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SIFMA Supports Shorter Settlement Cycle for U.S. Equities.

The U.S. securities industry says that it supports a move to reduce systemic risk and enhance efficiency by shortening the settlement cycle to T+2 from T+3.

The U.S. industry trade association, the Securities Industry and Financial Markets Association (SIFMA), announced today that it supports shortening the settlement cycle for U.S. equities, corporate bonds and municipal bonds to T+2 (trade date plus two days) from the current T+3 cycle. SIFMA says that it will work with the Depository Trust & Clearing Corporation (DTCC), which is advocating a reduced cycle, to determine the best timing for reducing the settlement cycle.

“SIFMA is committed to helping the financial industry identify new ways to improve market practices, enhance risk management, and promote efficiency. Shortening the settlement cycle could lead to important reductions in operational risk, more efficient allocation of industry capital, and streamline the clearing and settlement process,” said Kenneth Bentsen, Jr., SIFMA’s president and CEO.

While there are many potential benefits to be had, SIFMA also notes that shortening the cycle is a fundamental change that must be implemented with “great care to avoid any operational disruptions that could negatively impact investors.” It recommends that the industry, DTCC and regulators continue to work together to ensure a smooth transition to T+2.

“We are delighted that SIFMA has decided to endorse a move to T+2,” said Michael Bodson, DTCC’s president and CEO. “Our own analysis, based on comprehensive discussions with the industry and robust cost-benefit studies, indicate that a shortening of the settlement cycle for U.S. equities, municipal and corporate bonds and unit investment trusts will drive down industry risk exposures and lead to greater efficiency. We look forward to working with the industry on this initiative.”