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Via Electronic Filing

Brent J. Fields
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

RE: Release No. 34-78962; File No. S7-22-16 (Proposed Rule Amending Rule 15c6-1(a) under the Securities Exchange Act of 1934 relating to the settlement cycle)

Dear Mr. Errett:

The Cornell Securities Law Clinic ("Clinic") welcomes the opportunity to comment on the Rule Proposal to Amend Rule 15c6-1(a) of the Securities Exchange Act of 1934 relating to the Settlement Cycle ("Rule Proposal"). The Clinic is a Cornell Law School curricular offering in which law students provide representation to public investors and public education as to investment in the largely rural "Southern Tier" region of upstate New York. For more information, please visit: http://www.lawschool.cornell.edu/Clinical-Programs/securities-law-clinic/index.cfm.

On September, 2016, the Securities and Exchange Commission ("SEC") filed the Rule Proposal. The Rule Proposal amends the Securities Exchange Act to shorten the standard settlement cycle from T+3 to T+2. In the Rule Proposal, the SEC cites potential significant benefits to market participants through the reduction of exposure to credit, market, and liquidity risk as well as related reductions in systematic risk.

While the Clinic does not in theory opposed a T+2 settlement cycle, the SEC has failed in the Rule Proposal to meaningfully address how the amendment would affect the type of smaller, individual investors the Clinic represents.

First, Section 15(c)(6) of the Securities Exchange Act of 1934 gives the SEC authority to make rules and regulations as "necessary or appropriate in the public interest and for the protection of investors or to perfect or remove impediments to a national system for the prompt and accurate clearance and settlement of securities transactions."

The SEC, however, does not identify and analyze significant "impediments" with the current T+3 system. The SEC is trying to fix a settlement system that is not broken, and it is not clear that the fix of T+2 solves more problems than it creates. The protection of investors also does not appear to be the focus of the analysis in the Rule Proposal. Rather, the SEC focuses on institutional market participants, primarily broker-dealers and clearing firms. Without a thorough analysis and documentation of how investors would benefit, the SEC has not met the statutory requirements for the Rule Proposal.

Second, the impact of the Rule Proposal on small investors has not been meaningfully addressed. In its report, the SEC highlights the impact that the proposed change may have on institutional market participants, however, the impact on small investors, is not addressed in any substantial way. This, despite the fact that the SEC's report does mention that at the end of 2015, US households held approximately 39% of the value of corporate equity outstanding and 50% of the value of mutual fund shares outstanding. [1]

Considering the important role that individual households play in the market, it is hard to understand why the SEC has all but ignored how the Rule Proposal will affect individual investors, particularly smaller individual investors. Further, the SEC's report mentions 15 U.S.C. 78q-1(a)(1)(A) – (D), which describes how Congress found that inefficient clearance and settlement procedures imposed unnecessary costs on investors, but an explanation on exactly how the Rule Proposal would address such costs is overlooked.[2]

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[1] See 17 CFR Part 240(VI)(B)(2)
[2] See 15 U.S.C. 78q-1(a)(1)(A) – (D)

Conclusion

The Clinic opposes the move from T+3 to T+2 unless and until the SEC adequately analyzes the impact on smaller individual investors and demonstrates that the amendment benefits the investing public.

Respectfully submitted,

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