

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-80825; File No. SR-CHX-2017-06)

May 31, 2017

Self-Regulatory Organizations; Chicago Stock Exchange, Inc.; Order Granting Approval of a Proposed Rule Change to Shorten the Standard Settlement Cycle from Three Business Days After the Trade Date to Two Business Days After the Trade Date

I. Introduction

On April 6, 2017, the Chicago Stock Exchange, Inc. (“CHX” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> a proposed rule change to conform its rules to an amendment adopted by the Commission to Rule 15c6-1(a) under the Act<sup>3</sup> 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”).<sup>4</sup> The Commission adopted the amendment to Rule 15c6-1(a) under the Act to shorten the standard settlement cycle to T+2 on March 22, 2017 and set a compliance date of September 5, 2017.<sup>5</sup> The Exchange’s proposed rule change was published for comment in the Federal Register on April 21, 2017.<sup>6</sup> The Commission did not receive any comment letters on the proposed rule change. This order approves the proposed rule change.

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> 17 CFR 240.15c6-1.

<sup>4</sup> See Securities Exchange Act Release No. 80295 (March 22, 2017), 82 FR 15564 (March 29, 2017) (“SEC Adopting Release”).

<sup>5</sup> See id.

<sup>6</sup> See Securities Exchange Act Release No. 80467 (April 17, 2017), 82 FR 18800.

## II. Description of the Proposal

The Exchange proposes to amend Article 1, Rule 2(e) and Article 9, Rule 7 to conform to the Commission's amendment to Rule 15c6-1(a) under the Act<sup>7</sup> which shortens the standard settlement cycle from T+3 to T+2 for most broker-dealer transactions.

Current Article 1, Rule 2(e)(1) relating to order settlement terms defines "Regular Way Settlement" as "a transaction for delivery on the third full business day following the day of the contract." The Exchange proposes to shorten the "third full business day" time period to "second full business day."

Current Article 1, Rule 2(e)(2)(C) defines "Seller's Option" as "a transaction for delivery within the time specified in the option, which time shall not be less than four (4) full business days nor more than 60 days following the day of the contract; except that the Exchange may provide otherwise in specific issues of stocks or classes of stocks." The Exchange proposes to shorten the "four (4) full business days" time period to "three (3) full business days."

Current Article 9, Rule 7(a) governing ex-dividend transactions provides in part that transactions in stocks shall be ex-dividend or ex-rights two full business days immediately preceding the date of record fixed by the corporation for the determination of stockholders entitled to receive such dividends or rights, except when such record date occurs upon a holiday or half-holiday, transactions in the stock shall be ex-dividend or ex-rights three full business days immediately preceding the record date. The Exchange proposes amendments to shorten the "two full business days" time period to a "business day" under Rule 7(a) and the "three full business days" time period to "two full business days" under Rule 7(a)(1).

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<sup>7</sup> See id; see also supra note 4.

The Exchange proposes similar changes to current Article 9, Rule 7(b) pertaining to ex-warrants that provides, in pertinent part, that transactions in securities which have subscription warrants attached (except those made for “cash”) shall be ex-warrants on the second full business day preceding the date of expiration of the warrants, except when the day of expiration occurs on a holiday or Sunday, the transactions shall be ex-warrants on the third full business day preceding the day of expiration. The Exchange proposes to shorten the “second full business day” time period to a “business day” under Rule 7(b) and the “third full business day” time period to “second full business day” under Rule 7(b)(1).

### III. Discussion and Commission’s Findings

After careful review of the proposed rule change, the Commission finds that the proposal is consistent with the requirements of the Act and the rules and regulations thereunder that are applicable to a national securities exchange.<sup>8</sup> Specifically, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,<sup>9</sup> which requires that the rules of a national securities exchange be designed, among other things, to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and to protect investors and the public interest.

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<sup>8</sup> In approving this proposed rule change the Commission has considered the proposed rule’s impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

<sup>9</sup> 15 U.S.C. 78f(b)(5).

The Commission notes that the proposed rule change would amend Exchange rules to conform to the amendment that the Commission has adopted to Rule 15c6-1(a) under the Act<sup>10</sup> and support a move to a T+2 standard settlement cycle. In the SEC Adopting Release, the Commission stated its belief that shortening the standard settlement cycle from T+3 to T+2 will result in a reduction of credit, market, and liquidity risk,<sup>11</sup> and as a result, a reduction in systemic risk for U.S. market participants.<sup>12</sup> The compliance date for the amendment to Rule 15c6-1(a) under the Act is September 5, 2017.<sup>13</sup> The Exchange has represented that the operative date of the proposed rule change would correspond to the compliance date of the amendment to Rule 15c6-1(a) under the Act.

For the reasons noted above, the Commission finds that the proposal is consistent with the requirements of the Act and would foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, remove impediments to and perfect the mechanism of a free and open market and a national market system, and protect investors and the public interest.

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<sup>10</sup> See SEC Adopting Release, supra note 4.

<sup>11</sup> Credit risk refers to the risk that the credit quality of one party to a transaction will deteriorate to the extent that it is unable to fulfill its obligations to its counterparty on settlement date. Market risk refers to the risk that the value of securities bought and sold will change between trade execution and settlement such that the completion of the trade would result in a financial loss. Liquidity risk describes the risk that an entity will be unable to meet financial obligations on time due to an inability to deliver funds or securities in the form required though it may possess sufficient financial resources in other forms. See id., 82 FR at 15564 n. 3.

<sup>12</sup> See id., 82 FR at 15564.

<sup>13</sup> See id.

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,<sup>14</sup> that the proposed rule change, (SR-CHX-2017-06), be and hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>15</sup>

Eduardo A. Aleman  
Assistant Secretary

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<sup>14</sup> 15 U.S.C. 78s(b)(2).

<sup>15</sup> 17 CFR 200.30-3(a)(12).