



March 27, 2024

Shortening the Securities Transaction Settlement Cycle¹

I. Introduction

On May 28, 2024, the standard settlement cycle for most broker-dealer transactions in U.S. securities will shorten from two business days after the trade date (“T+2”) to one business day after the trade date (“T+1”), pursuant to the adoption by the Securities and Exchange Commission (“Commission”) of amendments to Rule 15c6-1 under the Securities Exchange Act of 1934 (“Exchange Act”).² May 28, 2024 is also the compliance date for new rules related to the processing of institutional trades by broker-dealers and certain clearing agencies, as well as certain recordkeeping amendments applicable to registered investment advisers (together with the amendments to Rule 15c6-1, “final rules”).³

Shortening the standard settlement cycle will impact market participants, such as broker-dealers, clearing agencies, including clearing agencies that are central matching services providers (“CMSPs”⁴), and registered investment advisers (hereinafter “Registrants”), by requiring changes to their business practices, computer systems, and technology solutions. In addition, shortening the standard settlement cycle could have an impact on how Registrants and other market participants comply with other existing regulatory obligations. For example, shortening the standard settlement cycle to T+1 reduces the time frames to effect the closeout of most types of fail-to-deliver positions under Rule 204 of Regulation SHO.⁵ Further, shortening the standard settlement cycle to T+1 shortens the timeframe for broker-dealers to comply with the requirements under Exchange Act Rule 10b-10 to give or send a written confirmation at or before completion of the transaction, and also reduces the number of days that broker-dealers will have to obtain

¹ This Risk Alert represents the views of the staff of the Division of Examinations (the “Division” or “EXAMS”). This Risk Alert is not a rule, regulation, or statement of the Commission. The Commission has neither approved nor disapproved the content of this Risk Alert. This Risk Alert, like all staff statements, has no legal force or effect; it does not alter or amend applicable law, and it creates no new or additional obligations for any person.

² [Shortening the Securities Transaction Settlement Cycle](#), Exchange Act Release No. 96930 (Feb. 15, 2023), [88 FR 13872](#) (Mar. 6, 2023) (“Adopting Release”).

³ *See id.*

⁴ CMSPs are clearing agencies as defined in section 3(a)(23) of the Exchange Act, and as such, are required to register as a clearing agency or obtain an exemption from registration. The Commission has currently exempted three CMSPs from the registration requirement. The Commission also has adopted rules that apply to both registered and exempt clearing agencies, including CMSPs operating pursuant to an exemption from registration. This Risk Alert is intended to apply to CMSPs consistent with the terms of the applicable exemptive orders. *See* Adopting Release, *supra* note 2, at 13899 n.313. *See also* Adopting Release, *supra* note 2, at 13899-13903 (discussing the requirement for CMSPs to facilitate straight-through processing).

⁵ *See* [Shortening the Securities Transaction Settlement Cycle Small Entity Compliance Guide](#) (explaining that the applicable closeout date for a fail-to-deliver position can differ depending on its Rule 204 categorization, including whether it results from a short sale, a long sale, or bona fide market making activity).

possession of customer securities before being required to close out a customer transaction under Exchange Act Rule 15c3-3(m).⁶ As May 28, 2024 nears, it is critical that Registrants and other market participants prepare for the shortened settlement cycle and understand the impacts of T+1 and the final rules to identify necessary changes and critical dependencies in order to successfully manage this transition.

To assess Registrant preparedness associated with the shortening of the settlement cycle and the final rules, EXAMS intends to continue engaging with Registrants through examinations and outreach, as applicable to each Registrant type. EXAMS is issuing this Risk Alert to provide Registrants with additional information about the scope and content of the examinations and outreach.

II. Final Rules

❖ *Amendments to Rule 15c6-1 under the Exchange Act*

The amendments to Rule 15c6-1(a) under the Exchange Act shorten the standard settlement cycle for most broker-dealer transactions from T+2 to T+1. Specifically, paragraph (a) of Rule 15c6-1, as amended, prohibits broker-dealers from effecting or entering into a contract for the purchase or sale of a security (other than certain securities subject to an exception) that provides for payment of funds and delivery of securities later than T+1, unless otherwise expressly agreed to by the parties at the time of the transaction.

Subject to the exceptions enumerated in the rule, the prohibition in paragraph (a) of Rule 15c6-1 applies to transactions in all types of securities. Rule 15c6-1(a) does not apply to a contract for an exempted security, government security, municipal security,⁷ commercial paper, bankers' acceptances, or commercial bills.⁸ The Commission also amended paragraph (c) of Rule 15c6-1 to shorten the standard settlement cycle for firm commitment offerings priced after 4:30 p.m. ET from four business days after the trade date ("T+4") to T+2.

❖ *New Rule 15c6-2 under the Exchange Act*

To promote the completion of allocations, confirmations, and affirmations ("ACA") by the end of trade date for transactions between broker-dealers and their institutional customers, new Rule 15c6-2 requires a broker-dealer to either enter into written agreements with the relevant parties as specified in the rule or establish, maintain, and enforce written policies and procedures reasonably

⁶ *See id.*

⁷ The Municipal Securities Rulemaking Board (MSRB) has adopted amendments to MSRB Rules G-12 and G-15, shortening regular-way settlement for municipal securities transactions to T+1. *See* [MSRB Notice 2023-06](#) (May 30, 2023).

⁸ The Commission also amended paragraph (b) of Rule 15c6-1 to exclude security-based swaps from the requirements under paragraph (a) of the rule. Separately, the Commission previously issued two orders that provide exemptions for transactions in certain foreign securities and insurance products respectively. *See* Exchange Act Release No. 35750 (May 22, 1995), 60 FR 27994, 27995 (May 26, 1995) (Foreign Securities Exemption Order); Exchange Act Release No. 35815 (June 6, 1995), 60 FR 30906, 30907 (June 12, 1995) (Insurance Products Exemption Order). The existing exemptive orders will remain in effect without modification. *See* Adopting Release, *supra* note 2, at 13885.

designed to address certain objectives related to completing ACA as soon as technologically practicable and no later than the end of the trade date.

❖ *New Rule 17Ad-27 under the Exchange Act*

The Commission adopted new Exchange Act Rule 17Ad-27 to require clearing agencies that are CMSPs to establish, implement, maintain, and enforce new policies and procedures reasonably designed to facilitate straight-through processing and to require them to submit an annual report to the Commission via EDGAR that describes and quantifies progress with respect to straight-through processing.

❖ *Amendments to Rule 204-2 under the Investment Advisers Act of 1940 (“Advisers Act”)*

The Commission also adopted amendments to Rule 204-2 under the Advisers Act that require all registered investment advisers to make and keep certain records for any transaction that is subject to the requirements of Rule 15c6-2(a). Those records include each confirmation received, and any allocation and each affirmation sent or received, with a date and time stamp for each allocation and affirmation that indicates when the allocation and affirmation was sent or received.⁹

III. Examinations and Outreach

The Division will continue to conduct examinations and engage in outreach with Registrants to review and assess their preparedness associated with the shortening of the settlement cycle as well as changes they have made or plan to make in response to the final rules, such as relating to Registrants’ ACA process and the requirements for straight-through processing, where applicable.¹⁰ For example, recent public industry data suggests that, despite an upward trend, custodians and investment managers that manually affirm their transactions are providing affirmations at a significantly lower rate on trade date than prime brokers or investment managers that use central matching tools.¹¹ Among other things, EXAMS may review whether and how Registrants have evaluated the potential impact of the final rules on their: (i) business activities; (ii) operations and risk assessments; (iii) services; and (iv) customers, clients, and/or other relevant parties. For example, EXAMS may review the plans that Registrants have developed and steps they have taken to prepare for the shortened settlement cycle, including preparations relating to Registrant’s:

⁹ See Adopting Release, *supra* note 2, at 13898 (stating the “Commission believes that the timing of communicating allocations to the broker or dealer is a critical pre-requisite to help ensure that confirmations can be issued in a timely manner, and affirmation is the final step necessary for an adviser to acknowledge agreement on the terms of the trade or alert the broker or dealer of a discrepancy. The Commission believes the recordkeeping requirements for investment advisers should help establish that obligations of the various parties involved in the settlement process related to achieving a matched trade have been met. Moreover, the amendments to Rule 204-2 are intended to reduce risk following the transition to T+1 by improving affirmation rates.”).

¹⁰ Not every item listed in this section or otherwise discussed in this Risk Alert will be applicable to every Registrant type.

¹¹ See Depository Trust & Clearing Corporation, DTCC Comments on Affirmation Progress for DTC Trade Submission as T+1 Draws Near (Feb. 28, 2024), <https://www.dtcc.com/news/2024/february/28/dtcc-comments-on-affirmation-progress-for-dtc-trade-submission-as-t1-draws-near> (describing the following rates for specific market segments as of the end of January 2024: prime brokers, 81 percent; investment managers via central matching, 92 percent; and custodian or investment managers that are “self” affirming, 51 percent).

- activities in clearance and settlement, including clearing services provided to institutional clients, retail customers, or other broker-dealers; custodial or prime brokerage services; securities lending recall activities and payment activities that support clearance and settlement; trade allocation and fail management processes; and custodian communication;
- operational readiness, including any implementation of, or enhancements or modifications to, systems, controls, policies or processes associated with the shortened settlement cycle, along with information related to any testing events, such as testing events with the Depository Trust & Clearing Corporation (“DTCC”), broker-dealers, vendors, or other parties; and
- disclosures, representations, and/or communications to customers, clients, and/or vendors regarding changes that will occur.

In addition, EXAMS may review any additional preparation for the final rules, including, as applicable, Registrant’s readiness:

- relating to settlement, including the ACA process, and any changes to written agreements or processes;
- with respect to policies and procedures reasonably designed to facilitate straight-through processing; and
- regarding new recordkeeping and reporting requirements.

EXAMS is including as an Appendix to this Risk Alert the types of information and documents that may be reviewed in the Division’s examinations and outreach.

IV. Resources for Registrants

EXAMS encourages Registrants to review the [Adopting Release](#), as well as the [Small Entity Compliance Guide](#) and other Commission staff guidance to aid with the transition to the shortened settlement cycle and related changes.¹² In addition, Registrants may want to review publicly available industry implementation and testing efforts.¹³

¹² See Adopting Release, *supra* note 2; Small Entity Compliance Guide, *supra* note 5. See also Shortening the Securities Transaction Settlement Cycle - Frequently Asked Questions Regarding the Transition to a T+1 Standard Settlement Cycle (March 27, 2024), available at <https://www.sec.gov/exams/educationhelpguidesfaqs/t1-faq>.

¹³ The Securities Industry and Financial Markets Association (“SIFMA”), the Investment Company Institute (“ICI”), and DTCC are leading the U.S. T+1 industry initiative, forming both an Industry Steering Committee that provides governance and consensus building as well as an Industry Working Group (“IWG”) to understand the impact and make recommendations on implementation activities. The T+1 IWG is comprised of representatives from all impacted market segments. See <https://www.dtcc.com/ust1/about>. The T+1 IWG and DTCC released a paper titled “[DTCC T+1 Test Approach: Detailed Testing Framework](#),” version 11 (February 2024). Additionally, SIFMA and ICI commissioned a [T+1 Securities Settlement Implementation Playbook](#).

V. Conclusion

The examinations and outreach are intended to help promote and facilitate an orderly transition to the shortened settlement cycle and compliance with the final rules. The sample issues identified above are intended to aid Registrants to identify and assess necessary changes and critical dependencies to successfully manage this transition to T+1; however, each Registrant may have a different infrastructure, businesses, clients, as well as operational processes and geographies which may lead to different considerations.

This Risk Alert is intended to highlight for Registrants risks and issues that Division of Examinations staff has observed. In addition, this Risk Alert describes risks that Registrants may consider to (i) assess their supervisory, compliance, and/or other risk management systems related to these risks, and (ii) make any changes, as may be appropriate, to address or strengthen such systems. Other risks besides those described in this Risk Alert may be appropriate to consider, and some issues discussed in this Risk Alert may not be relevant to a particular Registrant's business. The adequacy of supervisory, compliance and other risk management systems can be determined only with reference to the profile of each specific Registrant and other facts and circumstances.

Appendix A

This document provides a sample list of requests for information that EXAMS may obtain in conducting examinations or outreach regarding, as applicable, Registrants' preparations associated with the shortening of the settlement cycle and the final rules.¹⁴ EXAMS has published this document as a resource for Registrants. This document should not be considered all-inclusive of the information that EXAMS may review or specifically indicative of the validation and testing we may perform of a Registrant's policies and procedures. Accordingly, EXAMS will alter its requests for information, as well as potentially vary whether it asks for production of information in advance of an examination or review certain information onsite, as it considers the specific circumstances presented by each Registrant, including the specific obligations applicable to each type of Registrant.

1. Information regarding Registrant's activities in clearance and settlement, including whether it clears on behalf of institutional clients, retail customers, other broker-dealers, or others, and whether it provide custodial or prime brokerage services for institutional clients.
2. Information regarding how Registrant is preparing for the movement to T+1, including whether any specific group, person, or vendor was tasked with identifying necessary changes and the process through which identified changes were to be implemented.
3. Information regarding changes to Registrant's policies and procedures to comply with the shortening of the settlement cycle and related new regulatory requirements.
4. Information regarding changes to Registrant's operational risk management, technology systems and processes to comply with the shortening of the settlement cycle and related new regulatory requirements.
5. Information regarding any testing Registrant participated in (e.g., with DTCC, its clients, its vendors, their broker-dealers), as well as any identified issues or resulting changes as a result of the testing.
6. Information regarding any outreach Registrant has had to counterparties, clients, vendors, or others on any changes to the ACA or settlement process.
7. Information regarding any changes made by Registrant to its written agreements for completing the ACA process in a timely manner, as well as the timeframe and status for re-papering the agreements.

¹⁴ Not every item listed below will be applicable to every registrant type.

- 8.** Information regarding how Registrant measures, monitors, and documents ACA rates, as well as any identified issues with the timeliness of the ACA or any changes implemented to address late ACA.
- 9.** Information regarding processes assessed, or any changes made, for when counterparties are located in another time zone.
- 10.** Information regarding how Registrant will handle ACA for end of the day transactions.
- 11.** Information regarding any changes made to Registrant's process for stock lending and changes relating to recalls of loaned securities.
- 12.** Information regarding any funding/liquidity concerns foreseen by Registrant for transactions (e.g., international securities that settle T+2; Exchange-Traded Fund creations/redemptions (underlying securities that do not settle on T+1); etc.).
- 13.** Information regarding the Registrant's management and oversight of technology initiatives and projects it established to comply with the shortening of the settlement cycle and related new regulatory requirements.