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MSRB Proposes Amendments for Move to T+2 Settlement Cycle.

WASHINGTON - The Municipal Securities Rulemaking Board is proposing amendments to move the municipal securities market to a T+2 rather than the current T+3 settlement cycle in the wake of continued calls from across the securities industry and support from regulatory officials.

The amendments would modify MSRB Rule G-12 on uniform practice, G-15 on confirmation, clearance, settlement, and other requirements with respect to transactions with customers to allow them to be settled within two days of execution instead of three. The last time the settlement timeframe changed was in 1995, when it shifted to T+3 from T+5.

The changes to T+2, which the MSRB is asking commenters to weigh in on by Dec. 10, would be tied to the Securities and Exchange Commission making the same revision to the settlement cycle under SEC Rule 15c6-1(a), the MSRB said in its regulatory notice.

"The MSRB is supportive of transitioning to a shorter settlement cycle as a means of both reducing risk and saving costs," said MSRB executive director Lynnette Kelly.

A spokesperson for Investment Company Institute, which along with Securities Industry and Financial Markets Association currently co-chairs the Industry Steering Committee spearheading the change, said ICI is reviewing the MSRB's proposed amendments and that the fund industry "generally supports regulators' efforts to adopt rules governing T+2 implementation as a necessary first step."

The idea for a change to a T+2 settlement cycle started in 2012 when the Depository Trust and Clearing Corporation started an effort to shorten the U.S. settlement cycle and sponsored a cost-benefit analysis of shortening the settlement cycle to T+2 or T+1. It released a white paper in 2014 that gave its reasoning for a T+2 cycle.

It also formed the ISC in 2014 to lead the move to a shorter settlement timeframe. The ISC later sent a letter to the SEC laying out the necessary steps the commission and other regulatory agencies would need to take to make the changes. In the letter, the ISC recommended relevant regulatory organizations confirm their support for the transition by the third quarter of 2015 and adopt the necessary rule changes by the second quarter of 2016. That timeline allows the transition to T+2 by the third quarter of 2017, the ISC said.

The MSRB said in its regulatory notice it believes it is on schedule to meet those deadlines.

SEC Commissioners Michael Piwowar and Kara Stein released a statement in June applauding the industry's leadership on the issue and saying they were interested in having the settlement cycle shortened "as soon as possible." SEC chair Mary Jo White said in a September letter to SIFMA and ICI that she would work to make regulatory and other changes to support shortening the settlement cycle by 2017.

The MSRB is specifically asking commenters to discuss any additional MSRB rule changes that might be needed for the transition as well as any unique impacts the transition could have on municipal securities transactions.

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BY JACK CASEY

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