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December 5, 2016

Mr. Brent J. Fields
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549

Re: *Comments on Amendment to Securities Transaction Settlement Cycle Proposal (File No. S7-22-16)*

Dear Mr. Fields:

The Investment Company Institute¹ is pleased to provide its strong support for the Securities and Exchange Commission's ("SEC" or "Commission") proposal to shorten the securities transaction settlement cycle for most broker-dealer transactions.² The proposed amendment will support a financial services industry-led initiative to shorten the regular-way settlement for equities, corporate bonds, municipal bonds, and unit investment trusts from T+3 (trade date plus three days) to T+2 (trade date plus two days).³ We believe a shorter settlement cycle will help improve the overall efficiency of securities markets, align the United States with other global markets, and promote financial stability.

The industry has proposed a migration timeline outlining the necessary activities required to complete a move to T+2 by the third quarter of 2017. Regulatory action is a critical prerequisite to achieving a shortened settlement cycle. To this end, self-regulatory organizations such as the Municipal Securities Rulemaking Board, FINRA, NYSE, and Nasdaq have already proposed (or in some cases

¹ The Investment Company Institute (ICI) is a leading global association of regulated funds, including mutual funds, exchange-traded funds (ETFs), closed-end funds, and unit investment trusts (UITs) in the United States, and similar funds offered to investors in jurisdictions worldwide. ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers. [ICI's U.S. fund members manage total assets of \$18.2 trillion and serve more than 95 million U.S. shareholders.]

² Amendment to Securities Transaction Settlement Cycle Proposal, SEC Release No. 34-78962; Fed. Reg. 69240 (October 5, 2016)(the "Release"), available at <https://www.gpo.gov/fdsys/pkg/FR-2016-10-05/pdf/2016-23890.pdf>

³ For background on the T+2 industry-led initiative, see <http://www.ust2.com/>.

adopted) amendments to relevant rules to comply with a T+2 settlement cycle. As such, we strongly support the SEC's proposed amendments.

I. Background

A. Summary of the Proposal

Rule 15c6-1(a) under the Securities Exchange Act of 1934 ("Exchange Act") governs the settlement period for most broker-dealer securities transactions, covering among others, equities, corporate bonds, unit investment trusts ("UITs"), mutual funds, exchange-traded funds ("ETFs"), American depository receipts ("ADRs"), security-based swaps, and options. The Release indicates that some of these securities such as options and mutual fund shares generally settle on a settlement cycle less than T+3 and therefore will not be impacted by the rule amendment. Rule 15c6-1(a) prohibits broker-dealers from effecting or entering into a contract for the purchase or sale of a security that provides for payment of funds and delivery of securities later than the third business day after the date of the contract unless otherwise expressly agreed by the parties at the time of the transaction. The proposed change to Rule 15c6-1(a) would shorten the settlement cycle for these securities from T+3 to T+2.

The Release describes the various aspects and participants of the settlement and clearance process and highlights key developments since the adoption of Rule 15c6-1 in 1993. The Commission acknowledges the likelihood of market participant's costs, and preliminarily believes that the anticipated benefits of a shorter settlement cycle compensate for any potential costs of implementation.

B. Industry Efforts to Date

In October 2012, Depository Trust & Clearing Corporation ("DTCC") began an effort to analyze the impact of shortening the US settlement cycle and commissioned The Boston Consulting Group to conduct the cost benefit analysis of shortening the US settlement cycle, focusing on industry areas of concern, including risk reduction, capital optimization, and cost reduction from streamlining processes. The report concluded that shortening the settlement cycle to T+2 is expected to yield benefits for the industry including counterparty risk reduction, operational process efficiencies, potentially lower collateral requirements and liquidity demands, and enhanced global settlement synchronization. Following the study, DTCC collaborated with representatives from the financial services industry to discuss next steps.

In February 2014, ICI's Board of Governors endorsed an industry initiative to shorten the U.S. settlement cycle for a range of securities—including equities, municipal and corporate bonds, and unit investment trusts. To advance the initiative, an industry steering committee ("ISC"), co-chaired by the Securities Industry and Financial Markets Association ("SIFMA") and ICI, was formed as a governing body to oversee the shortened settlement cycle initiative. The ISC, in turn, organized an industry working group ("IWG"), and sub-working groups ("SWGs"). These groups were responsible for

assessing the scope, requirements, and changes needed to facilitate the implementation of a T+2 settlement cycle.

As part of these efforts, in June 2015 the ISC and DTCC, with assistance from PricewaterhouseCoopers (“PwC”), finalized a white paper⁴ that described the industry level requirements, leading practices, and other considerations necessary for the migration to T+2. Notably, the white paper determined that timely regulatory changes are a key dependency for the industry to accomplish a migration to T+2 and meet the targeted implementation date of September, 2017.

Concurrent with the development of the white paper, ICI and SIFMA submitted a letter to the SEC that identified various SEC and SRO rules changes necessary to implement T+2.⁵ The letter emphasized that SEC Rule 15c6-1(a), which the Commission adopted in connection with establishing the T+3 settlement date, is the linchpin of these rules because other regulators and SROs have adopted rules that reference the standard three day settlement cycle defined in Rule 15c6-1(a).

In December 2015, the ISC, with assistance from Deloitte and Touche, LLP (“Deloitte”), published the T+2 Industry Implementation Playbook (“Playbook”),⁶ which provides a timeline with milestones and dependencies to meet the industry’s carefully chosen September 5, 2017 migration date. This timeline was established after identifying and analyzing the changes required to facilitate an industry move to T+2, including an extensive DTCC survey completed by members of the ISC and IWG in 2015.

Earlier this year, DTCC issued its T+2 testing framework white paper, which highlights the processes required for firms moving to a shortened settlement cycle and how testing with exchanges, industry infrastructures, and utilities will be structured. Currently, the ISC is in the execution phase of the implementation plan per the milestones and timelines defined in the Playbook. The ISC also has formed a command center to manage the communication plan and to track implementation progress

⁴ To access the industry whitepaper, see <http://www.ust2.com/pdfs/ssc.pdf>

⁵ See Letter from Paul Schott Stevens, President and CEO, Investment Company Institute, and Kenneth E. Bentsen, Jr., President and CEO, Securities Industry and Financial Markets Association (SIFMA), to Mary Jo White, Chair, Securities and Exchange Commission (SEC) (June 18, 2015) (identifying the SEC and self-regulatory organization (SRO) rule changes that the industry believes would be necessary to support a T+2 settlement cycle). In September 2015, SEC Chair Mary Jo White sent a letter to ICI and SIFMA noting her strong support for the industry’s efforts to shorten the settlement cycle. See Letter from Mary Jo White, Chair, Securities and Exchange Commission, to Kenneth E. Bentsen, Jr., President and CEO, Securities Industry and Financial Markets Association, and Paul Schott Stevens, President and CEO, Investment Company Institute (September 16, 2015).

⁶ To access Playbook, see <http://www.ust2.com/pdfs/T2-Playbook-12-21-15.pdf>

and appointed Deloitte as project manager to coordinate and document all the activities required until the migration date.

In response to the SEC's request for industry data on the costs and benefits of the move to a T+2 settlement cycle, ICI and SIFMA as co-chairs of the ISC in coordination with Deloitte surveyed their memberships to capture buy side, sell side, and custodian anticipated costs for the move to T+2, and to evaluate industry progress towards the shorter cycle.⁷ Based on the survey results, the industry estimates a total cost for the buy side of approximately \$71.4 million dollars to move to a T+2 settlement cycle.⁸

II. T+2 Benefits

A shorter settlement cycle will yield significant benefits including reducing counterparty and operational risks, enhanced cash management for mutual funds, operational efficiencies for market participants, and global harmonization of settlement cycles. We detail below some of the immediate benefits of a T+2 settlement cycle.

A. Risk Reduction

We agree with the Commission that shortening the standard settlement cycle to T+2 will offer market participants benefits through the reduction of credit, market, and liquidity risk. A shorter settlement cycle will result in increased liquidity and better cash management. Securities transactions will settle faster under a shorter T+2 cycle, providing access to funds one day earlier. This will reduce liquidity gaps and enhance cash management for investment advisers and mutual funds as well as other institutional investors. Below we have provided some examples:

- 1- A shorter cycle will reduce funding gaps amongst all types of securities, by better aligning the settlement cycle of various types of portfolio securities such as derivatives and government bonds.
- 2- Mutual fund shares typically settle T+1; thus, a shorter securities settlement cycle will reduce the funding gap between settlement of a fund's portfolio securities and the settlement of its shares, improving cash management for funds to meet redemptions.
- 3- A shorter settlement cycle will result in less unsettled trades at any point of time, which will reduce capital and clearing funds requirements for the central clearing counterparty

⁷ A total of 26 asset managers responded to the survey representing more than \$ 7.8 trillion assets under management, which is approximately 48% of total ICI's fund members assets in open ended mutual funds. The sample included small, medium and large firms in terms of assets under management.

⁸ Calculated as 965 buy-side firms x \$74,000 = \$ 71,410,000. Based on the survey results the average cost per asset manager is \$ 74,000, multiplied by the Commission's estimate for the number of buy side firms at 965 firms.

(NSCC) and its broker-dealer clearing members. This in turn will result in positive liquidity to broker-dealers that are direct members of clearing agencies.

A shorter settlement cycle also diminishes counterparty and mark-to-market risks because the number of days between placing a transaction, until the time the trade is settled, is reduced by one day. This reduction decreases the possibility of a counterparty failure prior to settlement as well as the possibility of changes in market value of the security purchased. As counterparty and mark-to-market risks are typically magnified during times of highly volatile markets, reducing these add to the overall stability of the financial system.

B. Operational Efficiencies

We believe that shortening the settlement cycle will motivate market participants to tighten their operational processes. For example, we expect institutional investors to improve the quality of settlement instructions and static settlement data maintenance, and increase automation and straight through processing rates with their broker-dealers and custodian banks. This will result in higher numbers of on-time affirmed, confirmed and settled trades. Over the next year, ICI will work with its members on industry best practices that will advocate that mutual funds trade allocation, affirmation and confirmation processes be performed by trade date. This will enhance the reconciliation process and will provide participants to a trade sufficient time for trade correction in a T+2 settlement cycle.

C. Global Harmonization

As the Release notes, many capital markets around the world—including markets in the European Union, Australia, Hong Kong, and South Korea—have moved, while others (including Canada and Japan) are considering a move to T+2 alongside the US markets. A move to a shortened settlement cycle in the United States would further harmonize global securities settlement, especially for the world's largest capital markets. This in turn will reduce operational risk for institutional investors by closing the gap in the settlement cycle between the US and the other foreign markets in which they invest, standardize cross border settlement processes, and foster adoption of industry best practices.

Furthermore, we understand that moving to T+2 has been very positive for foreign markets and that many benefits of the shorter cycle were realized soon after implementation. For example in October 2014, 29 markets in Europe transitioned successfully to a T+2 shortened settlement cycle. In preparation for this move, the European Central Bank (ECB) established a T+2 Task Force, which carefully planned the simultaneous transition to minimize the risk of errors and avoid market distortions that could have resulted from a phased-in approach. It also published detailed material, including best practices ahead of the transition to T+2.⁹ Data collected for the week post

⁹ See, <https://www.ecb.europa.eu/paym/t2s/governance/ag/html/taskforcet2/index.en.html#deliverables>

implementation reported no increase in the number of failed transactions as a result of the move to a shorter cycle, and, in fact some markets reported better than normal settlement efficiency during that period.

III. Migration Date

The Release references and request comments on the September 5, 2017 industry selected migration date. The industry, through the ISC, chose September 5, 2017 as the implementation date after careful analysis, input from industry participants, and consultation with other markets globally. In selecting the date, the industry analyzed several considerations such as known high volume trading days from index rebalancing, options expiration dates, large corporate action days, and holidays. The industry selected September 5, 2017 (the Tuesday following the Labor Day holiday) as the most favorable migration date for a move to a shorter settlement cycle. According to the industry plan, September 5, 2017 will be the first trade date for which in-scope securities will settle on a T+2 shorter cycle. As a result, Thursday, September 7, 2017 will be a double-settlement day, to include the last trades to settle on the old T+3 cycle and the first trades settling under the new T+2 cycle. To achieve the selected migration date, we recommend that the SEC adopt the final rule as soon as possible (but no later than March 2017) with an effective compliance date of September, 5, 2017. According to the industry analysis and published timelines, this would provide a reasonable amount of time for industry participants to evaluate, plan, test and move to a shorter settlement cycle.

IV. Conclusion

A shorter settlement cycle is an important project that will bring significant risk reduction benefits to the US capital markets. The proposed amendment to Rule 15c6-1(a) would satisfy the regulatory certainty that market participants require and will ensure that the industry initiative is on track for the target implementation date. We appreciate the opportunity to provide these comments on the proposal and we look forward to working with the SEC and the SROs as they continue their efforts to support a T+2 regular way settlement for the U.S. securities markets.

In the meantime, if you have any questions, please feel free to contact me at [REDACTED] or Ahmed Elghazaly, Director Securities Operations, at [REDACTED].

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Sincerely,

/s/ Martin A. Burns

Martin A. Burns
Chief Industry Operations Officer

cc: The Honorable Mary Jo White
The Honorable Kara M. Stein
The Honorable Michael S. Piwowar

Stephen I. Luparello, Director, Division of Trading and Markets
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