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

November 17, 2022

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

Dear Ms Countryman,

We appreciate the opportunity to provide comments on the Securities and Exchange Commission ("Commission") proposed rules 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").)

We support the Commission's goal of protecting investors, reducing risk and increasing operational efficiency by minimizing the time it takes for securities transactions to settle. 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 for the FX markets. While the Proposal briefly discusses the potential mismatches of settlement cycles, in our view it does not sufficiently acknowledge or address the greater challenges and misalignment scenarios that the move to T+1 will create for U.S. markets and market participants than did the previous move to T+2.

Our primary concern is that there may not be sufficient time for investment advisers to match foreign currency amounts to settle all trades on T+1. The equity market closes at 4pm after which time, trades need to be matched and any resultant FX tickets raised and executed. One of the main issues is the lack of time between the closure of the equity market to when US based FX trading desks close for the evening (usually an hour or so later). Banks may reassure clients that Far East trading desks seamlessly take over the trading yet in practise this argument does not always stand up, for four very valid reasons:

(i) Trading in Asia will be for the following days trade date which means it needs to settle T+0. The cut-off for T+0 is mid-morning Singapore time, potentially creating liquidity issues. It will also mean all trades settle outside of Continually Linked Settlement (CLS) and therefore implies a marginally higher counterparty risk.

(ii) On a Friday evening, US FX desks currently close earlier, not much after 4pm when equity markets also close. This means all trading will either need to be prefunded into USD, which is impractical, or traded in Asian hours on the Monday on a T+0 basis.

(iii) If there is a market holiday in the Investor's base currency then, in our opinion, it will currently be impossible to settle the FX T+1 or indeed T+0 so the equity trade will fail and need to be funded by the broker. The other issue leading to inevitable trade fails is if there is a market holiday in the other leg of the currency pair. For instance, if trading Australian Dollar to US Dollar, if there is an Australian public holiday the next working day, there is no possible way to ensure USD is available to settle a purchase of US securities. Speaking to market participants, it seems blockchain settlement of FX is still some years away. We are concerned that executing a trade knowing it will fail does not meet our best execution requirements.

(iv) In practice there is usually a gap between when the Asian trading desks start and the US desks close. Buyside traders are unlikely to consistently wait into the evening for this handover.

The issues described above impact both domestic and internationally based investment advisers. However, non-U.S. based investment advisers will face additional expenses in that they will, either have to set up an FX trading and settlement presence in North America (or Asia) or add staff abroad to create, execute, and settle FX transactions to meet a T+1 timeline.

We suggest several options for actions the Commission could take, separately or together, that could reduce disruption in FX markets. We believe that the third and fourth options would be the most effective in alleviating our concerns. We recognize that some of these options are likely to be troublesome to implement

1) Appropriate Market Authorities consult with the Commodity Futures Trading Commission (CFTC), which has primary responsibility for overseeing foreign currency trading, to determine whether that agency can take any action in the FX markets to support the Commission's move to T+1 settlement.
2) Appropriate Market Authorities encourage banks to agree to extend the day of their FX trading activities in the United States and continue to provide liquidity up until at least 6 pm EST, five days a week, for T+1 settlement.
3) Appropriate Market Authorities mandate a change in the official equity trading day for U.S. markets to close one hour earlier, at 3 pm rather than 4 pm EST. This change would provide firms more time to match trades and ensure the settlement FX is in place for the following day, without, we believe, negatively impacting liquidity and trading volume.
4) The Commission could allow for a mismatch of FX settlement dates as a valid reason for T+2 settlement arrangements without it breaching an investment adviser's best execution obligation. While we appreciate that the Proposal would allow parties to agree to a longer settlement cycle, in order to avail themselves of that extended settlement date, the parties must reach that agreement at the time of the transaction. We understand that this would be difficult to implement in the context of trades that require the settlement of FX transactions to occur, for this reason a standing option to settle at T+2 would be more effective.

We appreciate the Commission's consideration of our comments on this important proposal and would be happy to provide any additional information that may be helpful. Please contact the undersigned by email in the first instance if we can be of further assistance.

Sincerely,

Suzanne Quinn
Head of North America Compliance