SEC adopts proposal to move securities settlement to T+1

On February 9, 2022, the Securities and Exchange Commission (SEC) approved a proposal to shorten the securities settlement cycle from T+2 to T+1. The vote was a rare unanimous decision that reflects broad support at the SEC for reducing the settlement cycle. Here are Deloitte’s five takeaways from the 247-page proposal:

• If adopted, the proposal would cut the securities settlement cycle in half, industry-wide, effective March 31, 2024. This reflects the most ambitious compliance timeline put forth by Securities Industry and Financial Markets Association (SIFMA) and Depository Trust & Clearing Corporation (DTCC).i

• The proposal eliminates the exception of T+4 settlement for firm commitment offerings priced after 4:30pm ET. The SEC believes that this is supported by the expanded “access equals delivery standard.” Further, the proposal notes that 15c6-1(d) would continue to offer parties to a transaction flexibility to agree to non-standard settlement in advance of a transaction when necessary.ii

• The SEC estimates that the proposal will cost the industry $3.5-4.95 billion to implement. It further estimates compliance costs of $5.5 million per institutional broker-dealer.iii However, the SEC asserts that the benefits, namely reduced counterparty risk, will outweigh these implementation costs.

• The proposal adds several other new requirements, including:
  (1) same-day affirmation
  (2) a new record-keeping requirement for RIAs of timestamped receipts of confirmation by the broker
  (3) mandates that clearing agencies adopt policies and procedures to transition clearing and settlement functions to straight-through processing.iv

• The SEC will continue to explore when and how to move the industry to T+0 settlement. The proposal explicitly recommends that plans to implement T+1 settlement include “consideration of paths to achieving T+0”, which it defines as same-day netted settlement.v

Comments on the proposal will be due to the Commission 60 days following publication of the proposal in the Federal Register.
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iii. Ibid.
iv. Ibid.
v. Ibid.
vii. Ibid.