



December 20, 2022

Honorable Gary Gensler
Chair
U.S. Securities and Exchange Commission
100 F Street N.E.
Washington, DC 20549

Re: T+1 Transition Date

Dear Chair Gensler,

SIFMA¹ appreciates the opportunity to continue to share our perspectives on accelerating the U.S. settlement cycle to T+1. Industry participants are currently engaged in extensive assessments, planning, development, and execution on their T+1 transition plans. The transition is a monumental change impacting products, markets, processes, customers, service providers, and central counterparty clearing houses, among others. This process requires allocation of technical expertise, budgeting, and socialization of all substantial changes. Key to transitioning to T+1 will be regulatory certainty of the transition date for industry participants to make the appropriate process and system changes to achieve a successful adoption and transition to a T+1 settlement cycle.²

Currently, the transition date in the Commission's proposed rule is March 31, 2024, or sooner. As we have previously stated, we strongly believe the more prudent date would be September 3, 2024, following the Labor Day weekend. Industry participants believe that transitioning on September 3, 2024, would minimize transition risk to the U.S. market, brokers, and investors, and would support the Commission's objective of having market participants

¹ The Securities Industry and Financial Markets Association (SIFMA) is the leading trade association for broker-dealers, investment banks and asset managers operating in the U.S. and global capital markets. On behalf of our industry's one million employees, we advocate on legislation, regulation and business policy affecting retail and institutional investors, equity and fixed income markets and related products and services. We serve as an industry coordinating body to promote fair and orderly markets, informed regulatory compliance, and efficient market operations and resiliency. We also provide a forum for industry policy and professional development. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit <http://www.sifma.org>.

² See Shortening the Securities Transaction Settlement Cycle, Exchange Act Release No. 94196 (Feb. 9, 2022) (the "Proposal").

“prepare expeditiously” for T+1 settlement.³ Not only is this date the more logical approach, accelerating the transition too fast, effectively within one year of the release of the final rule will add unnecessary and unreasonable risk the operation of the clearing and settlement system. Further, as Canada also plans to transition to T+1, the September date is more conducive to their ability to harmonize with the U.S.

On October 10, 2022, SIFMA, along with eight trade associations and the Depository Trust & Clearing Corporation submitted a comment letter to the Commission entitled “T+1 Transition Date.”⁴ In the letter⁵, we provided that the transition date of September 3, 2024, falls immediately after the three-day Labor Day weekend, during which time both the U.S. and Canadian financial markets will be closed, giving the industry an additional and necessary day to finalize the transition and address any unforeseen challenges. The Canadian market have a significant number of inter-listed U.S. securities and is also in the process of transitioning from T+2 to T+1. Further, adopting a T+1 settlement cycle in the U.S. before Canada would likely lead to unnecessary increases in cross-border fails and buy-ins.

I would also note that when the U.S. and Canada transitioned from T+3 to T+2 in 2017 (an effort led by SIFMA, ICI and DTCC in the U.S.), we did so following Labor Day weekend for all the same reasons.⁶

SIFMA has received substantial and consistent feedback as a result of extensive member outreach on this point and industry participants believe a transition date of September 3, 2024, is achievable. In summary, participants are currently engaged in extensive assessment, planning and execution on their T+1 transition plans. In a large-scale impactful industry change such as transitioning to T+1, there will be a necessity to do extensive internal and external testing. Industry participants believe that in order to achieve a March 2024 transition time frame, extensive industry testing will need to start in the second quarter 2023. Given the expected timing of the final rule’s release, there will not be enough time for all firms, vendors, counterparties, and exchanges to finalize analysis, and develop and perform internal testing prior to street side testing. In addition, the LIBOR transition is expected to occur during the second quarter of 2023, which will also require a substantial amount of the same resources that firms will be utilizing for the T+1 implementation.

³ *Supra* note 2.

⁴ See letter to Chair Gensler from SIFMA, SIFMA Asset Management, ICI, DTCC, AGC, IAA, CCMA, MFA, AIMA, ISITC, October 10, 2022 (available at <https://www.sec.gov/comments/s7-05-22/s70522-20145255-310495.pdf>).

⁵ *Id.*

⁶ A transition on the Labor Day weekend would be similar to the process used to transition to T+2. 2017. *See* Securities Exchange Act Release No. 80295 (March 22, 2017), 82 FR 15564, 15580-15581 (2017 T+2 Adopting Release), <https://www.govinfo.gov/content/pkg/FR-2022-02-24/pdf/2022-03143.pdf>

Importantly, firms have organized their teams, secured funding, and are prioritizing their investment in T+1, nevertheless the March 2024 transition date will be a challenge to meet. Firms currently have large scale programs in place that contain numerous projects needed for migration to T+1. This is a mix of internal development and vendor solutions. Based on current timelines, these vendors solutions or internal technology solutions will struggle to meet a deadline as aggressive as the first quarter of 2024. This may force firms to descope pieces of this work and deliver suboptimal solutions for T+1, while inserting unnecessary risk into the system.

Additionally, industry participants believe that a March 2024 transition date may create additional risk due to a reduced testing window. The earlier proposed date of the first quarter of 2024, may impact market participants' ability to implement and migrate processes to strategic platforms within the timeframes, thus driving a more tactical approach to the change. An earlier transition date would become a challenge by adding unnecessary stress to internal technology efforts and full industry coordination.

It continues to be difficult for market participants to gauge what must be done to comply with T+1 without a final rule. Member firms continue to hold the view it is difficult to state whether it would be feasible without first having time to review and consider what the final rule states is required. This may result in many firms not being ready for the transition which would significantly impact securities settlement and create financial, operational, and regulatory risk. Even if some firms could meet the shorter transition time frame it could significantly impact the financial system if not all firms are ready. Additionally, an accelerated timeframe would pose significant risks to the system due to the interconnected nature of the financial services industry with settlement being a critical component.

March 2024 also introduces risk to the transition including quarter end and month end financial reporting obligations. Additionally, Good Friday falls on March 29th, 2024, which is not a federal holiday, in which banks and exchanges are not synchronized. Good Friday weekend also requires special handling between the banking industry and financial market participants. Member firms believe 16 to 24 months for adoption after the final rule is published is the minimum amount of time required prior to implementation.

The industry needs a three-day weekend to implement changes for T+1 to ensure there is enough time for production validation. Making this significant change over a normal weekend and not having an extra day to validate changes in production will add financial risk if a firm has issues. When it comes to the need for a three-day weekend, members will also need to consider contingency planning. For example, if the industry needs to revert back to T+2, falling back in a production environment in one day is not feasible and can lead to significant financial exposure if a backout is not successful across the industry.

Making the significant change to T+1 over a normal weekend and not having an extra day to validate changes in production will add financial risk if market participants have issues. In addition, if the industry needs to revert back to a T+2 environment, ensuring a full back out plan including internal re-testing in one day would not be feasible and could lead to significant financial exposure. The industry needs a three-day weekend to do production validation and to

consider contingency planning. In the event there are issues, and the industry needs to revert back to T+2, there will need to be full industry coordination around the decision. Market participants would need to make the necessary changes back to T+2, conduct internal testing, and industry level testing where production validation is extremely risky to execute in less than two days.

The industry also has direct dependencies on third party providers who provide capabilities from a technological and operational perspective to support the broader trade lifecycle. The additional time would help alleviate time constraints on third party providers and their respective users, who will need to understand changes to implement across their organizations. Some vendors, such as transfer agents, will need to make changes once there is regulatory certainty.

Third-party vendors, including custodians, will require substantial up-front planning, and without a final rule, the feasibility of compliance continues to be difficult to predict. Additionally, many industry market participants rely heavily on third-party providers. In Canada, some third-party providers have indicated that there is an overall concern given other key deliverables and programs in flight. The industry collectively has direct T+1 dependencies on several third parties who provide technology and operational capabilities to support settlement, allocations, and other workflows across the trade lifecycle. Given most of these third-party providers have not clearly communicated required changes or detailed implementation plan (i.e., scope, planning, recovery, resiliency, testing, timeline). The additional time before T+1 would not only benefit such third-party providers, but also benefit smaller and mid-tier participants as well as large participants utilizing their services.

Different transition dates between the U.S. and Canada would require duplicative testing and processes across the industry. U.S and Canadian markets are significantly interconnected, and decoupling trade settlement activities would introduce another layer of complexity and opportunity for settlement fails. This would also introduce issues with dual listed products, depository receipt conversions, Exchange Traded Fund creations and redemptions, conversions, buy-ins, and realignments.

As per SIFMA's letter to the Commission dated August 3, 2022⁷, SIFMA requests that the Commission expressly allow broker-dealers to adopt e-delivery as the default option for confirmations under Rule 10b-10. In the Proposal, the Commission stated that the existing delivery requirements – sending either paper or electronic confirmations – for the T+2 settlement cycle will remain unchanged. The Commission went on to state that broker-dealers may continue to use e-delivery systems to comply with their obligations under Rule 10b-10 but does not expressly state that broker-dealers may default to e-delivery. SIFMA respectfully requests that E-delivery be the default standard for all investor communications but most importantly the Commission should expressly allow a default e-delivery standard for confirmations under Rule 10b-10 as a part of the final T+1 rulemaking.

⁷ See letter to Chair Gary Gensler from Kenneth E. Bentsen, Jr., SIFMA, August 3, 2022 (<https://www.sec.gov/comments/s7-05-22/s70522-20135433-306329.pdf>).

In sum, given the industry's previous experience in accelerating the settlement cycle from T+3 to T+2, and SIFMA's work over the last two years planning for the transition from T+2 to T+1, we strongly urge the Commission to provide clear guidance on the final rule and accept the industry's proposed September 3rd 2024 transition date.

SIFMA and its members appreciate the opportunity for continued collaboration and dialogue with you and the Commission. Our shared interest in managing risk while achieving an effective and efficient transition to T+1 remains aligned. We would appreciate the opportunity to discuss the industry position on the transition to T+1 settlement cycle with you and your staff at your earliest convenience. Please reach out to Thomas F. Price at tprice@sifma.org or me if you have any additional questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Ken Bentsen". The signature is fluid and cursive, with a large loop at the end.

Kenneth E. Bentsen, Jr.
President & CEO

cc: The Honorable Hester M. Peirce, Commissioner
The Honorable Caroline A. Crenshaw, Commissioner
The Honorable Mark T. Uyeda, Commissioner
The Honorable Jaime Lizárraga, Commissioner
Haoxiang Zhu, Director, Division of Trading and Markets
Jeffrey S. Mooney, Associate Director, Division of Trading and Markets
Matthew Lee, Assistant Director, Division of Trading and Markets
Thomas F. Price, Managing Director, Technology & Operations, SIFMA