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December 5, 2016

Submitted electronically

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

Re: *Amendment to the Securities Transaction Settlement Cycle*; File No. S7-22-16

Dear Mr. Fields,

Fidelity Investments¹ (“Fidelity”) appreciates the opportunity to comment on the Securities and Exchange Commission’s (the “SEC” or “Commission”) proposed amendment to Rule 15c6-1(a) under the Securities Exchange Act of 1934.² The Proposed Amendment would shorten the standard trade settlement cycle for most broker-dealer securities transactions from three business days after the trade date (“T+3”) to two business days after the trade date (“T+2”) and is necessary to facilitate an industry initiative to shorten the trade settlement cycle to T+2.

Fidelity unequivocally supports the Proposed Amendment. We are an active participant in the T+2 industry initiative across both our broker-dealer and asset management business channels. In advance of SEC and self-regulatory organization (“SRO”) rulemaking changes to reflect a shorter trade settlement cycle, we are voluntarily undertaking changes at our firm necessary to accommodate the move to T+2 because we agree with many other market participants that a shortened settlement cycle will yield important benefits to retail investors, financial services firms, and the U.S. financial system as a whole. Among other items, the move to T+2 will reduce counter-party risk and liquidity demands on market participants; decrease clearing capital requirements for broker-dealers; and harmonize the global settlement process as many world economies already operate on a T+2 settlement cycle. Retail investors, among others, will benefit from a shorter settlement cycle through reduced risk in the settlement process.

¹ Fidelity Investments is a leading provider of investment management, retirement planning, portfolio guidance, brokerage, benefits outsourcing and many other financial products and services.

² *Amendment to Securities Transaction Settlement Cycle* (SEC), Release No. 34-78962; 81 FR 69240 (October 5, 2016) available at: <https://www.gpo.gov/fdsys/pkg/FR-2016-10-05/pdf/2016-23890.pdf> (the “Proposed Amendment” or “Proposing Release”).

EXECUTIVE SUMMARY

In addition to our unequivocal support for the Proposed Amendment, our comments that follow include the following points:

1. The SEC should approve the Proposed Amendment and the SEC should provide its approval by no later than March 2017 to ensure that the industry's target effective date of September 5, 2017 is not delayed;
2. In connection with SEC approval of the Proposed Amendment, the SEC should re-visit and/or clarify certain existing guidance and exemptions and help educate retail investors about the industry move to a shortened settlement cycle; and
3. The financial services industry is moving to T+2 in large part due to advances in technology since 1995, when the trade settlement rules were last amended. The SEC should similarly take advantage of advances in technology and update its rules regarding use of electronic media, specifically electronic delivery of disclosure documents.

Prompt SEC approval of the Proposed Amendment is achievable and critical to the success of T+2

Although many market participants, including Fidelity, are already working on necessary changes to their procedures and technology to accommodate the move to T+2, prompt SEC approval of the Proposed Amendment is critical to the success of the T+2 industry initiative. The SEC's approval of the Proposed Amendment will provide the certainty, acceptance and publicity for the move to T+2 for those firms that have not been part of the industry initiative. Prompt SEC approval is also critical to ensure that amendments to rules of SROs, which are linked to Rule 15c6-1(a), can be coordinated with the Proposed Amendment and that market participants have an opportunity to implement these collective changes in a timely manner.

We urge the SEC to adopt the Proposed Amendment under a timeline that allows for an efficient transition to T+2 by the industry target effective date of September 5, 2017.³ This target effective date was fully considered and deliberatively chosen by multiple stakeholders and has been widely communicated throughout the financial services industry. We are concerned that the upcoming change in administration, and expected changes at the SEC, could delay approval of the Proposed Amendment and impact this target effective date to the detriment of market participants and the overall initiative. With industry-wide testing for T+2 scheduled to commence on February 13, 2017, we urge the Commission to approve the Proposed Amendment by no later than March 2017.

³See US T+2 ISC Recommends Move to Shorter Settlement Cycle on September 5, 2017 available at: <http://www.ust2.com/pdfs/T2-ISC-recommends-shorter-settlement-030716.pdf>

SEC approval of the Proposed Amendment by March 2017 is an achievable goal given the simplicity of the required change to Rule 15c6-1. There is widespread industry support for a shortened settlement cycle, as demonstrated by the considerable resources allocated to the initiative across the financial services industry. In addition to industry support for the move to T+2, the SEC's Investor Advisory Committee has encouraged the Commission and market participants to move forward on T+2 as a way to improve investor protections and reduce systemic risk.⁴ We are further encouraged by statements made by Chair White⁵ and Commissioners Stein and Piwowar⁶ in support of a T+2 trade settlement cycle and urge this support to continue through to the SEC's rulemaking approval process.

Additional items that do not impact prompt SEC approval of the Proposed Amendment

The following topics are not a pre-requisite to the SEC's prompt approval of the Proposed Amendment, but we highlight them as topics that the SEC may wish to consider in connection with its approval.

Clarifications to existing SEC guidance

Certain rules use settlement date for measurement purposes and a move to shorten the settlement date by one day will shorten these time frames because they are measured *from* settlement date. For example, Rule 204 of Regulation SHO generally requires brokers and dealers that are participants of a registered clearing agency to take action to close out failure to deliver positions by purchasing or borrowing securities of like kind and quantity. The participant must close out a failure to deliver for a short sale transaction by no later than the beginning of regular trading hours on the settlement day following the settlement date.⁷ The text of Rule 204 does not explicitly reference T+3 as the standard "settlement date" and remains unaffected by the Proposed Amendment; however the Commission may wish to modify their FAQs on Regulation SHO⁸ and the Regulation SHO Adopting Release to account for a T+2 settlement cycle.

⁴ "Recommendation of the Investor Advisory Committee: Shortening the Trade Settlement Cycle in U.S. Financial Markets (February 12, 2015)" available at: <http://www.sec.gov/spotlight/investor-advisory-committee-2012/settlement-cycle-recommendation-final.pdf>.

⁵ Letter from SEC Chair Mary Jo White to Kenneth Bentsen, President and CEO Securities Industry and Financial Markets Association and Paul Schott Stevens, President and CEO Investment Company Institute (September 16, 2015) available at: <https://www.sec.gov/divisions/marketreg/chair-white-letter-to-sifma-ici-t2.pdf>

⁶ Statement Regarding Proposals to Shorten the Trade Settlement Cycle, Commissioner Michael S. Piwowar and Commissioner Kara M. Stein (June 29, 2015) available at: https://www.sec.gov/news/statement/statement-on-proposals-to-shorten-the-trade-settlement-cycle.html#_ftn2 and Statement Regarding the Delay in Proposing to Shorten the Trade Settlement Cycle, Commissioner Michael S. Piwowar (July 8, 2016) available at: <https://www.sec.gov/news/statement/piwowar-statement-trade-settlement-cycle-070816.html>

⁷ Amendments to Regulation SHO (SEC) 74 FR 38266 (July 31, 2009) available at: <https://www.gpo.gov/fdsys/pkg/FR-2009-07-31/pdf/E9-18185.pdf> (Regulation SHO Adopting Release")

⁸ Division of Market Regulation: Responses to Frequently Asked Questions Concerning Regulation SHO. available at: <https://www.sec.gov/divisions/marketreg/mrfaqregsho1204.htm>

Similarly, securities lending transactions are executed to avoid delivery failures or to cover or create a short position in a security. Participants in securities lending transactions, including security lenders, security borrowers, and service providers, are currently addressing the impact of a shortened settlement cycle on their business models and trading strategies, notably that the move to T+2 will shorten the recall period by one day. To this end, we recommend that the SEC modify its interpretation in the Regulation SHO Adopting Release regarding the recall period so that it reflects the consequences of the move to T+2.

Lastly, a prime broker provides clients with centralized trade clearing and settlement services for those transactions that an executing broker is instructed by the client to direct to the prime broker and which the prime broker “affirms”. In addition, the prime broker may provide additional services to clients, including custody of securities, loaning of securities for short sales, providing margin financing, and providing back office technology and reporting.

Unless the prime broker dis-affirms a particular transaction by no later than the close of business on trade date plus one, the prime broker is responsible for settling the transaction. Prime brokers are currently reviewing their internal processes, and interactions with other market participants, with regard to the move to a T+2 settlement cycle. While an update to the SEC’s 1994 Prime Brokerage No Action Letter⁹ is not a necessary pre-requisite to SEC approval of the Proposed Amendment, we believe that the industry move to T+2 provides an opportunity for the SEC to revisit this guidance to ensure that it reflects current market practices, including the implications of a shortened settlement cycle.

Existing Exemption for Insurance Products

Under a 1995 SEC order, certain insurance contracts are exempted from the scope of Rule 15c6-1¹⁰ (“the Insurance Exemptive Order”). In issuing the Insurance Exemptive Order, the SEC recognized that, among other items, “the various administrative processes and the requirements under state and federal law which pertain to insurance securities products add complexity and time the purchase and sale of such securities, which support an exemption from the standard settlement cycle.”¹¹

If insurance products warranted an exemption from a standard settlement cycle of T+3 based on administrative processes and requirements under state and federal law, these same reasons are even more applicable in a T+2 environment. While the SEC exemption is not dependent on whether Rule 15c6-1 requires a two day or a three day settlement time period, we believe that it would be helpful and useful for the Commission to include language in the

⁹ SEC no-action letter to SIA Prime Broker Committee (January 25, 1994) *available at*: <https://www.sec.gov/divisions/marketreg/mr-noaction/pbroker012594-out.pdf>

¹⁰ *Securities Transactions Settlement Grant of Exemption* (SEC) 60 FR 30906 (June 12, 1995) *available at*: <https://www.gpo.gov/fdsys/pkg/FR-1995-06-12/pdf/95-14323.pdf>

¹¹ *Id.*

adopting release for the Proposed Amendment noting that the exemptive order for insurance products remains intact and is not affected by the Proposed Amendment.

T+2 Investor Education Campaign

The T+2 industry initiative has publicized the move to a shortened settlement cycle through industry white papers, press releases, conferences, and other notifications.¹² Individual firms are also in the process of alerting their customers of changes involved in the move to T+2. For retail investors, these communications will include, among other items, a discussion that customer funding for orders will be requested one day earlier than current practices and proceeds from orders will be received one day earlier than current practices.

In addition to industry and individual firm communications to retail investors about T+2, we urge the SEC to launch an investor awareness campaign regarding the move to a shorter settlement cycle. In the past, the SEC has posted helpful educational information on market structure events that will impact retail customers on www.sec.gov and publicized this content through email and social media.¹³ This information is helpful to investors and also provides an efficient means for an industry participant, if they choose to do so, to link to this content from their own website.

Electronic Delivery

Significant advances in technology have occurred since 1995 when the SEC set the standard trade settlement cycle at T+3. In fact, these advances in technology are one of the main reasons why the financial services industry launched the initiative to move to T+2. The SEC's general views on the use of electronic media to deliver information to investors are set forth in a series of evolving interpretive releases that generally date from 1995 to 2000.¹⁴ We believe that shareholder preferences and technology regarding internet usage has changed considerably since then and that the Commission should update its existing guidance on use of electronic media in light of these changes.

¹² See content available at www.ust2.com

¹³ For example, we commend the SEC on its Investor Alert regarding the NMS Plan to implement a tick size pilot available at: https://www.sec.gov/oiea/investor-alerts-bulletins/ia_ticksize.html. The SEC should also encourage the SROs, such as FINRA and the national securities exchanges, to issue broad based communications regarding a T+2 shortened settlement cycle.

¹⁴ In Release No.33-7233 (October 6, 1995), the SEC addressed electronic delivery of prospectuses, annual reports and proxy materials. In Release No. 33-7288 (May 9, 1996), the SEC addressed electronic delivery of required information by broker-dealers, transfer agents and investment advisers. Subsequent releases addressed the use of electronic media in the context of offshore sales of securities (Release No. 33-7516 (March 23, 1998)) and cross-border tender offers (Release No. 33-7759 (October 22, 1999)). In Release No. 33-7856 the Commission provided guidance on the use of the Internet and other electronic media (April 28, 2000). Through a final rule, (Release No. 34-56135 (July 26, 2007)), the Commission provided for the internet availability of proxy materials through a notice and access model.

Fidelity has long been a proponent of use of electronic media as a delivery option for investors. Electronic delivery, particularly under a notice and access model, offers investors an opportunity to receive up-to-date information in a format in which they are accustomed and that is searchable. Electronic delivery offers significant cost savings benefits to investors and to the intermediaries that support them and is environmentally friendly.

We commend the SEC for their recently proposed Rule 30e-3, which provides for default web delivery of mutual fund shareholder reports. We support proposed Rule 30e-3¹⁵ with certain modifications and encourage the SEC to complete this rulemaking as well as re-visit its existing guidance on electronic delivery generally.

Cost of T+2

We believe that the Proposed Amendment will not impose any burdens on the industry in addition to those necessary to implement the industry initiative to move to T+2. Fidelity is working with industry trade groups to provide information to SEC that addresses the economic impact of a shortened trade settlement cycle.

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¹⁵ Fidelity comments on Investment Company Reporting Modernization (SEC) 80 FR 33590 (June 12, 2015) available at: <https://www.sec.gov/comments/s7-08-15/s70815-249.pdf>

Secretary, Securities and Exchange Commission

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Fidelity would be pleased to provide further information, participate in any direct outreach efforts the Commission undertakes, or respond to questions the Commission may have about our comments.

Sincerely,

A handwritten signature in blue ink, appearing to read "Howard Bryant".

cc:

The Honorable Mary Jo White, Chairman
The Honorable Kara M. Stein, Commissioner
The Honorable Michael S. Piwowar, Commissioner

Mr. Rick Fleming, Investor Advocate

Mr. Stephen Luparello, Director, Division of Trading and Markets
Mr. Gary Goldsholle, Deputy Director, Division of Trading and Markets
Mr. David Shillman, Associate Director, Division of Trading and Markets

Mr. David Grimm, Director, Division of Investment Management
Ms. Sarah G. ten Siethoff, Division of Investment Management
Ms. Kathleen Joaquin, Division of Investment Management