



February 2022

SEC proposes new rules for shortening the securities settlement cycle to T+1

The Securities and Exchange Commission (SEC) held an open meeting on February 9, 2022 to propose new and amended rules under the Securities Exchange Act of 1934 (the Exchange Act) and the Investment Advisers Act of 1940 (the Advisers Act) to **shorten the settlement of US securities to one business day after the trade date (T+1)** from its current settlement cycle of two business days after the trade date (T+2)¹.

The proposal release is supportive of the industry's efforts to study the effects of a T+1 and T+0 settlement cycle and to publish its recommendations for public review. **The proposal contains 158 request-for-comment questions (of which, approximately 70 relate to T+1 and 72 relate to T+0)** which the SEC hopes will better inform its posture on the final rule as well as its intention to further promote the adoption of T+0 settlement (the SEC provides its own definitions for T+0 and scenarios for adoption). Comments should be received on or before April 11, 2022. **The SEC effectively requested detailed responses to explain for why T+0 would not be feasible based on each of the cited reasons in the Industry Working Group T+1 Report (the T+1 Report)².**

¹ [SEC Issues Proposal to Reduce Risks in Clearance and Settlement](#). February 9, 2022.

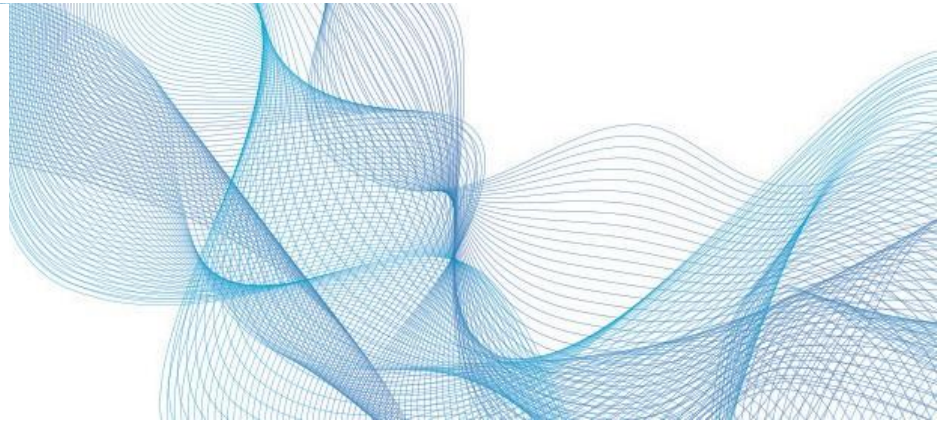
² As used in this document, the "T+1 Report" references "[Accelerating the U.S. Securities Settlement Cycle to T+1](#)". SIFMA, ICI, DTCC, Deloitte. December 1, 2021.

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- **Proposed regulatory changes.** The SEC voted unanimously (4-0) to move forward the proposal for public comment to:³
 - Amend Rule 15c3-1a to **shorten standard settlement for securities transactions to T+1**
 - **Eliminate the separate T+4 settlement cycle for firm commitment offerings** priced after 4:30 p.m. ET
 - **Adopt new requirements under Rule 15c6-2 to require parties to a trade to collectively facilitate the processes of affirmation, allocation, and confirmation of the trade** “as soon as technologically practicable but not later than the end of the day on trade date” (i.e., same-day affirmation”)
 - **Adopt new Rule 204 recordkeeping requirements for Investment Advisers** to create and preserve records timestamped records related to the receipt of institutional confirmations by the broker-dealer; delivery of affirmations, and allocation instructions to the broker-dealer
 - **Adopt new requirements for clearing agencies to adopt and enforce policies and procedures to facilitate the transition of clearing and settlement functions from manual processing to straight-through processing** and to submit annual filings on the progress of such transition to the SEC (which will subsequently be made public)

The SEC has proposed **March 31, 2024 compliance date for the T+1 transition.** The SEC took the ambitious position that implementation could be achieved sooner rather than later based on estimates provided by the Depository Trust & Clearing Company (DTCC) in February 2021 and the T+1 Report in December 2021.

- **Deviations from the T+1 Report recommendations.** Based on Deloitte’s⁴ preliminary review, the SEC adopted a different posture on certain topics relative to the industry’s recommendations, namely:
 - **The compliance date for the transition as March 31, 2024.** The T+1 Report opted for a Q2 2024 implementation date.⁵
 - **Adoption of a regulatory requirement rather than a best practice for “same-day affirmations”** (and allocations, confirmations) as soon as technologically practical but “no later than the end of the day on trade date.”



The T+1 Report recommended allocation and affirmation deadlines as 7:00 p.m. ET and 9:00 p.m. ET, respectively, on trade date.⁶

- **Elimination of the separate T+4 settlement cycle for firm commitment offerings priced after 4:40 p.m.** The SEC believes this deviation from standard settlement is unnecessary given the allowable exemption for parties to a trade to agree, in writing, to an extended settlement cycle. The T+1 Report recommended to retain the exception but to shorten the applicable period for such transactions to T+2.⁷
- **Economic analysis.** The SEC estimates the industry total cost of implementation to range from \$3.5 to \$4.97 billion.⁸ The SEC estimates that the applicable regulatory changes will impact approximately:⁹
 - **1,229 buy-side firms**
 - **3,500 broker-dealers** (of which, 156 are self-clearing)
 - **49 custodian banks**
 - **Clearing agencies** [namely, National Securities Clearing Corporation (NSCC) and Depository Trust Company (DTC)]

The SEC estimates one-time compliance costs by market participant to be approximately:¹⁰

- \$12.6 million for each clearing agency
- \$2.67 million for each institutional investor
- \$5.44 million for each institutional broker-dealer
- \$9.91 million for each retail broker-dealer (the SEC estimates the upper bound of retail investor education to be \$40.6 million)
- \$1.34 million for each custody bank
- \$1.095 million for each investment adviser

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Endnotes:

³ SEC proposed rule “[Shortening the Securities Transaction Settlement Cycle](#)”. Release No. 34-94196. Pages 34-35; multiple references.

⁴ As used in this document, “Deloitte” means Deloitte & Touche LLP, a subsidiary of Deloitte LLP. Please see www.deloitte.com/us/about for a detailed description of our legal structure. Certain services may not be available to attest clients under the rules and regulations of public accounting.

⁵ See T+1 Report. Pages 6-7.

⁶ Ibid. Page 5.

⁷ Ibid. Page 6.

⁸ SEC Release No. 34-94196. Pages 212-213.

⁹ Ibid. Pages 211-212.

¹⁰ Cost estimates provided by SEC. Release No. 34-94196; Section V. Pages 151-219.

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