August 13, 2021

The Honorable Gary Gensler, Chair
US Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re*: *Accelerating the Securities Settlement Cycle to T+1 in the United States

Dear Chairman Gensler:

The Securities Industry and Financial Markets Association (SIFMA),[1] the Investment Company Institute (ICI),[2] and The Depository Trust & Clearing Corporation (DTCC)[3] wish to update the Commission on the efforts of the financial services industry to shorten the securities settlement cycle to T+1.

Removing 24 hours from the current settlement cycle comes with obstacles and challenges, but the result of a T+1 settlement cycle will mitigate risk well beyond what was achieved under T+2. In addition to decreasing risk in the settlement process, a move to T+1 will increase settlement efficiencies and improve the use of capital, especially in periods of high volatility. As with the move to T+2, we have employed and organized a methodical approach to looking at all the issues through a series of industry engagement and workshops. We have discovered that some of the issues involved in shortening the settlement cycle will need fundamental behavioral, technological, and regulatory changes; however, we are pleased to report that these issues will not prevent an industry move to T+1. Automation and increased synergies between counterparties will allow for more resilient processes. As such, when the changes identified are

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[1] SIFMA is the leading trade association for broker-dealers, investment banks, and asset managers operating in the US and global capital markets. On behalf of our industry's nearly 1 million employees, we advocate for legislation, regulation, and business policy, affecting retail and institutional investors, equity and fixed-income markets, and related products and services. We serve as an industry coordinating body to promote fair and orderly markets, informed regulatory compliance, and efficient market operations and resiliency. We also provide a forum for industry policy and professional development. SIFMA, with offices in New York and Washington, DC, is the US regional member of the Global Financial Markets Association (GFMA). For more information, visit http://www.sifma.org.

[2] ICI is the leading association representing regulated funds globally, including mutual funds, exchange-traded funds (ETFs), closed-end funds, and unit investment trusts (UITs) in the United States, and similar funds offered to investors in jurisdictions worldwide. ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers. For more information, visit www.ici.org.

[3] DTCC is the premier post-trade market infrastructure for the global financial services industry that operates three clearing agencies registered with the US Securities and Exchange Commission (SEC) under the Securities Exchange Act of 1934 (the Exchange Act): National Securities Clearing Corporation, Fixed Income Clearing Corporation, and The Depository Trust Company. DTCC functions as a central securities depository and performs the exchange of securities for buyers and sellers. For more information, visit www.dtcc.com.

implemented, T+1 will deliver increased market efficiency and risk mitigation compared to the benefits achieved under T+2.

Following our April 27 letter to the Commission, subject matter experts from buy-side, sell-side, custodians, vendors, and clearinghouses have been participating in workshops led by ICI, DTCC, and SIFMA to determine the challenges of accelerating the settlement cycle to T+1. As part of this work, we are developing solutions to address necessary technological, regulatory, and behavioral changes.

At the midpoint of our analysis, the industry has not identified any insurmountable obstacles and believes that with the correct amount of coordination, socialization, planning, and testing, T+1 is achievable. Upon completion of our analysis, we will propose an implementation plan and timeline for moving to T+1.

Challenges of T+1 Settlement

Through the workshops, the industry has identified several areas that necessitate changes in the move to T+1. Some of these areas require more extensive changes because they are more affected by the reduction of 24 hours from the settlement cycle, while others require less extensive changes because they are more related to business practices and not as time dependent.

Some of the areas associated more closely with business practices include global settlements, documentation impacts, corporate actions, securities issuance, and impacts on coordination for mutual fund portfolio securities and investor shares.

Areas that are tied to time, and thus require more extensive changes—some procedural, some behavioral—include areas related to allocations, affirmation and disaffirmation processes, clearinghouse processing timelines, and securities lending (an area with unique structural issues related to the timelines for recalling securities that are on loan). We will also need to identify the causes of settlement errors and fails and how those can be improved through automation and behavioral changes, while ensuring that any improvements do not inadvertently *increase* the rate of errors and fails in a more compressed timeline. Other areas that will require extensive changes, due to both time and practices, are prime brokerage, delivery of investor documentation, foreign currency exchange (FX), global movement of securities and currency, batch cycle timing, and exchange-traded fund (ETF) creation and redemption.

Each of these problems requires extensive collaboration between stakeholders and the myriad systems used across the industry. A single transaction settlement kicks off a series of additional and necessary work to ensure information flows seamlessly across teams to update compliance reporting, customer position, performance reporting, and tax reporting, and to ensure thorough, accurate communication to investors and regulators. All these actions will become more complicated under compressed time frames. However, we are committed to addressing these challenges by working with the industry to ensure as seamless a transition to T+1 as possible.

Addressing the Challenges

Of the issues identified above, the industry has completed its analysis related to allocations, affirmation and disaffirmation processes, documentation impacts, clearinghouse processing timelines, global settlement, and FX. The industry is nearing conclusion on securities lending, settlement errors and fails, prime brokerage, and corporate actions. Workshops are in progress on batch cycle timing and ETF creation and redemption.

By the end of the third quarter of 2021, we expect to finish the analysis and begin developing the plan outlining the necessary steps and time frames for moving the industry to T+1. The plan will include an industry transition communication plan, a transition time frame, and appropriate planning and testing. The transition will require behavioral changes and technological changes, and many of these changes will need to be supported by regulatory changes. For example, SEC Rule 15c6-1 Settlement Cycle and FINRA Rule 11320(b) Dates of Delivery will need to be amended.

Challenges of T+0 Settlement

As part of our analysis, we have also reviewed the issues involved with moving to an end of day or T+0 settlement. We have found that same-day settlement is more complex than simply removing an additional day from the cycle and would require re-engineering how securities trade and settle. This re-engineering (i) would necessitate a redesign of areas such as global settlements, FX, margin investing, and securities lending to meet regulatory and contractual requirements in less than 12 hours, where today it takes more than 24; (ii) potentially requiring retail investors to pre-fund accounts; (iii) potentially creating a competitive burden for smaller firms and vendors due to the resources believed necessary to complete a move to T+0; and (iv) could require industry stakeholders—including the Federal Reserve's payment systems—to maintain services much longer during the day, which could increase the potential for failure. A requirement that all activity be completed in one business day of perhaps 12 hours or less would also impact the ability to complete non-automated activity, which could expand the rate of trade fails in the system, leading to increased risk. Recognizing these challenges, the industry has and will continue to investigate ways to further shorten settlement times through cost-benefit analysis, considering risk mitigation, investor benefits and costs, and operational resiliency.

Summary

Shortening the settlement cycle is a significant undertaking and requires participation across many functions of the industry. We believe shortening the settlement cycle to T+1 will increase the overall efficiency of the securities markets, mitigate risk, create better use of capital, and promote financial stability, provided the appropriate balance is achieved between increasing efficiencies and mitigating risk.

We greatly appreciate the Commission's attention and oversight in accelerating the settlement cycle and we respectfully request a meeting with you and your senior staff at your earliest convenience to provide a briefing on the significant progress made by the industry and the next steps.

Sincerely,

Kenneth E. Bentsen, Jr.
President and CEO
Securities Industry and Financial Markets Association

Michael C. Bodson
President and CEO
Depository Trust & Clearing Corporation

Eric J. Pan
President and CEO
Investment Company Institute

cc: The Honorable Hester M. Peirce, Commissioner
The Honorable Elad L. Roisman, Commissioner
The Honorable Caroline A. Crenshaw, Commissioner
The Honorable Allison Herren Lee, Commissioner