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Via Electronic Delivery

December 5, 2016

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

Re: File No. S7-22-16; Proposed Amendment to Rule 15c6-1 - Securities Transaction Settlement Cycle

Dear Mr. Fields,

The Financial Information Forum ("FIF")[1] would like to thank the Securities and Exchange Commission ("Commission" or "SEC") for the opportunity to comment on File No. S7-22-16 – Proposed Amendment to Securities Transaction Settlement Cycle.

In commenting on the Proposed Amendment to the Securities Transaction Settlement Cycle, FIF wishes to affirm FIF member support to shorten the "standard settlement cycle for most broker-dealer transactions from three business days after the trade date ("T+3") to two business days after the trade date ("T+2")."[2] We also encourage the Commission to expedite approval of the required changes, which will reassure the industry that the applicable rule changes will be in place to support the industry's timetable for implementation, and reinforce the need for firms to prepare to meet the industry-planned effective date. Specifically, we encourage the SEC to adopt the T+2 Proposal by March 2017 in order to provide industry participants with sufficient lead time to complete the required systems and operational changes to achieve T+2 implementation on September 5, 2017 –the date targeted by the Industry Steering Committee and other market participants.[3] We further believe that prompt SEC approval of the Proposed Amendment is an achievable goal given statements made by Chair White[4] and Commissioners Stein and Piwowar[5] in support of a T+2 trade settlement

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[1] FIF (www.fif.com) was formed in 1996 to provide a centralized source of information on the implementation issues that impact the securities industry across the order lifecycle. Our participants include trading and back office service bureaus, broker-dealers, market data vendors and exchanges. Through topic-oriented working groups, FIF participants focus on critical issues and productive solutions to technology developments, regulatory initiatives, and other industry changes.

[2] SEC Release No. 34-78962.

[3] *See id* at 76; Press Release, US T+2 ISC Recommends Move to Shorter Settlement Cycle on September 5, 2017 (Mar. 7, 2016) http://www.ust2.com/pdfs/T2-ISC-recommends-shorter-settlement-030716.pdf.

[4] 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

[5] 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

cycle and the SEC's Investor Advisory Committee's support for a T+2 settlement cycle to improve investor protections and reduce systemic risk.[6]

Background

Exchange Act Rule 15c6-1 was adopted in 1993 to shorten the standard settlement cycle for broker-dealer transactions from five business days after the trade date ("T+5") to three days after the trade date ("T+3").[7] The industry move to T+3 settlement helped to reduce credit and market risk exposure related to unsettled trades, reduced liquidity risk among derivatives and cash markets, created efficiency in the clearance and settlement process, and reduced systemic risk for the U.S. markets.[8] Similar benefits are expected to be derived from the current initiative.

The Depository Trust & Clearing Corporation ("DTCC") established the Industry Steering Committee ("ISC") to oversee the industry-driven T+2 settlement cycle initiative. The group produced a detailed implementation schedule which calls for complete implementation on September 5, 2017.[9] On September 28, 2016, the SEC issued Release No. 34-78962 – Amendment to Securities Transaction Cycle, which proposes to shorten the settlement cycle from three days to two days after the trade date (i.e. broker-dealers are prohibited from entering into a contract for the purchase or sale of a security (unless exempted) that provides for the payment of funds and delivery of securities later than the second business day after the date of the contract).[10]

Reduction of Exposure to Credit, Market, and Liquidity Risks

FIF member firms believe that the shortened settlement cycle, with a fewer number of unsettled securities transactions open within the more narrow timeframe, will reduce risk[11] for market participants (broker-dealers, custodians, investors, and Central Counterparty Clearing Houses ("CCPs")). Reduced credit, market, and liquidity risks associated with the settlement process, will in turn, provide enhanced stability to the U.S. markets.[12]

In the case of CCPs, the shortening of the settlement cycle will reduce the period during which CCPs are exposed to credit risk due to non-payment or non-delivery of a security; that is, the CCPs' exposure risk if a member defaults on a payment, which could result in the CCP 'deploying financial resources to meet the CCP's end-of-day settlement obligations.'[13] FIF members also agree with the SEC's findings that the shorter settlement cycle is likely to reduce liquidity risk for broker-dealers who are CCP members, with less collateral required to mitigate the risk of unsettled trades.[14]

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[6] "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.

[7] *Id.*

[8] *Id.*; *see* T+3 Adopting Release, 58 FR at 52893.

[9] *Surpa* note, 2; *see* http://www.ust2.com/pdfs/T2-Playbook-12-21-15.pdf.

[10] *Supra* note, 2 at 58; *see* Rule 15c6-1(a).

[11] The credit, market, and liquidity risks as well as related reductions to systemic risk associated with T+3 settlement will likely be reduced because shortening the time period between trade execution and trade settlement will likely reduce the number and market value of unsettled trades outstanding at any point in time. *See* SEC Proposes T+2 Settlement, Client Memorandum, Davis Polk LLP.

[12] *Supra* note, 2.

[13] *Id.* at 60.

[14] *Id.*at 60-61.

Harmonization of Settlement Cycles

FIF supports the SEC's preliminary finding that the reduction of the settlement cycle to two days after the trade date will help to harmonize the U.S. markets with other jurisdictions that have already adopted T+2 settlement.[15] FIF believes that the industry will benefit from the reduction of hedge risks stemming from mismatched settlement cycles (e.g. one day lag between settlement in Europe and settlement in the U.S.). Harmonization between markets should also further reduce risk to market participants as participants will no longer need to choose between bearing an additional day of market risk in the European trading markets by 'delaying the purchase by a day, or funding the purchase of European shares with short-term borrowing' as the settlement cycle in both markets will be in alignment.[16] FIF members believe that the harmonization of settlement markets across U.S., European, and Asian equity markets will remove the need for U.S. market participants to bear additional risks associated with cross-border transactions between counterparties in different jurisdictions who have mismatched settlement cycles.[17]

Conclusion

FIF wishes to thank the SEC for providing the opportunity to comment on this Proposed Amendment to Rule 15c6-1 – Securities Transaction Settlement Cycle. Our members support this industry-led initiative and are eager for the Commission to approve the rule changes necessary to establish T+2 settlement in the U.S., in accordance with the implementation timeframe set forth by the Industry Steering Committee. We look forward to working with the SEC and industry members to address any implementation issues that may result from the shortening of the settlement cycle from T+3 to T+2.

Regards,

Christopher W. Bok
Financial Information Forum

cc: The Honorable Mary Jo White, Chair, Securities and Exchange Commission
The Honorable Kara M. Stein, Commissioner, Securities and Exchange Commission
The Honorable Michael S. Piwowar, Commissioner, Securities and Exchange Commission

Stephen Luparello, Director, Division of Trading and Markets, Securities and Exchange Commission

Martin Burns, ISC Co-Chair, ICI
Thomas Price, ISC Co-Chair, SIFMA
John Abel, DTCC

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[15] *See* e.g. https://euroccp.com/content/t2-settlement-cycle-announcement
[16] *Supra* note, 2 at 106.
[17] *See id.* at 107.