

Accelerated Settlement final rule is announced by the Securities and Exchange Commission

On February 15, 2023, the Securities and Exchange Commission (SEC) approved a final rule to transition the securities settlement cycle in the United States from two days to one on May 28, 2024.¹ Per an SEC press release in 2022, shortening the settlement cycle is intended to “better protect investors, reduce risk, and increase operational efficiency” across capital markets infrastructure. This is one of the most impactful pieces of regulation in recent years, profoundly affecting market participants across the industry not only in the USA, but around the world.



Here are Deloitte's takeaways

- **The transition date has been set for May 28, 2024.** Industry participants and representative bodies previously expressed that the proposed date in March 2024 would create unnecessary risk for firms, instead requesting that the transition date be set for September 3, 2024, a three-day weekend, giving firms an additional day to finalize this challenging transition. Industry participants have won a small victory as the SEC has agreed upon a transition date of May 28, 2024, giving firms 15 months to prepare.
- **The SEC did not adopt the proposed rule language for changes to SEC Rule 15c6-2 that would have required broker-dealers and their clients to contractually agree to allocate and affirm trades by 9pm EST on T+0.** The proposed rule would have placed undue burden on broker dealers to ensure that trade affirmation rates would not fall following the transition. Instead, the rule will allow firms to craft their own policies and procedures to ensure that trades are allocated and affirmed on T+0.
- **The rule details new record keeping requirements for buy-side firms.** Amendments to Rule 204-2 place additional responsibilities for investment managers to retain timestamped records of the delivery of allocation information to broker-dealers, the receipt of institutional confirmations, and affirmations.
- **Common exemptions under SEC Rules 15x6-1(a), (b), (c) have been amended for new equity and debt issuances.** Previously, new issuances were able to use exemptions to delay initial settlement for firm commitment and offerings priced after 4:30 PM EST until T+4, thereby easing operational concerns. Under the new amendments to the rule, this will change to T+2 settlement.
- **The SEC is requiring Central Matching Service Providers (CMSPs) to establish, implement, maintain, and enforce reasonably designed written policies and procedures** that facilitate straight-through processing (STP). An annual report must be submitted via EDGAR to the commission that has a summary of its policies and procedures that are designed to facilitate STP, a qualitative description of its process in facilitating STP during the twelve-month period covered by the report, a quantitative presentation of data that includes specific metrics, and a qualitative description of the actions it intends to take to facilitate STP during the twelve-month period that follows the report.
- **The Commission voted unanimously for the proposed rule but voted 3:2 in favor of the final rule.** Two commissioners did not support the proposal as it does not follow the industry recommended September 2024 transition date.

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Key considerations

- **Time starts now.** The delay in announcing the transition date has caused uncertainty among market participants. Firms have been unable to develop concrete change plans without a finalized transition date, so this announcement should be welcomed by stakeholders across the industry as they build their programs with a final date in mind. While the date in May gives another 3 months for firms to prepare, this transition date will increase pressure on firm's testing programs and their clients' readiness to achieve a smooth and orderly transition.
- **The amendments to Rule 15c6-2 enforcement is a positive result for the industry.** While firms face the challenge of ensuring that as many trades as possible are affirmed prior to settlement, they will now be able to address this according to their own internal practices and standards, without the additional pressure of creating new client agreements prior to the named transition date.
- **New issues will become a more time pressured process.** Existing exemptions are frequently relied upon to ease operational pressures, especially for new debt issuances. Processes for issuances will have to be redesigned, prospectus language corrected, and default settlement dates adjusted, to account for this change in available exemptions.
- **The SEC is preparing for T+0.** Mandating the implementation of technology such as STP to automate the whole trade life cycle from execution through clearing to settlement is designed to lay the groundwork for moving to T+0 settlement in the future. Moving the clearing of trades to T+0 as a critical first step to the eventual transition to T+0 settlement. As the SEC looks to the future, past the T+1 transition, firms should consider how the steps they take today will impact them when discussion of T+0 settlement re-emerges.

¹ <https://www.sec.gov/rules/final/2023/34-96930.pdf>

² <https://www.sec.gov/news/statement/crenshaw-settlement-cycle-20220209>

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