-03-29/pdf/2017-06037.pdf.

adopting release, as with the Proposal, the Commission requested comment on whether additional reductions in the settlement cycle could be achieved.[27] Importantly, however, instead of providing recommendations to shorten the cycle further in the final rule, the Commission directed the staff to submit a report to the Commission no later than three years from the T+2 compliance date analyzing the impact of a T+2 settlement cycle on market participants and the potential impacts of moving to an even shorter settlement cycle.[28]

To meet the Commission's goals of identifying challenges or necessary building blocks associated with implementing T+0, the Commission should require the staff to provide a T+0 report to the Commission within two years after the compliance date of T+1 implementation. The report could include, for example, an analysis of the impact of a T+1 settlement cycle on market participants, cross-market impacts (including international developments) related to the shortening of the settlement cycle to T+1, the potential impacts associated with movement to T+0 (*e.g.*, legal and contractual impacts), and the identification of technological and operational improvements that could be used to facilitate a movement to T+0.

b. Global Settlement

As discussed above, foreign and U.S. counterparties trading in non-U.S. jurisdictions and investment vehicles with foreign securities exposure will likely experience increased risk from a move to T+1, given the asynchronous timing of open market hours and different settlement cycles across jurisdictions. However, a move to T+0 would be even more disruptive. The Commission itself notes that "[w]hether shortening the standard settlement cycle for securities transactions in the U.S. to T+0 would in fact result in mismatched settlement cycles vis-à-vis major foreign securities markets, or the settlement cycle for FX transactions, may depend on future developments that are unknown at this time."[29] We agree and urge the Commission not to initiate a rulemaking to implement T+0 until more data has been obtained and analysis performed on the implementation of T+1.

c. Foundational and Market Structure Risks

The move to T+0 would resonate well beyond and impact the larger U.S. financial system far more broadly than the move to T+1. The securities settlement system is complex and contains many interdependencies. For example, a move to T+0 would require changes to the Federal Reserve's payment systems[30] and changes to the securities netting[31] processes, among other

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[27] 82 Fed. Reg. at 15582.

[28] *Id.*

[29] 87 Fed. Reg. at 10474.

[30] 87 Fed. Reg. at 10469. To achieve final settlement on settlement date, the Depository Trust and Clearing Corporation (**DTCC**) and its clearing agency participants rely on access to two systems operated by the Federal Reserve Board, the National Settlement Service, and Fedwire.

[31] *Id.*

things. The Commission acknowledges this in the Proposal, stating that "a transition from T+1 settlement to real-time settlement could not be achieved without substantial and significant changes to fundamental elements of market structure and infrastructure."[32]

The IAA is concerned that shortening the settlement cycle to T+0 too quickly may embed more risk, much of it as yet unknown, without creating sufficient additional benefits to justify that risk. As noted above, we encourage the Commission to undertake a holistic review of the settlement structure following implementation of T+1[33] and engage its partners in the Financial Stability Oversight Council (FSOC) when appropriate.

d. Cybersecurity Risks

We also have serious concerns that T+0 would impact investment advisers' compliance efforts to identify and address cybersecurity incidents or fraud. As securities and cash are exchanged, firms undertake standard validations and controls and the risk of doing so on a compressed timeframe may not allow for proper vetting and safeguards. For example, many investment advisers use service providers that provide OMSs that allow the investment adviser to automate all or some of the investment adviser's trading. Investment advisers need to consider cybersecurity risks presented by these services, which may be increased in a real-time securities settlement cycle. We encourage the Commission to include cybersecurity risks in its review of the impact of moving to a T+0 settlement cycle.

e. Burden Disproportionally Borne by Small and Mid-Sized Firms

The burden of adoption of new technologies to allow for T+0 settlement would be disproportionately borne by small and medium-sized firms that are reliant on manual processing or legacy systems and may lack the financial and technical resources to modernize their operational infrastructure so rapidly. Investment advisers that are unable to make the investment or lack the scale to compete in such an environment would be put at a severe competitive disadvantage and these costs would create a substantial barrier to entry for new investment advisers. As noted above, small and mid-sized firms make up the vast majority of SEC-registered investment advisers.[34] We urge the Commission to analyze the potential impact on small and mid-sized advisers in its staff report based on the experience with the move to T+1 and prior to any potential rule proposal to shorten the settlement cycle further to T+0.[35]

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[32] 87 Fed. Reg. at 10467.

[33] We are concerned that the responses to the Commission's many questions on T+0 are being provided in a vacuum. Without the benefit of being able to evaluate T+1 implementation and its effects, the utility of these responses is too limited to provide the basis for the Commission to move forward on T+0.

[34] *See IAA-NRS Investment Adviser Industry Snapshot 2021*, *supra* note 3.

[35] We call on the Commission not only to carefully assess the costs of this Proposal on smaller investment advisers, but periodically and holistically to study the cumulative impacts of regulation on these firms. We agree with the observations of the SEC's Asset Management Advisory Committee (**AMAC)** that "[t]he growth of fixed costs for

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We appreciate the Commission's consideration of our comments on this important Proposal. Please do not hesitate to contact the undersigned or IAA Associate General Counsel William Nelson at (202) 293-4222 if we can be of further assistance.

Respectfully Submitted,

/s/ Gail C. Bernstein

Gail C. Bernstein
General Counsel

cc: The Honorable Gary Gensler, Chair
The Honorable Hester M. Peirce, Commissioner
The Honorable Allison Herren Lee, Commissioner
The Honorable Caroline A. Crenshaw, Commissioner
William Birdthistle, Director, Division of Investment Management
Renee Jones, Director, Division of Corporation Finance

small investment advisers and small funds (including those representing barriers to entry) persists in an environment where fee compression is also ever-present. Both the revenue side and the expense side of the balance sheet are 'closing in' on small firms. The cumulative costs of regulatory compliance efforts for small firms is a budget item that represents a growing fixed cost (in hard dollars) and is also growing as a percentage of both operating costs and revenue (growing year-over-year)." *See Final Report and Recommendations for Small Advisers and Funds*, AMAC (Nov. 3, 2021), available at https://www.sec.gov/files/final-recommendations-amac-sec-small-advisers-and-funds-110321.pdf.