sifma

May 3, 2023

VIA ELECTRONIC MAIL (rule-comments@sec.gov)
Vanessa A. Countryman
Secretary
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

Re: **Release No. 34–97257; File No. SR–MSRB–2023–03**
MSRB Amendment to Rules G-12 and G-15 on Regular-Way Settlement

Dear Ms. Countryman,

The Securities Industry and Financial Markets Association ("SIFMA")[1] appreciates the opportunity to provide comments on the MSRB's filing.[2] SIFMA applauds the MSRB's goal to modernize its rule book and align municipal securities settlement with regular-way settlement on T+1 for equities and corporate bonds under Exchange Act Rule 15c6-1, as amended.[3] Shortening the settlement process can reduce operational risks between trade date and settlement date, which can promote investor protection and reduce the risk of counterparty default and the capital required to mitigate this risk. In furtherance of these goals:

- SIFMA supports T+1 settlement.
- SIFMA urges the MSRB to further consider a rule consistent with SEC Rule 15c6-2.

[1] SIFMA is the leading trade association for broker-dealers, investment banks and asset managers operating in the U.S. 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, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA).

[2] MSRB, Notice of Filing of a Proposed Rule Change to Amend MSRB Rules G-12 and G-15 to Define Regular-Way Settlement for Municipal Securities Transactions as Occurring One Business Day after the Trade Date and to Amend Rule G-12 to Update an Outdated Cross Reference, 88 Fed. Reg. 22075 (Apr. 12, 2023).

[3] https://www.sec.gov/rules/final/2023/34-96930.pdf.

I. SIFMA Supports T+1 Settlement.

SIFMA welcomes the MSRB's filing to amend rules G-12 and G-15 to conform the "regular-way" settlement cycle for municipal securities to that of other securities governed by SEC Rule 15c6-1. SIFMA has been a leader in the effort to accelerate the U.S. securities settlement cycle from trade date plus 2 days (T+2) to trade date plus one day (T+1). We believe this acceleration of the settlement cycle will improve market resiliency by further reducing risk that exists while a trade is being finalized, benefit investors by shortening the execution time frame between buying or selling their securities, and reduce the level of margin market participants must post to offset the settlement risk. Market resiliency is a top priority for SIFMA. Enhancing our securities settlement process is critical to the continued resiliency of our markets and market operations.

SIFMA has been working on this project since 2020 and has been a leader in the industry effort to move to T+2 in 2017 and T+3 in 1995. Shortening the settlement cycle has been a multi-year effort that involves significant preparation and testing.

As the industry moves forward in the effort to significantly reduce the current settlement cycle, we have encouraged market participants to refer to The T+1 Securities Settlement Industry Implementation Playbook developed by SIFMA, ICI, and DTCC, together with Deloitte LLP.[4] This guide provides a detailed approach to identifying the implementation activities, timelines, dependencies, and risk impacts that market participants should consider as they prepare for the transition to T+1 settlement.

II. MSRB Should Further Consider a Rule Consistent with SEC Rule 15c6-2.

Footnote 15 of the filing states:

> In addition, the SEC adopted a new rule, Rule 15c6–2, 17 CFR 240.15c6–2, to improve the processing of institutional trades through new requirements for broker-dealers and registered investment advisers related to same-day affirmations. As SEC Rule 15c6–2 does not apply to municipal securities, the MSRB is evaluating whether a like requirement should be considered under MSRB rules.

The industry's transition from a T+2 to T+1 settlement cycle as required by changes set forth in proposed amendment to Rule G-12 and G-15 is a complex undertaking, which will require an immense amount of planning and effort by industry participants. These changes are a forcing mechanism that will, on their own accord, help achieve increased same-day affirmation without a mandate from an additional rule similar to new Rule 15c6-2.

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[4] https://www.sifma.org/wp-content/uploads/2022/08/T1_Industry_Implementation_Playbook.pdf.

As described in our prior comment letter to the SEC on this issue,[5] written agreements are unnecessary to achieve the proposed changes required by Rule G-12 and G-15. Today, there are many commercial incentives in place for industry participants to meet market standard settlement timelines, as was successfully demonstrated in 1995 and 2017 for the two prior settlement cycle changes. These incentives for firms to achieve on-time settlement include:

- Increased costs for trades that do not settle through netting and related financing;
- Increased costs for unaffirmed trades;
- Significant costs for buy-ins; and
- Potential for customer dissatisfaction which may negatively impact the customer relationship.

SIFMA is generally supportive of aligning rules for municipal securities with those for equities and corporate bonds whenever possible. The MSRB should explore with stakeholders in the municipal securities market the potential adoption of a rule consistent with SEC Rule 15c6-2(a)(2), which in the absence of a written agreement with the customer to ensure completion of the allocation, confirmation, affirmation, requires broker-dealers to:

> establish, maintain, and enforce written policies and procedures reasonably designed to ensure completion of the allocation, confirmation, affirmation, or any combination thereof, for the transaction as soon as technologically practicable and no later than the end of the day on trade date in such form as necessary to achieve settlement of the transaction.

In particular, allowing broker dealers the option to establish adequate policies and procedures to support faster processing would be helpful. This would allow individual firms to customize their policies and procedures to their business model, products and unique customer base while meeting regulatory objectives. Such language would assist in achieving our mutual goal of successfully transitioning the industry to T+1 while maintaining current settlement rates. As noted above, we feel strongly that the MSRB should conduct outreach with stakeholders in the municipal securities community, particularly investors, to explore the workability of such rule prior to the adoption of a similar rule that relates to municipal securities.

[5] *See*, letter from Tom Price, Managing Director, SIFMA, to Haoxiang Zhu, Director of Trading and Markets, SEC, dated Aug. 22, 2022.

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Thank you for considering SIFMA's comments. If a fuller discussion of our comments would be helpful, I can be reached at (212) 313-1130 or lnorwood@sifma.org.

Sincerely,

Leslie M. Norwood
Managing Director and Associate General Counsel
Head of Municipal Securities

cc: ***Municipal Securities Rulemaking Board***
Ron Smith, Corporate Secretary
Saliha Olgun, Interim Chief Regulatory Officer