December 5, 2016

Via Electronic Mail (**rule-comments@sec.gov**)

Brent J. Fields, Secretary
Securities and Exchange Commission
100 F Street N.E.
Washington, DC 20549-1090

Re: Amendment to Securities Transaction Settlement Cycle | File No. S7-22-16

I. Introduction

The Securities Industry and Financial Markets Association ("SIFMA")[1] strongly supports the Securities and Exchange Commission's (the "SEC" or the "Commission") proposal to amend Rule 15c6-1(a) under the Securities Exchange Act of 1934 ("Exchange Act") to shorten the standard settlement cycle for most broker-dealer transactions from three business days after the trade date ("T+3") to two business days after the trade date ("T+2") (the "T+2 Proposal").[2] SIFMA believes the move to a T+2 settlement cycle will reduce credit, market, and liquidity risks, promote financial stability, and significantly mitigate systemic risks to the financial system.

As outlined in our June 2015 letter urging the Commission to adopt this regulatory change,[3] SIFMA believes a shorter settlement cycle will result in process and procedural improvements that will decrease the operational risks present between trade date and settlement date and will increase the overall efficiency of the securities markets. In particular, a shorter settlement cycle will reduce the market and counterparty risks each market participant faces during the settlement period. Shortening the settlement cycle is also consistent with the Commission's focus on enhancing the resilience and efficiency of the national clearance and settlement system and the role that certain systemically important financial market utilities, particularly central counterparties ("CCPs"), play in managing risk. Greater certainty about trade settlement should lead to enhanced liquidity in the market as participants see their risks reduced and markets function more efficiently. It will also align U.S. settlement cycles with major international markets, as most European Union member states and major markets in the Asia-Pacific region have adopted a two-day securities settlement cycle.

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[1] SIFMA is the voice of the U.S. securities industry. We represent the broker-dealers, banks and asset managers whose nearly 1 million employees provide access to the capital markets, raising over $2.5 trillion for businesses and municipalities in the U.S., serving clients with over $20 trillion in assets and managing more than $67 trillion in assets for individual and institutional clients including mutual funds and retirement plans. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit http://www.sifma.org.

[2] Amendment to Securities Transaction Settlement Cycle, Release No. 34-78962 (proposed Sept. 28, 2016) (to be codified at 15 U.S.C. 78(o)(c)(6), 78q-1, and 78w(a)) ("T+2 Proposal").

[3] Letter from Paul Schott Stevens, President & CEO, ICI, and Kenneth E. Bentsen, Jr., President & CEO, SIFMA, to Mary Jo White, Chair, SEC (June 18, 2015) ("Letter to Chair White").

As further discussed below, SIFMA believes that the regulatory action contemplated by the SEC in the T+2 Proposal is a critical prerequisite to achieving a shortened settlement cycle. Although we offer some observations as to issues and questions the Commission has outlined in its T+2 Proposal, our support for this initiative is categorical. We appreciate the extent to which the SEC Chair and Commissioners have personally championed the initiative to date[4] and respectfully urge that the Commission move as quickly as possible to adopt the proposed T+2 regular way settlement cycle for U.S. securities transactions in the secondary markets. More specifically, we encourage the SEC to adopt the T+2 Proposal by March 2017. Timely regulatory action by the SEC and self-regulatory organizations ("SROs") is critical to ensuring industry participants have sufficient lead time to complete the required systems and operational changes to achieve T+2 implementation on September 5, 2017 – the transition date targeted by our members and other market participants.[5] To transfer to a T+2 environment on that date, industry participants have already begun making significant investments to implement the necessary enhancements to their systems, processes, and technology. Testing within individual firms and between firms and vendors has already begun. Industry-wide testing, guided by DTCC led industry-wide testing requirements, is scheduled to begin on February 13, 2017. Swift, decisive leadership by the SEC to adopt the T+2 Proposal, and doing so by March 2017, will guarantee industry participants continue their rigorous efforts to complete the operational and technological changes required to move to a shorter settlement cycle.

Below we provide a brief discussion of the background to the initiative to move to T+2 settlement and offer observations in support of its smooth implementation.

II. Status of Industry Effort & Readiness

A. Background

As part of its response to the market break in 1987, the SEC adopted Rule 15c6-1, establishing T+3 as the standard settlement cycle for broker-dealer transactions that came into operation in 1995.[6] Rule 15c6-1 was implemented in connection with other measures taken by the securities industry, SROs, and the SEC to improve the operation of the U.S. clearance and settlement process and to reduce systemic risk. At the time, the SEC cited a number of reasons for

[4] See, e.g., Commissioner Michael S. Piwowar and Kara M. Stein, Statement Regarding Proposals to Shorten the Trade Settlement Cycle (Jun. 29, 2015) available at: https://www.sec.gov/news/statement/statement-on-proposals-to-shorten-the-trade-settlement-cycle.html; Chair Mary Jo White, Statement on Covered Clearing Agencies and Shortening the Settlement Cycle (Sep. 28, 2016) available at: https://www.sec.gov/news/statement/white-statement-open-meeting-092816.html; Commissioner Michael S. Piwowar, Statement on the Proposal to Shorten the Trade Settlement Cycle (Sep. 28, 2016) available at: https://www.sec.gov/news/statement/piwowar-statement-open-meeting-092816.html; Commissioner Kara M. Stein, Statement on the Proposed Rule Amendment to Shorten the Transaction Settlement Cycle (Sep. 28, 2016) available at: https://www.sec.gov/news/statement/stein-second-statement-open-meeting-092816.html.

[5] Press Release, US T+2 ISC Recommends Move to Shorter Settlement Cycle on September 5, 2017 (Mar. 7, 2016) http://www.ust2.com/pdfs/T2-ISC-recommends-shorter-settlement-030716.pdf.

[6] Securities Transactions Settlement, Exchange Act Release No. 33023 (Oct 6, 1993), 58 FR 52891, 52893 (Oct 13, 1993) ("T+3 Adopting Release"). *See also* Securities Transactions Settlement, Exchange Act Release No. 34952 (Nov. 9, 1994), 59 Fed. Reg. 59137 (Nov. 16, 1994) (extending effective date for Rule 15c6-1 to June 7, 1995).

standardizing and shortening the cycle, including reducing credit and market risk exposure related to unsettled trades, reducing liquidity risk among derivatives and cash markets, encouraging greater efficiency in the clearance and settlement process and reducing systemic risk for the U.S. markets.[7] Other measures taken at the time included improving the affirmation and confirmation process for institutional trades, expanding cross-margining and guarantee arrangements among clearing agencies, and implementing same-day funds settlement.[8]

Soon after the introduction of T+3, regulators and industry participants began to evaluate and publish studies assessing the possibility of further shortening the settlement cycle, including the SIA Business Case Report in 2000 and the SEC's Securities Transaction Concept Release in 2004.[9] In 2012, the Depository Trust & Clearing Corporation ("DTCC") commissioned a study by the Boston Consulting Group ("BCG") to analyze the costs, benefits, opportunities, and challenges associated with shortening the settlement cycle in the U.S. market to T+1 or T+2.[10] The BCG study confirmed the risk reduction benefits, operational efficiencies, and feasibility of a shortened settlement cycle for equities, corporate bonds, municipal bonds, and unit investment trusts.[11] The study also indicated that the industry broadly supported the move to T+2 settlement because of its significant industry risk reduction benefits, manageability, and alignment of U.S. settlement practices with a number of other major markets. In evaluating implementation strategies, the study indicated that the most effective strategy would incorporate certain building blocks, some essential and some simply beneficial, to facilitate the move to T+2, including trade data matching, match to settle, a cross-industry settlement instruction solution, dematerialization of physicals, "access equals delivery" for all products, and increased penalties for fails.[12] Based on results of the study, in February 2014, the Investment Company Institute ("ICI") and the Association of Global Custodians endorsed the move to T+2, which was followed by an announcement of support from SIFMA in April 2014.[13]

Representatives from the industry, including SIFMA, DTCC, and ICI, then established an industry steering committee ("ISC"), comprised of about twenty participants across key market segments, as a governing body to oversee the shortened settlement cycle initiative on behalf of the industry. The ISC identified members of an industry working group ("IWG") of over 300 experts to assist in the initiative. In June 2015, the ISC, with advice from the IWG and consulting support from PWC, published the T+2 Industry Requirements White Paper summarizing the benefits of

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[7] *Id.*at 52893.

[8] DELOITTE & TOUCHE, T+2 INDUSTRY IMPLEMENTATION PLAYBOOK, 11 (Dec. 18, 2015), http://www.ust2.com/pdfs/T2-Playbook-12-21-15.pdf ("Playbook").

[9] PRICEWATERHOUSECOOPERS, SHORTENING THE SETTLEMENT CYCLE: THE MOVE TO T+2, 7 (June 18, 2015), http://www.ust2.com/pdfs/ssc.pdf ("White Paper").

[10] The Boston Consulting Group, Cost Benefit Analysis of Shortening the Settlement Cycle (Oct. 2012) ("BCG Study").

[11] BCG Study; s*ee also* White Paper at 5.

[12] BCG Study at 9.

[13] Press Release, ICI Endorses Move to Shorten Settlement Cycles (Feb. 18, 2014), https://www.ici.org/pressroom/news/14_news_settlement. Press Release, SIFMA Supports the Move to Shorten Settlement Cycle (Apr. 16, 2014), http://www.sifma.org/newsroom/2014/sifma_supports_move_to_shorten_settlement_cycle/.

shortening the settlement cycle and outlining requirements for T+2 implementation.[14] In conjunction with the White Paper, SIFMA and ICI also prepared and submitted a letter to SEC Chair Mary Jo White requesting the necessary regulatory changes required for the move to a two-day settlement cycle in the U.S. by the end of Q3 2017. Chair White responded to SIFMA and ICI on September 16, 2015, indicating her support for the move to T+2 and requesting that the industry continue to pursue migration to a shortened settlement cycle and provide the SEC with a "detailed implementation schedule, including interim milestones and dependencies, by December 18, 2015."[15]

In response to Chair White's request, SIFMA and ICI commissioned Deloitte & Touche LLP to work with the ISC and develop a playbook detailing the requested information (the "Playbook").[16] The Playbook identified remedial activities in which affected market participants needed to engage to prepare for and implement the requirements of a T+2 settlement environment. The Playbook also fulfilled the SEC request to develop a detailed implementation schedule including interim milestones and regulatory and other dependencies.[17] The industry continues to follow the roadmap laid out in this Playbook to facilitate a coordinated transition to T+2.

B. Target Migration Date – September 5, 2017

The selection of September 5, 2017 as the effective date for the move to a T+2 settlement cycle was based on extensive analysis that included broad industry participation.[18] It accounted for key issues, such as readiness, ability, industry testing, and the benefits of implementing the transformation after a holiday weekend. The process for deciding on the migration timeline began in early 2015 with a survey conducted by DTCC of members of the ISC and IWG, including, among others, buy- and sell-side firms, custodians, exchanges, and other industry stakeholders, designed to evaluate each organization's ability to take necessary steps to support an industry-wide move to T+2.[19] Among the survey responses, overarching concerns included the need for regulatory certainty and thorough industry-wide testing in order to effect a successful migration.[20]

In establishing the third quarter of 2017 as an achievable migration timeframe, the ISC concluded that certain key phases and milestones leading up to that time must first be met. For the regulatory certainty component – the need for regulators to express support and identify specific rules and suggested amendments to guide market participants – the ISC determined that it was important for regulators and SROs to make rule proposals by the third quarter of 2015 and to

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[14] White Paper.

[15] Letter from Mary Jo White, Chair, SEC, to Paul Schott Stevens, President & CEO, ICI, and Kenneth E. Bentsen, Jr., President & CEO, SIFMA (Sept. 16, 2015).

[16] Playbook.

[17] Playbook at 16.

[18] http://www.ust2.com/pdfs/T2-ISC-recommends-shorter-settlement-030716.pdf.

[19] White Paper at 11.

[20] *Id.*

provide regulatory certainty by the second quarter of 2016.[21] The ISC also took responsibility for developing an industry-wide testing approach – this approach, which was developed by early 2016, suggested that a six-month test period prior to the migration date would be required to meet industry requirements.[22]

Among the other significant considerations evaluated in connection the development of the Playbook, the industry analyzed the third quarter of 2017 to determine the lowest risk date on which to migrate to a shorter settlement cycle. Considerations included holidays, high-volume events such as index rebalancing, options expiration, and scheduled corporate action events, among others. September 5, 2017 (the Tuesday following the Labor Day holiday) was identified as the least disruptive migration date for a move to a shorter settlement cycle. September 5, 2017 will be the first trade date on which affected securities will settle T+2 regular way. Thursday, September 7 will be a "double-settlement day" where the last trades that settle T+3 (from the previous Friday) settle, along with the first trades that settle T+2.

September 5, 2017 has been identified as the optimal date for migration. With this target date in mind, a tremendous amount of work has been invested by all affected segments of the industry to reorient key business processes to the new settlement date. For this reason, SIFMA, and the industry broadly, underscore the urgency of the Commission moving quickly to adopt the T+2 proposal so that those efforts – and the resulting benefits to market participants – can be completed and realized in an orderly, timely way.

C. Rulemaking by SROs and Banking Industry Regulators

As discussed in the June 2015 letter to Chair White and in the Industry Playbook, a series of SRO and other rules are also expected to change in order to implement the transition to T+2.[23] Already, the Municipal Securities Rulemaking Board ("MSRB") has published its rule change in November 2015 and finalized its rule in April 2016.[24] The NYSE has submitted its initial filings of rule amendments to the SEC for consideration.[25] Similarly, in December 2015, the Financial Industry Regulatory Authority ("FINRA") board of directors authorized FINRA to take action to support the T+2 initiative in concert with rule changes and implementation cycles adopted by the SEC and other SROs. FINRA requested comment on the proposed rule amendments related to the T+2 initiative in March 2016.[26] Nasdaq also has set forth proposed amendments to a significant

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[21] White Paper at 12.

[22] *Id.*

[23] Playbook at 97; Letter to Chair White.

[24]Order Granting Approval of a Proposed Rule Change Consisting of Proposed Amendments to Rules G-12 and G-15 to Define Regular-Way Settlement for Municipal Securities Transactions as Occurring on a Two-Day Settlement Cycle and Technical Conforming Amendments, Release No. 34-77733 (Apr. 29, 2016).

[25] NYSE, Proposed Rule Change (Form 19b-4) (Nov. 4, 2016), https://www.nyse.com/publicdocs/nyse/markets/nyse/rule-filings/filings/2016/NYSE-2016-76.pdf; NYSE Arca, Inc., Proposed Rule Change (Form 19b-4) (Nov. 4, 2016), https://www.nyse.com/publicdocs/nyse/markets/nyse-arca/rule-filings/filings/2016/NYSEArca-2016-145.pdf; NYSE MKT LLC, Proposed Rule Change (Form 19b-4) (Nov. 4, 2016), https://www.nyse.com/publicdocs/nyse/markets/nyse-mkt/rule-filings/filings/2016/NYSEMKT-2016-105.pdf.

[26] FINRA, Regulatory Notice 16-09 (March 2016).

portion of the Nasdaq Stock Market and Nasdaq BX rules necessary to facilitate the T+2 initiative.[27] In November 2016, the Depository Trust Company ("DTC") and National Securities Clearing Corporation ("NSCC") also submitted proposed T+2 rule changes to the SEC that are designed to ensure their rules are consistent with the anticipated industry-wide move to a shorter standard settlement cycle.[28]

There still exist, however, categories of SRO rules requiring amendment in order to recognize the new expectations around regular-way settlement at T+2. Some of those rules specifically establish or reference a T+3 settlement cycle, while others do not contain specific references to T+3, but establish time frames based on the settlement date of a trade, and require one or more parties to act before settlement taking place. Rules that specifically reference a T+3 settlement cycle include, among others: (i) the Intercontinental Exchange ("ICE") Clear Credit rule calling for cash settlement on the third business day after notice of a matched delivery contract has been made;[29] (ii) LCH Clearnet Limited requirements relating to cash settlement on the delivery day + 3 in certain circumstances;[30] and (iii) the Options Clearing Corporation ("OCC") rules involving an obligation to deliver securities on the third business day after tender or the maturity date.[31] SIFMA does not believe that changes to these rules will present challenges to SROs or market participants in terms of their being filed or made operational given the broader industry's reorientation to T+2. SIFMA will urge that each related change be filed and approved quickly by the Commission.

The Federal Deposit Insurance Corporation and Office of the Comptroller of the Currency also have rules that should be amended in light of the move to a shorter settlement cycle to T+2.[32] The industry is in contact with each of these regulatory entities regarding the rules under their purview that should change in coordination with the industry's move to a shorter settlement cycle. SIFMA again believes that none of these anticipated changes should present an obstacle to the migration currently underway.

While these SRO and other rule changes are a critical component of the move to T+2, SIFMA emphasizes that adoption of the T+2 Proposal by the SEC itself is a necessary, primary step to ensure coordinated regulatory support among the SROs and is the appropriate keystone to ensure a careful migration to T+2. In fact, while the MSRB has adopted its own rule changes related to T+2, it has not set an effective date, but rather has oriented implementation to be

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[27] Nasdaq, Equity Regulatory Alert #2016 – 4, Nasdaq Makes Preparations To Shorten Settlement Cycle from T+3 to T+2 (Wednesday, May 18, 2016), http://www.phlx.com/MicroNews.aspx?id=ERA20164. See also, SIFMA comment letter of June 8, 2016 to Nasdaq for a discussion of SIFMA's position on the proposed rule amendments and SIFMA's suggestions for additional changes.

[28] DTC, Proposed Rule Change (Form 19b-4)(Nov. 7, 2016), http://www.dtcc.com/~/media/Files/Downloads/legal/rule-filings/2016/dtc/SR-DTC-2016-013.pdf; NSCC, Proposed Rule Change (Form 19b-4) (Nov. 7, 2016), http://www.dtcc.com/~/media/Files/Downloads/legal/rule-filings/2016/nscc/SR-NSCC-2016-007.pdf.

[29] ICE Clear Credit Rule 2206.

[30] LCH Clearnet Limited Rule 1.13.2.

[31] Options Clearing Corporation Rules 903, 1302, 1302B, 1503B, 2209A, and 2502.

[32] *See* Federal Deposit Insurance Corporation Rule 344.7(a); *see also* Office of the Comptroller of the Currency Rule 12.9(a).

coordinated with the transition to T+2 settlement of trades settled in regular way – which requires SEC amendment of Rule 15c6-1.[33] In announcing the decision to condition implementation of its rule changes, the MSRB highlighted the importance of providing for a consistent regular-way settlement cycle in the secondary markets – whether for municipal or other securities.[34] The MSRB noted that consistency among markets "ensures that investors will not encounter differing settlement cycles when replacing equity or corporate bonds with municipal securities."[35] Adoption of amended Rule 15c6-1(a) is the keystone regulation around which so many aspects of the trade and settlement cycle continue to rely. As a result, the SEC's leadership in rulemaking is essential. In the event such rulemaking is not possible by March 2017, SIFMA encourages the SEC to consider the implications of such a delay: in light of the extensive coordination required among diverse industry participants and existing regulatory structures (including the scheduling and coordination of other mandatory SEC and industry testing) to facilitate this transition, a delay adopting the amendments to Rule 15c6-1 after March 2017, would likely mean that the benefits and risk reductions generated by a move to T+2 could not be achieved until at least 2018 or beyond.

1. Voluntary Corporate Actions - Liability Notice

SIFMA also notes that SROs have rules that set forth procedures that a party must follow when it is owed securities that have become the subject of a voluntary corporate action, such as a tender or exchange offer. Currently, a purchaser of securities subject to a voluntary corporate action who has the intention of tendering those securities to the security's issuer must put the seller required to deliver those securities on notice of its (the buyer's) intent to tender the securities no later than one business day prior to the close of the voluntary corporate action to make the seller liable for the proceeds of the voluntary corporate action should it (the seller) fail to deliver the agreed-upon shares.[36] This "one business day" requirement creates the most pressure on operational processes when a buyer purchases securities on the last trade date on which it will receive regular way delivery of the securities in time to tender the securities to the issuer for the voluntary corporate action - that is, where the settlement date of a transaction and the last day to participate in a voluntary corporate action are the same day.[37]

For example, Security A is subject to a voluntary exchange offer that closes on Thursday. A customer of a broker-dealer (hereinafter "buyer") would like the proceeds of the voluntary exchange offer in Security A. As such, buyer purchases Security A on Monday (Trade Date), the last trade date on which a purchaser of securities will receive regular-way delivery of Security A

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[33] MSRB, Regulatory Notice 2016-15 (May 2016), http://www.msrb.org/~/media/Files/Regulatory-Notices/Announcements/2016-15.ashx.

[34] *Id.*

[35] *Id.*

[36] *See* FINRA Rule 11810(j)(1)(A), NASDAQ Rule 11810 (i)(1)(A), and NYSE Rule 282(1)(A). SIFMA notes that the "one business day" timeframe for liability notice delivery is not operative "When the parties to a contract are both participants in a registered clearing agency that has an automated service for notifying a failing party of the liability that will be attendant to a failure to deliver."

[37] SIFMA notes that there are several other scenarios impacted by the liability notice period, including where an expiration with a protect feature can be traded by a buyer on expiration date for regular way settlement after expiration date whereby a 'protect' will be issued for those shares (tendered to the issuer) on expiration date.

(on T+3, Thursday) in time to tender these shares to the issuer in time to participate in the exchange offer. The seller of Security A is bound to deliver the agreed-upon shares of Security A to the buyer on settlement day. However, the buyer, through its intermediary, must put the delivering seller on notice of the buyer's intention to participate in the voluntary corporate action (sending a "liability notice") to receive the proceeds of the voluntary corporate action if the delivering seller fails to deliver the agreed upon security. This is important as the value and legal rights of the proceeds of a voluntary corporate action can differ significantly from the underlying security. Under existing SRO Rules, a buyer must put the delivering seller on notice of the buyer's intention to participate in the corporate action no later than one business day prior to the close of a specific voluntary corporate action to hold the delivering seller liable for the proceeds of the corporate action should it (the seller) fail to deliver securities as agreed. In the above example, the buyer must put the delivering seller on notice no later than close of business on Wednesday to ensure that the delivering seller, if it fails to deliver the agreed upon shares on Thursday, is liable for the proceeds of the exchange offer action in Security A.

The move to a shorter settlement cycle makes this "one business day" requirement impractical in certain scenarios. Specifically, there are circumstances where, due to the operation of Continuous Net Settlement (CNS), a buyer is not certain whom the actual seller with the delivery obligation will be following multi-lateral netting until mid-day on T+1. Said another way, the seller of a security to a buyer in the market on trade date can differ from the seller with the delivery requirement on settlement day due to multilateral netting. In a T+3 settlement environment, the buyer's intermediary has the entirety of T+2 to put the delivering seller on notice of the buyer's intent to participate in a voluntary corporate action that closes on T+3. In a T+2 settlement environment, the buyer's intermediary will have the short period from the output of the final CNS results on T+1 and the close of business on T+1 to deliver liability notice to the delivering seller. SIFMA, in close communication with the affected SROs, has developed and socialized an updated liability notice requirement that would require a buyer to send a liability notice to the delivering seller as soon as practicable, but no later than two hours prior to depository cutoff for instructions on a specific offer or other event.

Based on the forgoing, SIFMA encourages the SEC to support SRO rule changes that will provide sufficient flexibility to facilitate liability notifications under these circumstances. This change is an important aspect of the move to a shorter settlement cycle, as it will provide purchasers of securities who wish to participate in a voluntary corporate action adequate time to put a delivering seller on notice that if the delivering seller fails to deliver securities as agreed, the delivering seller is liable to make the buyer whole for the proceeds of the voluntary corporate action. Specifically, SIFMA recommends that in place of the current "one business day" limitation found in such provisions, the rules require notification to be sent as soon as practicable, but no later than two hours prior to depository cutoff for instructions on a specific offer or other event.[38]

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[38] *See* FINRA Rule 11810(j)(1)(A), NASDAQ Rule 11810 (i)(1)(A), and NYSE Rule 282(1)(A).

D. Testing

As mentioned above, given the significance of the move to T+2, plans are already well underway to develop and execute test plans that align with the T+2 migration date on September 5, 2017. A transition of this magnitude necessarily involves several stages of testing – portions of which are already in flight. Specifically, the testing framework includes: (i) internal system testing conducted by and within individual industry members; (ii) vendor and service bureau integration testing that involves communications and testing run between individual firms and service providers; and (iii) industry-wide testing to be coordinated by DTCC. These testing stages will continue to be performed iteratively throughout implementation to achieve readiness for the migration to T+2 by the target migration date, with the expectation that internal system testing and vendor and service bureau integration testing must be well underway before effective industry-wide testing can proceed.

Beginning in December 2016, the environments for industry-wide testing will be available to DTCC members through its testing facilities. According to a schedule published by DTCC in July 2016, this T+2 testing is scheduled to run from February 13, 2017 through August 23, 2017, in anticipation of implementation on September 5, 2017.[39] In light of the significant investments related to such testing, including the complexity of coordinating and scheduling industry-wide tests across different stakeholders, and the requirements for systems and processing overhauls, it is critical that the SEC provide regulatory certainty of approval of the T+2 proposal as soon as practicable.

Moreover, SIFMA notes for the SEC that testing related to the T+2 transformation is being coordinated with other testing associated with other industry initiatives, such as Regulation Systems Compliance and Integrity ("Regulation SCI"), DTCC's Consolidated Trade Summary system testing, the Consolidated Audit Trail, and other pending or anticipated industry changes.[40] As a result, testing a shortened settlement cycle requires scheduling months in advance. Moving the migration date away from September 5, 2017, would jeopardize the extensive efforts taken by the industry to coordinate and harmonize T+2 testing with testing for other critically important regulatory programs.

III. General Description of Costs and Benefits

A. Description of Previous Cost Analysis efforts

SIFMA appreciates the work completed through the BCG study commissioned by DTCC in May 2012 to evaluate the required investments and potential benefits that could be realized from a shortened settlement cycle for U.S. equities and corporate and municipal bonds. SIFMA has continued to gather information about the potential costs associated with the transition to T+2 to

[39] DTCC, T+2 Test Approach: Detailed Testing Framework (July 2016), http://www.ust2.com/pdfs/UST2-Testing-WhitePaper.pdf.

[40] Playbook at 104.

provide more support and clarify the anticipated investments by and effects upon market participants involved.

B. Description of SIFMA Survey

As discussed more fully in the accompanying Appendix, to evaluate the costs and benefits associated with migration to T+2, SIFMA and ICI retained Deloitte & Touche LLC to analyze the results of an Industry Cost Survey that SIFMA and ICI conducted of asset managers, broker-dealers, and custody banks, as well as service bureaus and DTCC.[41] The responses provide an update on the cost projections laid out in the BCG study, which provided the basis for a number of assumptions included in the economic analysis section of the SEC's proposal. The survey also provides additional levels of detail than that laid out in the BCG study, breaking estimated costs down by business model segment and, within segments, by firm size.

To estimate the aggregate, industry-wide cost of a transition to a T+2 standard settlement cycle, the survey took the product of average cost estimates from the industry survey and the Commission's own estimate of the respective number of entities for each category of firm. The resulting total estimate cost for the industry as a whole is approximately $687,087,000. The collective estimate generated by the survey is only marginally higher than the costs originally projected by the BCG study in 2012 ($550 million), and substantially lower than the range of projected costs included in the Commission's estimates in the T+2 Proposal of $2.1 to $4.2 billion.[42]

SIFMA believes that these costs, while significant as a collective figure, nevertheless reflect that its members and other market participants would bear the costs of the T+2 transition individually and by segment both reasonably and proportionately. Moreover, the survey indicates that various segments will benefit from mutualization of those costs, resulting in large part from investments already made in system changes for firms operating in jurisdictions that maintain a T+2 settlement environment and widespread use of service bureaus to provide clearance and settlement activities including the changes needed to support the initiative. Likewise, SIFMA concurs with the SEC's view that firms within each segment will benefit – individually, collectively, and systemically – from the migration to T+2. In this regard, SIFMA notes that a separate impact analysis conducted by DTCC indicates that the migration to T+2 standing alone would result in a significant reduction (nearly $1.36 billion or 25%) in average daily clearing fund requirements for its member firms.[43]

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[41] Total cost estimate include firms' internal costs from the initiation of T+2 migration program until the migration to T+2 settlement on September 5th, 2017. In calculating the internal cost estimate for the move to T+2, firms were asked to consider costs including, but not limited to, systems, technology, staff, compliance, reporting, communication, testing, and consultation services

[42] BCG Study at 9-10; T+2 Proposal at 132.

[43] DTCC's simulations show that the projected savings figures would be reduced to approximately $533 million or 9% when netted against clearing fund increases related to the anticipated accelerated trade guarantee ("ATG") charges associated with that separate rulemaking initiative. The overall cost reduction represented by the migration to T+2 is significant from the perspective of SIFMA members, SIFMA also agrees with the DTCC/NSCC projection that T+2 migration will mitigate the overall impact of ATG if the Commission later approves that separate workstream.

The survey yielded 87 responses from broker-dealers (clearing, self-clearing and introducing firms), asset managers, custody banks and other service providers.[44] Responses were grouped by the size of firm, as reflected in assets under management (AUM) (for asset managers) and annual revenues (for broker-dealers), and represented a broad spectrum of firm sizes and business models, with asset managers with AUM ranging from under $20 billion to over $200 billion, and annual revenues of broker-dealers ranging from under $250 million to over $1 billion.[45]

Among the survey responses, introducing broker-dealers reported *de minimis* direct implementation investment cost estimates, as the necessary investments are being made at their clearing firms and by other service providers they utilize. Spending at these clearing firms and service providers necessary to support introducing firms was captured through the survey categories for these other market segments. Introducing firms did report estimated costs related to employee education and outreach to customers. The survey generated particularly numerous responses among the largest broker dealers, which projected the highest investment costs.

With regard to individual market segments and the related economic impacts:

1) Broker Dealers - Clearing/Self-Clearing

The move to T+2 will reduce the liquidity costs and capital demands faced by broker-dealers that are direct members of clearing agencies and those that are self-clearing. Based on the survey and other interactions with member firms that fall into these categories, SIFMA is confident that firms are addressing the infrastructure changes, including reprograming and documentation, communication with intermediaries, and other activities associated with the migration and that they will realize benefits to their operations and risk profiles in terms of diminished counterparty risk.

The survey indicated that the average cost of clearing and self-clearing broker-dealers is approximately $2,690,000.[46] The product of this average figure and the 186 firms in this category would set estimated costs at $500,340,000. Notably, there were substantial variations in the costs reported by firms in this category, reflecting both the broad range of firm sizes reporting as well as the different business models of self-clearing firms and firms that clear for others. The largest firms that clear for others (those with over $1 billion in revenues) reported costs ranging from $750,000 to $10 million.

[44] Service Providers refer to third party entities that provide services to broker-dealers, asset managers and custody banks, including, but not limited to, transfer agents and pricing vendors. To avoid duplication, firms responding to the survey were instructed not to include the cost of investments and changes at services providers that support them, and only reported the firm's own spending. Service providers were surveyed separately.

[45] Specifically, a total of 26 asset managers responded to the survey representing more than $7.8 trillion AUM, which is approximately 48% of total ICI's fund members assets in open ended mutual funds. The sample included small, medium and large firms in terms of AUM.

[46] To avoid duplication, this cost does not include charges to service providers associated with the move to T+2.

Some self-clearing firms reported that they anticipate making only *de minimis* investments beyond client communications and staff education, due to their use of third party service providers that will make the bulk of necessary investments, while the largest self-clearing firms (those with revenues over $1 billion) reporting up to $15.6 million in costs, with an average cost for these largest firms of $3.7 million. Estimated costs for medium and smaller self-clearing firms were substantially lower, with average costs of approximately $713,000 for those with revenues between $250 million and $1 billion, and average costs of approximately $970,000 for those with revenues below $250 million. We believe that some of the variation in costs reflects firms that have already made investments to support the move to T+2 settlement in Europe. Such firms expect to be able to draw on this experience and to rely on already modified systems to support the move in their U.S. operations.

2) Broker Dealers - Introducing Firm[47]

Broker-dealers that submit transactions to a clearing agency through a clearing broker-dealer also stand to benefit from T+2 settlement, including through the reduction in liquidity risk and lowered costs related to margin and other charges and fees imposed by clearing brokers in association with managing credit risk. Although they face fewer operational challenges than clearing firms, they nevertheless are addressing issues related to implementation, including communications and documentation with their customers. Ultimately, the underlying introducing firm customers stand to realize significant benefits from the migration, including the more rapid return of the proceeds of a sale of a security given the shortened settlement cycle.

Introducing firms responding to the survey reported *de minimis* direct implementation investment costs.[48] However, we agree with the Commission's assessment that these firms may face one-time costs to support the initial transition to T+2, such as costs associated with education for their staff and outreach to customers. Assuming all clearing broker dealers (Broker Dealers – Clearing/Self Clearing) have incorporated costs associated with client outreach and education into the reported cost estimates, we used the Commission's estimate of the number of introducing firms (1,497) to derive an estimate cost of $44,910,000, assuming each introducing broker dealer will incur $30,000 of education and customer service costs associated with the migration.

3) Asset Managers

While there will be some attendant costs related to the migration, asset managers and the investors on whose behalf they act stand to benefit from reduced costs and the risk reducing features of the shortened settlement cycle. The survey itself generated responses indicating

[47] Distinct from the description of introducing firms in the economic analysis section of the T+2 Proposal, the category of broker-dealers used in the economic analysis of the survey results includes only introducing firm that are not self-clearing.

[48] To avoid duplication, this cost does not include charges to clearing firms or service providers associated with the move to T+2.

an average cost for each asset manager of approximately $74,000.[49] The estimated total costs of all asset managers would be $71,410,000, based on the product of the average cost per firm and 965 buy-side firms. Notably, the highest estimated costs were projected in the mid-sized asset manager category, those with $20 billion to $250 billion in AUM, which reported an approximate average cost estimate of $151,000, while the largest asset managers with over $20 billion in AUM described lower average costs of approximately $58,000. This likely reflects system changes already in place at the largest asset managers to support their activity in international markets, such as Europe, which are already on a T+2 settlement cycle, and their involvement in a broader range of asset classes, many of which settle on a shorter cycle than T+3, as well as their use of service providers who will either make minimal system changes or do not expect to pass along significant costs to their customers.

4) Custody Banks

Custody Banks often provide a range of services to asset managers when they place securities with a Custody Bank in lieu of using their executing broker to custody securities at DTC. In these circumstances, the Custody Bank provides administrative services including: acting as agent and or fiduciary, monitoring the purchase and sale of securities by the executing broker-dealers, and collecting dividends and interest.[50] The survey indicated that the average cost anticipated by each Custody Bank is approximately $782,000.[51] The product of this average cost across 53 custody banks would yield total costs of $41,446,000 for this segment.

5) Service Providers

Our survey indicated that the average cost reported by each Service Provider is $3,006,000. With 6 service providers, the estimated total costs of all Service Providers would be $18,036,000. Of note, the survey indicated substantial variation in the cost estimates provided by service providers, with some service providers reporting that their systems were already ready for T+2 and no additional investment would be required, while others reported estimates of up to $10.5 million were needed. As noted above, these estimates are for service providers only, and firms who are expecting service providers to make changes to support their processes did not include the spending at service providers in their own estimates to prevent double counting.

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[49] To avoid duplication, this cost does not include charges to service providers and custodians associated with the move to T+2.

[50] T+2 Proposal at 27.

[51] To avoid duplication, this cost does not include charges to service providers associated with the move to T+2.

6) Matching/ETC Provider

We received cost estimates from two ETC Providers, indicating an average of $315,000 for each Matching/ETC Provider. The product of this average and three Matching/ETC Providers results in estimated total costs of all Matching/ETC Providers would $945,000.

7) DTCC/NSCC

Based on DTCC's estimate, the all-in cost for T+2 for NSCC and DTC is approximately $10 million, which cost is split approximately $6 million for the build-out of the new test environment and $4 million for T+2 system modifications.

While the survey was designed to capture transition costs for the move to T+2 across industry segments, there may be additional costs which are not included in this estimate. Further, individual firms may experience costs that differ from the ranges and averages described above. However, we do not expect that these variations in costs would make a meaningful difference in the scale of investment required to support the transition overall. For example, Service bureaus have been active participants in industry efforts to shorten the settlement cycle, supporting their clients that stand to realize the benefits of T+2. In response to the ISC's mandate, service bureaus have already taken the steps necessary to participate in industry testing and be in position to facilitate the September 5, 2017 migration date. Moreover, service bureaus have been committing resources to the transition since 2015. Maintaining the current timelines and requirements will allow them to realize the value of their investments. Similarly, service bureaus will provide significant assistance to their customers in effecting the change to T+2, thereby diminishing expenses that would otherwise affect mid- and small-size firms.

IV. Why T+2?

A. T+2 Is Achievable Within A Reasonable Timeframe

1. Evolution of Existing Processes

The industry has already invested significant time and resources in evaluating and preparing for a potential move to T+2, making it well-positioned to capitalize on those efforts and complete the transition to a shorter settlement cycle. Generally, the industry has organically made incremental improvements in batch processing systems as the technology to do so has become available, and has moved to real-time processing where logical (*e.g.*, NSCC Trade Reporting). A move to a T+2 settlement cycle would lead to enhancements and compression of batch processing systems without forcing a costly and difficult transition to real-time processing for all clearance and settlement processes that would be required in connection with a move to a settlement cycle shorter than T+2. As described above, the SROs are similarly taking critical steps to ensure a smooth, efficient transition. A key remaining aspect of this transition is a clear message and commitment from the SEC – a step that can be accomplished by approving the rule changes the SEC has proposed to shorten the settlement cycle to T+2.

2. Risk Reduction

a) Systemic

SIFMA strongly agrees with the SEC's description of the systemic risk reduction benefits that will accompany the migration to T+2. Given the financial resource and other liquidity demands facing CCPs and other market participants during times of market volatility and stress, a shorter settlement cycle should help meaningfully reduce those demands. SIFMA agrees with the SEC that reducing the total volume and value of obligations in the settlement pipeline at any given time will help minimize the systemic consequences of serious market disruptions.[52] In addition, CCPs will be better positioned to serve as a source of stability and efficiency within the clearance and settlement system when there is a shorter period of time during which they are exposed to credit, market, and liquidity risks – the shorter period of time limits the scope of trades subject to the guarantee at any one time. Minimizing risk in this context can limit the circumstances in which a disruption to the clearance and settlement system will extend to other aspects of the market.

b) Counterparty

The migration to T+2 is anticipated to reduce counterparty risk and associated market risks as CCPs absorb the risks otherwise borne by market participants, particularly sell side firms. Additionally, reduced collateral requirements will help reduce liquidity risks, thereby improving capital utilization by organizations.[53] As highlighted extensively in the T+2 Proposal and described among the conclusions of the BCG report, shortening the settlement cycle to T+2 is expected to yield benefits for the industry including counterparty risk reduction, operational process efficiencies, potentially lower collateral requirements and liquidity demands, and enhanced global settlement synchronization.[54] In addition, as described in more detail above in footnote 42 and the accompanying text, a separate impact analysis conducted by DTCC indicates that the migration to T+2 standing alone would result in a significant reduction (nearly $1.36 billion or 25%) in average daily clearing fund requirements for its member firms.[55]

3. Global Harmony

A transition to a T+2 settlement cycle will align the U.S. market with other major international markets that currently operate in a T+2 environment. More than two dozen European member states migrated to a T+2 settlement cycle on October 6, 2014, including Austria, Belgium, Croatia, Czech Republic, Cyprus, Denmark, Estonia, Finland, France, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Lichtenstein, Lithuania, Luxembourg, Malta, the Netherlands, Norway, Portugal, Romania, Slovakia, Sweden, Switzerland, and the United Kingdom. In addition, Germany, Slovenia, and Bulgaria also have already transitioned to a T+2 settlement cycle and

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[52] T+2 Proposal at 62.

[53] Playbook.

[54] *Id.*

[55] *See* n. 43 *supra.*

Spain completed its transition to T+2 settlement for equities in the fourth quarter of 2015.[56] Peru recently announced a decision to transition to T+2, with tentative plans to make the move in the third quarter of 2017.[57] It should also be noted that Japan is currently examining a move to T+2 settlement, and the Singapore, Malaysia, and Vietnam securities markets are currently evaluating similar changes to their settlement cycle.

The Canadian Capital Markets Association is coordinating the Canadian Market to move to a T+2 settlement cycle along with the U.S. on September 5, 2017. The IWG includes participants from the Canadian market, and the work done for the Playbook will play a role in their planning and efforts moving forward.[58]

The Australian Consultation Paper, "Shortening the Settlement Cycle in Australia: Transitioning to T+2 for Cash Equities," published February 2015, outlines a number of important preconditions required for the transition to T+2. The paper emphasized the importance of achieving higher rates of same-day trade affirmation as well as improving matching and settlement efficiency. Expediting the clearance of retail funds was stressed as well as the proper management of failed and late settlements. In March 2016, Australia and New Zealand shifted to T+2 settlement to harmonize with European and other major markets.

Aligning with the other top volume markets from around the world that operate in a T+2 environment would foster significant global harmony. The benefit of harmonized settlement cycles would include increased efficiency in coordinating trading among investors across international markets and less operational risk as investment managers would not need to balance inconsistent settlement cycles across common broad asset classes. Of the top ten markets, as calculated by market capitalization, the majority utilize a T+2 settlement cycle.[59] The only other top ten markets operating on T+3, Canada and Japan, are currently considering or are in the process of transitioning to T+2. Moving the U.S. markets to a T+2 settlement cycle would result in over 77% of top ten markets worldwide, as calculated by market capitalization, operating in a harmonized settlement environment.[60]

4. Investor Benefit

Customers of both institutional and retail broker-dealers stand to benefit from the migration as well. Given the widespread use of straight-through processing by institutional firms, they face challenges but have already made significant prior infrastructure investments that are making the migration to T+2 easier to effect. For retail broker-dealers, there are additional challenges related to physical payments, but these issues are not creating obstacles that will interfere with the migration. More significantly, both institutional and retail broker-dealers are anticipating

[56] Playbook.

[57] *Peru: Shortening the settlement cycle: the move to T+2*, Market Watch (Nov. 30, 2016).

[58] See the Canadian comment letter (add citation) for a more detailed discussion of the importance of coordinating settlement cycle developments with the Canadian markets.

[59] Global Settlement Cycles http://www.world-exchanges.org/home/index.php/statistics (registration required).

[60] *Id.*

significant improvements in risk mitigation for themselves and their customers as a result of the migration to T+2. Investors in particular are exposed to their broker-dealer from the point of trade execution to settlement. If the broker-dealer were to go out of business during that time, the investor may be forced to re-execute the trade at a new market price. Thus, the shortened settlement cycle results in reduced periods of exposure.

V. Areas that May Require Additional SEC Guidance

Certain SEC rules and areas of guidance make reference to the settlement date for purposes of setting measurement dates or other purposes, but they do not impact the lifecycle of a trade itself nor should they have an effect on settlement processes. Nevertheless, with the movement of the settlement cycle from T+3 to T+2, the time frames established in several of the rules or guidance identified below will be shortened by a day because they are measured from settlement date. At this time, SIFMA is not recommending any amendments to these rules. However, because shortening the relevant time frames will affect processes that affect market participants and underlying customers, we wish to bring these rules to the SEC's attention and encourage the SEC to provide clarification or updated guidance where necessary to assist in ensuring a smooth transition to T+2 settlement.

A. Regulation SHO

1. Updating SEC FAQ to reflect T+2 settlement

Rule 204 of Regulation SHO requires a close-out of all fail to deliver positions by the morning of T+4 (T+6 for market makers). SIFMA agrees with the SEC that the move to T+2 will not require a change to Rule 204 itself. However, as the SEC notes in the T+2 Proposal, the close-out periods contained within Rule 204 will accelerate when measured from the date of a trade's execution, since Rule 204 close-out periods are measured from settlement date.

Generally, Rule 204 requires brokers and dealers that are participants of a registered clearing agency to take action to close out failure to deliver positions. Closing out requires the broker or dealer to purchase or borrow securities of like kind and quantity. The participant must close out a failure to deliver for a short sale transaction by no later than the beginning of regular trading hours on the settlement day following the original settlement date. If a participant has a failure to deliver that the participant can demonstrate on its books and records resulted from a long sale or that is attributable to bona fide market making activities, the participant must close out the failure to deliver by no later than the beginning of regular trading hours on the third consecutive settlement day following the original settlement date. If the position is not closed out, the broker or dealer and any broker or dealer for which it clears transactions (for example, an introducing broker) may not effect further short sales in that security without borrowing or entering into a bona fide agreement to borrow the security (known as the "pre-borrowing" requirement) until the broker or dealer purchases shares to close out the position and the purchase clears and settles.[61]

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[61] *Frequently Asked Questions*, T+2 SETTLEMENT, http://www.ust2.com/questions/.

SIFMA encourages the SEC to revise the FAQs on Regulation SHO to clarify the implications of a move to T+2 settlement – that the close out periods will shorten by a single day when measured from trade date.

2. Securities Lending recall moves from T+2 to T+1

SIFMA also notes that there are potential consequences from the move to T+2 on the securities lending markets, particularly with respect to recalling loans to settle transactions.[62] Securities lending transactions are executed to avoid delivery failures or to cover or create a short position in a security. Participants in such transactions including security lenders, security borrowers, and service providers will have to address the impact of a shortened settlement cycle on their business models and trading strategies. As a general matter, these industry participants recognize and support the need for the move to T+2 settlement, despite the implication that this move will necessarily shorten the recall period by one day. While they are prepared to make the necessary operational adjustments to accommodate this limited period, they would welcome the SEC's efforts to revise staff guidance currently available regarding the recall period so that it reflects the consequences of the move to T+2.[63]

B. Prime Broker Operations

The industry has already improved the confirmation/affirmation and matching process through the emergence and integration of Matching/ETC Providers into the national clearance and settlement infrastructure.[64] Continuing these changes may be necessary in a T+2 environment because certain steps related to the allocation, confirmation, and affirmation of institutional trades will need to occur earlier in the settlement cycle compared to in a T+3 environment.[65] A subset of institutional trades, called prime broker trades, currently have a very high same day affirmation rate using Matching/ETC Provider infrastructure.

The SEC's Prime Broker No-Action Letter[66] and related industry standard agreements,[67] among other things, enshrine the rights of customers, executing brokers, and prime brokers in the prime broker relationship as it relates to post-trade processing. One important right prime brokers

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[62] Letter to Chair White.

[63] *See* 81 FR 69260-61. "Accordingly, the Commission preliminarily believes that it would be appropriate to modify its interpretation to account for a T+2 standard settlement cycle to help ensure that such loaned but recalled securities would be available by T+4 before the close-out period for fails on sales marked ''long'' would otherwise be required by Rule 204 (i.e., no later than the beginning of regular trading hours on T+5). Specifically, if a T+2 standard settlement cycle is implemented, a broker-dealer seeking to mark an order ''long'' using this interpretation would need to initiate a bona fide recall of a security on the settlement day before the settlement date (i.e., T+1), provided the seller is also net long under Rule 200(c) of Regulation SHO."

[64] T+2 Proposal at 63.

[65] *Id.* at 64.

[66] Prime Broker Committee, SEC No-Action Ltr. (Jan. 25, 1994) https://www.sec.gov/divisions/marketreg/mr-noaction/pbroker012594-out.pdf.

[67] In particular, SIFMA Form 150 (http://www.sifma.org/Services/Standard-Forms-and-Documentation/Prime-Brokerage/Prime-Brokerage-_Prime-Brokerage-Agreement-(Form-150)/).

hold under this letter is the right to "disaffirm" all previously affirmed trades of a customer reported by executing brokers through OMGEO to the prime broker for clearance and settlement. Generally, this prime broker's right to disaffirm has provided an incentive for speedy affirmation of such trades, evidenced in the high prime broker same-day affirmation rate, while still permitting the prime broker to manage its risk vis-à-vis the customer. It is unclear at this point that any changes related to disaffirmation rights need to be made to the Prime Broker No Action Letter and/or the agreements between prime brokers and executing brokers. However, in the absence of industry-wide consensus to change common technology platforms currently utilized in the industry, the move to a shorter settlement cycle is likely to shorten the cutoff time frame for prime brokers to disaffirm trades from T+2 to the morning of T+1. This move to an earlier morning cutoff time on T+1 decreases the prime broker's ability to manage its risk vis-à-vis the customers arising from margin calls issued by prime broker on T+1.[68] Members of the prime broker and executing broker communities, together with OMGEO and DTCC, are meeting to discuss the potential impact of a move to a shorter settlement cycle on prime broker trade processing, particularly as it relates to the ability to effectuate a disaffirmation from a technology perspective.[69] SIFMA strongly supports ongoing efforts by the staff of the Division of Trading and Markets to evaluate potential updates to the Prime Broker No-Action Letter, but notes that industry groups are continuing their work to operationalize the processes contemplated in a T+2 environment and consider required changes to the agreements between prime brokers and executing brokers.

C. Primary Markets – Bilaterally Agreed Settlements

SIFMA agrees generally with the SEC's position that the use of the extended settlement provision of Rule 15c6-1 is quite rare with respect to secondary market trading, as such transactions can typically be documented and executed close to instantaneously using highly automated processes. We expect this to continue after T+2 becomes applicable. However, we are concerned that the Commission's statement in footnote 153 of the T+2 Proposal, suggesting expectations of only limited use of the extended settlement provision, may not reflect current market practices in the settlement of certain primary firm commitment offerings, particularly those in the convertible debt, preferred equity, options on securities, and fixed income markets.[70] In those markets, issuers, underwriters and the initial purchasers of those securities have increasingly relied on an extended settlement cycle pursuant to 15c6-1(d) for many primary distributions.[71] As

[68] If these issues are not addressed appropriately, the currently high affirmation rate would likely decrease and more transactions would be settled broker-to-broker rather than through CNS.

[69] To the extent other Matching/ETC Providers enter the prime broker space, SIFMA will include these entities in the discussion.

[70] *Id*. at 58.

[71] The use of extended settlement has occurred for a variety of reasons, including (a) providing deal professionals with sufficient time to execute these complicated and heavily-documented transactions, (b) allowing issuers to quickly access the capital markets for opportunistic financing transactions at the lowest possible cost of capital by minimizing the amount of documentation that is required to be prepared in advance of pricing, (c) allowing investors to participate in primary offerings quickly, with the completion of "back-office" matters postponed until the period in-between pricing and closing, (d) allowing investors and issuers across different time zones and countries to access the U.S. capital markets, (e) synchronizing settlement with the closing of a refinancing, (f) synchronizing settlement with the closing of an acquisition, (g) providing issuers and investors with sufficient time to finalize any hedging arrangements to lower their risk and (h) providing issuers and broker-dealers with the time to finalize and deliver disclosure documents to investors and/or file them with the Commission. The need for market participants to agree to

a result, the suggestion of the SEC's expectation that there will only be limited reliance on extended settlement as described in the footnote does not match actual practices and may result in unintended negative consequences.

SIFMA respectfully requests that the SEC provide clarification when adopting the T+2 Proposal that parties to a primary offering may continue the practice of agreeing to extended settlements in accordance with Rule 15c6-1 in appropriate cases, including in connection with the settlement of option transactions and issuance of convertible debt, preferred equity, options on securities, and fixed income securities, and that the use of such extended settlements in primary offerings of such securities need not be limited to unusual circumstances or confined to situations where settlement on a T+2 basis is not feasible. Notably, the daily volume of secondary market trading in securities that would be subject to T+2 greatly exceeds (by several multiples) the daily volume of securities issued in primary offerings. As a result, we believe that maintaining the status quo and generally permitting parties to agree to longer settlement periods for primary offerings of securities other than common stock (and the secondary trades that occur prior to the initial settlement of such primary offerings), would not detract from the Commission's goal of reducing credit, market, liquidity or systemic risks in the U.S. financial markets.

D. Prospectus Delivery

Generally, the industry has continued to seek greater flexibility to use electronic delivery of prospectuses and other statutorily required documents. As technological advances continue at a rapid pace, the industry – and the individuals it services – have reached a point where the option of electronic delivery provides reasonable, cost effective, and arguably the most efficient means by which to ensure disclosure documents get in the hands of investors. Moreover, electronic delivery presents opportunities for reduced costs for investors as well as the financial intermediaries that facilitate delivery. For example, by extending Summary Prospectus delivery to other product types and establishing greater use of EBIPs for pushing documents digitally, the industry can create significant economic benefits and higher levels of investor readership. Similarly, a Summary Prospectus delivery option for corporate bonds and government securities, would significantly reduce costs for the industry. SIFMA encourages the SEC to continue to consider rule changes that embrace expanding investors' electronic delivery options for statutory documents.

For securities that do not benefit from access equal delivery, we are concerned that the move to T+2 leaves little or no margin for operational difficulties that could delay the delivery of a prospectus despite a good faith effort by the broker-dealer. The current process to effectuate delivery often entails a number of steps that occur late in the day and overnight to ensure compliance. These steps include: (i) finalizing the prospectus on trade date between issuer, counsel and underwriters; (ii) generating physical copies from a printer and having those delivered by mail or courier to a third party service provider; and (iii) pairing the prospectus with the

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an extended settlement cycle in connection with these primary offerings may increase upon adoption of a T+2 standard settlement cycle.

confirmation by the service provider prior to mailing. Given the potential for unforeseen or unanticipated disruption to this tightly timed process, SIFMA encourages the SEC to provide for a reasonable means to comply or otherwise avoid non-compliance with prospectus and confirmation delivery requirements given the operational constraints associated with physical delivery. For example, the SEC could provide guidance indicating that it will consider a broker-dealer to have met the requirement to deliver both a physical prospectus and a confirmation prior to settlement when the broker-dealer has made a good faith effort to deliver the physical prospectus and confirmation prior to settlement and delivers the prospectus and the confirmation as soon as practicable thereafter. In addition, the SEC similarly could provide guidance indicating that when a confirm is sent in advance of the prospectus as a result of an unforeseen delay, the confirmation will not be deemed a "nonconforming" prospectus in violation of Section 5 of the Securities Act of 1933 if the dealer made a good faith effort to deliver the prospectus and the prospectus is delivered as soon as practicable thereafter. We believe sufficient precedent exists in a host of SEC rules recognizing the sufficiency of good faith efforts under certain conditions.[72]

Overall, SIFMA supports the SEC's continued consideration of the benefits that may arise from an increased use of technological advancements to bring required documents to investors. SIFMA believes that embracing internet availability of summary and statutory prospectuses and shareholder reports is an appropriate next step in the evolution of electronic delivery of disclosure documents that builds on the electronic delivery framework the SEC began to embrace nearly two decades ago.

E. Dividend Reinvestment Programs

The SEC staff has provided no-action letters that facilitate the provision of certain dividend reinvestment programs.[73] Among other details, these letters provide flexibility for compliance with confirmation delivery and authorization requirements. For example, in lieu of confirmation delivery prior to settlement for each share purchase related to regular dividend reimbursements, the financial intermediary provides a monthly statement detailing each such transaction. The move to T+2 does not directly conflict with the flexibility afforded through these letters. However, the requesting letters typically include detailed descriptions of the program operations, including a reference to their operation within a T+3 framework. While it is not critical to the success of the transition to T+2, SIFMA encourages the SEC to consider including guidance in the adopting release to indicate that the SEC will not consider a firm to have departed from the procedures described in the applicable no-action letter regarding dividend reinvestment programs in the event the firm joins the industry in transitioning to a shorter settlement cycle and operates the program on a T+2 rather than T+3 framework.

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[72] *See e.g.*, 15 U.S.C. § 78m(b) (requiring, under the Exchange Act, issuers to create and maintain a system of accounting controls that are sufficient to provide certain reasonable assurances with regards to accounting books and records); and 17 C.F.R. § 275.204-3 (requiring, under the Cash Solicitation Rule under the Advisers Act, that registered investment advisers make a bona fide effort to ascertain whether a solicitor has complied with a referral agreement and have a reasonable basis for believing so).

[73] See., e.g., Morgan, Lewis & Bockius LLP, SEC No-Action Ltr. (Nov. 30, 2006) https://www.sec.gov/divisions/marketreg/mr-noaction/ameritrade113006-10b-10.pdf.

F. Financial Responsibility Rules – 15c3-3 / 15c3-1

SEC Rule 15c3-3(m) requires that if a customer that sells a security long has not delivered the security within 10 business days after settlement date (currently T+13), the broker dealer must close out the transaction, unless an extension of time is available under Rule 15c3-3(n) and applicable SRO rule.[74] Because it relates to long sales, Rule 15c3-3(m) primarily comes into play for deliveries of physical securities, which are most likely to involve retail customers. SIFMA does not believe a change to 15c3-3(m) is required in order to support the migration to T+2.

VI. Conclusion

Thank you for your consideration of our views in connection with the proposed amendments to the securities transaction settlement cycle. SIFMA again urges swift action to approve the T+2 proposal and would be pleased to discuss these comments in greater detail with the SEC and its staff. If you have any questions, please contact me at tprice@sifma.org or 212.313.1127.

Respectfully submitted,

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[74] *See e.g.*, FINRA Rule 4230.

Shortened Settlement Cycle | Industry Cost Analysis

December, 2016

On October 5, 2016, the SEC proposed to amend Rule 15c6-1(a) to shorten the standard settlement cycle for most broker-dealer transactions from three business days after the trade date ("T+3") to two business days after the trade date ("T+2"). To provide a more detailed estimate of what the expected costs to the industry for the transition to T+2 would be, SIFMA and ICI distributed a survey to broker dealers, asset managers and custody banks, as well as service bureaus and DTCC, and requested estimates for total costs[1] of the move to a shorter settlement cycle.

SIFMA and ICI received a total of 87 responses (survey responses) to the survey, which were segmented by business model, including Asset Managers, Broker Dealers – Clear for Others, Broker Dealers – Introducing Firm,[2] Broker-Dealers – Self-Clearing, Custody Banks, and Service Providers[3]. In addition, responses were grouped by the size of firm, as reflected in assets under management (AUM) (for asset managers) and annual revenues (for sell side and clearing firms). The firms responding represented a broad spectrum of firm sizes and business models, with annual revenues of Broker Dealer respondents ranging from under $250 million to over $1 billion, and Asset Managers respondents with AUM ranging from under $20 billion to over $200 billion. Specifically, a total of 26 asset managers responded to the survey representing more than $7.8 trillion AUM, which is approximately 48% of total ICI's fund members assets in open ended mutual funds. The sample included small, medium and large firms in terms of AUM. To avoid duplication, firms responding to the survey were instructed not to include the cost of investments and changes at services providers that support them, and only reported the firm's own internal spending. Service providers were surveyed separately.

Among the survey responses, introducing firms reported a *de minimis* direct implementation investment cost, as the necessary investments were made at their clearing firms and other service providers. Spending at clearing firms and service providers necessary to support introducing firms was captured through the survey categories for other market segments. Introducing firms will likely have costs related to employee education and outreach to customers. Numerous responses were received for the largest broker dealers, which had the highest investment costs.

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[1] Total cost estimate include firms' internal costs from the initiation of T+2 migration program until the migration to T+2 settlement on September 5, 2017. In calculating the internal cost estimate for the move to T+2, firms were asked to consider costs including, but not limited to, systems, technology, staff, compliance, reporting, communication, testing, and consultation services.

[2] For the purposes of the industry survey, the Broker Dealers – Introducing Firm category does not include self-clearing introducing firms, which are captured in the Broker-Dealers – Self-Clearing category.

[3] Service Providers refer to third party entities that provide services to Service Providers, Broker Dealers, Asset Managers and Custody Banks, including, but not limited to, transfer agents and pricing vendors.

To estimate the aggregate, industrywide cost of a transition to a T+2 standard settlement cycle, the average cost estimates from the survey responses were applied to the Commission's estimate[4] of the respective number of entities for each category of firm, and added Service Provider costs, which resulted in a total estimate cost for the industry as a whole of approximately $687,087,000. The breakdown of this estimate is as follows:

1) Asset Managers
The survey results indicated that the average cost for each asset manager is expected to be approximately $74,000[5]. The estimated total costs of all asset managers would be $71,410,000, based on the product of the average cost per firm and 965 buy-side firms. Interestingly, the highest estimated costs were in the mid-sized asset manager category, those with $20 billion to $250 billion in AUM, which had an approximate average cost of $151,000, while the largest asset managers with over $200 billion in AUM had lower average costs of approximately $58,000. This likely reflects system changes already in place at the largest asset manager to support their activity in international markets such as Europe which are already on a T+2 settlement cycle, and their involvement in a broader range of asset classes, many of which settle more on a shorter cycle than T+3, as well as the use of service providers who will either make minimal system changes or do not expect to pass along significant costs to their customers.

2) Broker Dealers - Clearing/Self-Clearing
The industry survey results indicated that the average cost of each Broker Dealer (clearing for others and self-clearing) is approximately $2,690,000[6]. The product of this estimate and the 186 firms in this category provides estimated total costs for all Broker Dealers (clearing for others and self-clearing) of $500,340,000. There were substantial variations in the costs reported by firms in this category, reflecting both the broad range of firm sizes reporting as well as the different business models of self-clearing firms and firms who clear for others. The largest Broker Dealers who clear for others (those with over $1 billion in revenues) reported costs ranging from $750,000 to $10 million.

   Some self-clearing firms reported needing to make only *de minimis* investments beyond client communications and staff education, due to their use of third party service providers who will make the bulk of necessary investments, while the largest self-clearing firms (those with revenues over $1 billion) reporting up to $15.6 million in cost, with an average cost for these largest firms of $3.7 million. Costs for medium and smaller self-clearing firms were substantially lower, with average costs of approximately $713,000 for those with revenues between $250 million and $1 billion, and average costs of approximately $970,000 for those with revenues below $250 million. Some of the variation in costs reflects firms who have already made investments to support the move to T+2 settlement in Europe and will be able to draw on this experience and modified systems to support the move in their US operations.

[4] See Commission's proposed amendment to Rule 15c6-1(a) Proposed Rule: Amendment to Securities Transaction Settlement Cycle

[5] To avoid duplication, this cost does not include charges to service providers and custodians associated with the move to T+2.

[6] To avoid duplication, this cost does not include charges to service providers associated with the move to T+2.

3) Broker Dealers - Introducing Firm
Introducing firms who responded to the industry survey reported *de minimis* direct implementation investment costs[7]. However, as noted by Commission that these firms may face one-time costs to support the initial transition to T+2, such as costs associated with education for their staff and outreach to customers. Assuming all clearing (Broker Dealers – Clearing/Self Clearing) broker dealers have incorporated costs associated with client outreach and education into the reported cost estimates, we used the Commission's count for Introducing firms of 1,497 (1683-186) was used to derive an estimated cost of $44,910,000, assuming each introducing Broker Dealer will incur $30,000 of client outreach and education costs.

4) Custody Banks
The survey indicated that the average cost of each Custody Bank is approximately $782,000[8]. The product of this average and 53 Custody Banks provides estimated total costs of all Custody Banks of $41,446,000.

5) Service Provider
The survey responses indicated that the average cost of each Service Provider is $3,006,000. With 6 service providers, the estimated total costs of all Service Providers would be $18,036,000. There was substantial variation in the cost estimates provided by service providers, with some service providers reporting that their systems were already ready for T+2 and no additional investment would be required, while others reported estimates of up to $10.5 million were needed. As noted above, these estimates are for service providers only, and firms who are expecting service providers to make changes to support their processes did not include the spending at service providers in their own estimates to prevent double counting.

6) Matching/ETC Provider
Two survey responses were received from ETC Providers, indicating an average of $315,000 for each Matching/ETC Provider. The product of this average and 3 Matching/ETC Providers results in estimated total costs of all Matching/ETC Providers of $945,000.

7) DTCC/NSCC
The all in cost for T+2 for NSCC and DTC is approximately $10 million[9]. That cost is split approximately $6 million for the build-out of the necessary test environment and $4 million for T+2 system modifications.

Note: While the survey was designed to capture transition costs for the move to T+2 across industry segments, there may be additional costs which are not included in this estimate. However, it is not expected that they would be make a meaningful difference in the scale of investment required to support the transition.

[7] To avoid duplication, this cost does not include charges to clearing firm or service providers associated with the move to T+2.
[8] To avoid duplication, this cost does not include charges to service providers associated with the move to T+2.
[9] This cost was provided by DTCC.

The information in this document was prepared by Deloitte & Touche LLP (Deloitte) based on survey results provided by the Securities Industry and Financial Markets Association (SIFMA) and the Investment Company Institute (ICI).

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