March 23, 2017

SEC Adopts T+2 Settlement Cycle for Securities Transactions

On March 22, 2017, the Securities and Exchange Commission ("SEC") adopted, as proposed, an amendment to Rule 15c6-1(a) under the Securities Exchange Act of 1934 to shorten by one business day the standard settlement cycle for most broker-dealer securities transactions. Currently, the standard settlement cycle for these transactions is three business days, known as T+3. The amended rule shortens the settlement cycle to two business days, or T+2, unless otherwise expressly agreed to by the parties at the time of the transaction. Transactions that already settle on a shorter settlement cycle will not be affected by the amendment.

In the adopting release, the SEC notes its belief that the shortened standard settlement cycle will reduce certain risks inherent in the clearance and settlement process for all clearing agencies, such as a central counterparty's credit, market and liquidity risk exposure to its members, because there will be fewer unsettled trades and a reduced time period of exposure to such trades. The SEC also notes that shortening the standard settlement cycle will benefit investors through quicker access to funds and securities following trade execution and will more closely align and harmonize the U.S. standard settlement cycle with those foreign markets that have already moved to a shorter settlement cycle.

The T+2 requirement would not apply to certain specified categories of securities and would not affect the settlement cycle for firm commitment underwritings.

The compliance date for the amendment to Rule 15c6-1(a) is September 5, 2017. The SEC has undertaken to submit a report within three years of that date evaluating possible movement to a T+1 or shorter settlement cycle.

The final rule is available here.

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This memorandum is not intended to provide legal advice, and no legal or business decision should be based on its content. Questions concerning issues addressed in this memorandum should be directed to:

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