

# **Bond Case Briefs**

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## **SEC Votes to Propose Shortening Settlement Cycle Timeframe.**

WASHINGTON - The Securities and Exchange Commission has voted to propose an amendment to one of its rules that would shorten the standard settlement cycle for most bond and other securities transactions to two instead of three days after the trade date.

The amendment is related to a previously SEC-approved proposal from the Municipal Securities Rulemaking Board that would similarly shorten the settlement cycle for muni transactions.

The SEC's proposal to amend Rule 15c6-1(a) of the Securities and Exchange Act of 1934 will be open for public comment for 60 days after publication in the Federal Register, the commission said in a release.

"Today's proposal to shorten the standard settlement cycle is an important step in the SEC's ongoing efforts to enhance the resilience and efficiency of the U.S. clearance and settlement system," SEC chair Mary Jo White said at a commission meeting on Wednesday. "The benefits of a shortened settlement cycle should extend to all investors, not just those directly involved in the trading, clearing, and settling of securities transactions."

The SEC amendment is designed to reduce the risks that arise from the value and number of unsettled securities transactions prior to their completion, including the credit, market, and liquidity risk that U.S. market participants face.

SEC commissioner Michael Piowar has consistently supported the idea to shorten the settlement cycle.

"I have been quite vocal about the fact that I would have preferred for us to consider this rulemaking long ago," he said during the meeting. "Years from now, investors will be puzzled about how a T+3 settlement cycle existed for so long."

Piowar also noted that the SEC is asking about the possibility of shortening the settlement cycle even further, to one day after the trade date.

"I preliminarily understand that a T+1 settlement cycle would produce distinct challenges and generate costs magnitudes above a T+2 settlement cycle, but I encourage commenters to tell us whether that is true and also identify the costs and benefits of each alternative relative to one another," Piowar said.

The Investment Company Institute applauded the SEC's vote to propose the amendment, saying the change "will help make our markets more efficient and reduce risk to the benefit of all investors."

"The SEC's proposal sends a clear, important signal to industry stakeholders that regulators are committed partners in realizing this important change," said Marty Burns, chief industry operations officer at ICI. "Today's action represents a critical milestone that will keep the T+2 project moving

along toward implementation next year.”

The MSRB filed similar changes to its Rule G-12 on uniform practice, Rule G-15 on confirmation, as well as other requirements in November of last year.

The MSRB changes, approved by the SEC, are tied to the SEC shifting to a T+2 cycle and are part of an industry migration to the new cycle by the third quarter of 2017.

The self-regulator has not set a compliance date for its proposed rule changes but has said it will publish a notice on its website to align the compliance date to that of the rest of the markets.

John Vahey, director of federal policy for Bond Dealers of America, said BDA supports the shortening of the settlement cycle to trade date plus two and “believes it will provide meaningful benefits for the marketplace.”

However, he said, the group continues “to be concerned with the potential for shortened time periods for other rules, such as confirmation delivery time requirements.”

Kenneth Bentsen, president and chief executive officer for the Securities Industry and Financial Markets Association, said SIFMA commends the SEC for its leadership in establishing a regulatory framework that supports a shortened settlement cycle.

“The SEC’s proactive efforts to update its rule will create the regulatory certainty the industry needs to move forward in its goal of achieving a T+2 settlement cycle by September 5, 2017,” he said. “This is truly a win for investors, the industry and all market participants.”

BDA, in a comment letter to the SEC, had expressed concern that the MSRB rule changes might impact retail investors who purchase securities using written checks. But the SEC said in its approval notice that the MSRB addressed the issue by arguing in its filing that the large majority of firms have access to technology that would allow their clients to deliver funds in a timely manner aligned with the T+2 timeline. The MSRB also suggested firms encourage their customers to use electronic funds payment to streamline processing.

Both BDA and SIFMA said the changes could affect MSRB Rule G-32 on disclosures in connection with primary offerings. BDA asked that the MSRB leave Rule G-32 unchanged while SIFMA said the changes for T+2 provided “an opportune time” to revise customer disclosure requirements under the rule. The MSRB, in its filing with the SEC, said it may consider suggested clarifications to the rule at a later date.

## **The Bond Buyer**

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