CARLTON FIELDS

SEC Adopts T+2 Securities Settlement Cycle

April 10, 2017

On March 22, the Securities and Exchange Commission ("Commission") adopted a rule amendment that shortens the time by which most securities transactions effected by a broker-dealer are required to settle. Under the amendment, beginning September 5, 2017, most such settlements will be required to occur by the second business day after the trade date ("T+2"), rather than by the previously-required third business day after the trade date ("T+3"). The shortened settlement cycle will impact many securities transactions by both retail and institutional investors. For example, transactions in the shares of investment companies that are traded on exchanges (*e.g.,* ETFs and closed-end funds), which heretofore have generally settled on T+3, will have to settle by T+2. The same is true of some non-exchange traded mutual funds, although most already settle on an even shorter T+1 basis. *Benefits of Shortened Settlement Cycle* The Commission believes that shortening the standard settlement cycle will reduce certain credit, market, and liquidity risks, thus reducing systemic risk for central counterparties and other market participants in the United States. The Commission expects reduced risks and quicker access to funds and securities following trade executions to benefit market participants in various ways, including by lowering their capital, financing, and other costs. Insurance companies, investment companies, and other investors whose portfolios include securities that will be subject to a shorter settlement cycle under the amendment may derive some of these benefits, directly or indirectly. This rule amendment may provide a particular benefit to mutual funds whose shares already are issued and redeemed on a T+1 settlement cycle. Such funds may be able to more efficiently and precisely manage their cash flows and liquidity requirements, to the extent the amendment makes the settlement cycle for their portfolio transactions closer to that for issuances and redemptions of their own shares. The Commission also believes that investors and other market participants may benefit from the fact that the amendment "harmonizes" the standard U.S. settlement cycle with the T+2 standard that already applies to many transactions outside the United States. *Exemption for Insurance Products* The Commission left in place an order it issued in 1995 to exempt most insurance products (including variable annuities, variable life insurance, and certain other insurance contracts that are considered to be securities) from the T+3 requirement that was adopted at that time. As a result, sales and surrenders/redemptions of such insurance products will be exempt from the new T+2 requirement to the full extent they have been exempt from T+3. This exemption reflects the fact that transactions in insurance products are subject to numerous requirements and considerations (including under state insurance law and Commission regulatory requirements) that make a T+2 or T+3 settlement mandate inapposite and unnecessary. For example, many such transactions remain subject to pricing and processing requirements under the Investment Company Act of 1940 and/or Financial Industry Regulatory Authority rules, although the regulators have shown some flexibility in administering such requirements, in recognition of the unique aspects of some of these transactions. *Implementation of T+2* The Commission recognized that certain types of market participants (or their service providers) will need to incur significant costs in order to adapt to a T+2 standard settlement cycle. While the circumstances of different market participants vary widely, these costs are likely to fall most heavily on financial market utilities (such as central clearing agencies and central depositories) and certain broker-dealers. The Commission judged the additional costs for investors (or their investment managers) to be less, but still significant. For example, the Commission estimated additional costs of between $74,000 and $2,320,000 per institutional investor. Nevertheless, the Commission concluded that the benefits resulting from a shortened settlement cycle will outweigh the costs. Moreover, the Commission concluded that the efforts of market participants to make the adjustments necessary for a standard T+2 settlement cycle are already sufficiently underway that the September 5 implementation date for T+2 is appropriate.

Authored By

Thomas C. Lauerman

Related Practices

Financial Services Regulatory
Securities Litigation and Enforcement

Related Industries

Life, Annuity, and Retirement Solutions
Securities & Investment Companies

©2024 Carlton Fields, P.A. Carlton Fields practices law in California through Carlton Fields, LLP. Carlton Fields publications should not be construed as legal advice on any specific facts or circumstances. The contents are intended for general information and educational purposes only, and should not be relied on as if it were advice about a particular fact situation. The distribution of this publication is not intended to create, and receipt of it does not constitute, an attorney-client relationship with Carlton Fields. This publication may not be quoted or referred to in any other publication or proceeding without the prior written consent of the firm, to be given or withheld at our discretion. To request reprint permission for any of our publications, please use our Contact Us form via the link below. The views set forth herein are the personal views of the author and do not necessarily reflect those of the firm. This site may contain hypertext links to information created and maintained by other entities. Carlton Fields does not control or guarantee the accuracy or completeness of this outside information, nor is the inclusion of a link to be intended as an endorsement of those outside sites.