

## Ready for T+1 Settlement by May 2024?

On February 15, 2023, the SEC voted three to two to approve a [final rule](#) reducing the settlement cycle for securities trades from two business days after trade date to one business day (T+1), as well as updating the processing of institutional trades. Although most comment letter feedback suggested a minimum of two years for transition, the final rule has a compliance date of May 28, 2024, only a 15-month time frame. Implementation will require coordinated changes between market participants across multiple functions, including trade processing, asset servicing, legal, compliance, and technology. Impacted market participants include issuers, asset managers ('40 Act and non-'40 Act funds), broker-dealers (retail, institutional, and prime brokerage), custodians, vendors, service bureaus, transfer agents, exchanges, clearing firms, and depositories. This article focuses on the rule's operational and documentation points for registered investment advisers (RIAs) and broker-dealers.



T+1 Settlement

Compliance Date May 28, 2024

## Background & Benefits

From the first trade under the buttonwood tree on Wall Street in 1792 through 1933,<sup>1</sup> capital markets have maintained a one-day settlement cycle for security transactions.<sup>2</sup> Increases in trading volumes pushed settlement to T+2 in 1933, T+3 in 1946, T+4 in 1952, and T+5 in 1968. With the creation of the Depository Trust & Clearing Corporation (DTCC) in 1973 and technology improvements, the settlement cycle was shortened to T+3 in 1993 with the issuance of Rule 15c6-1 and T+2 in 2017.

A shorter settlement cycle reduces the number of pending transactions, lowering the exposure that trading firms have with each other and limiting the losses in case one firm fails. DTCC notes the following risk reduction and capital efficiency gains<sup>3</sup> from shortening the settlement cycle:

- 41% reduction in the volatility component of margin requirements
- Increased operational efficiency as firms adopt industry standards and solutions to modify their systems and processes to further develop automation and straight-through processing (STP)
- Alignment of portfolio shares with the mutual funds that currently settle at T+1 will help with cash management

On February 25, 2022, India moved to T+1 settlement and Canada is planning to transition to T+1 settlement in 3Q 2023.

<sup>1</sup> New York Stock Exchange, [britannica.com](#)

<sup>2</sup> Friends of Financial History, [archive.org](#), Issue Number 56, Summer 1996

<sup>3</sup> "Accelerating to T+1: What You Need to Know," [dtcc.com](#), April 6, 2022

## Broker-Dealers – Rule 15c6

- Amended Rule 15c6-1(a) prohibits a broker-dealer from entering into contracts for the purchase or sale of a security (other than an exempted security) that provide for payment of funds and delivery of securities later than T+1 unless the parties expressly agree to a different settlement date at the time of the transaction.

**Products subject to the T+1 standard settlement cycle include, among others, equities, corporate bonds, unit investment trusts, mutual funds, exchange-traded funds, American depository receipts, and options. Security-based swaps are exempted from this provision.**

- Amended Rule 15c6-1(c) prohibits a broker-dealer from effecting or entering into contracts for firm commitment offerings priced after 4:30 p.m. Eastern time that provide for payment of funds and delivery of securities later than T+2, unless the parties expressly agree to a different settlement date at the time of the transaction.
- New Rule 15c6-2(a) (same day affirmation) for transactions that require completion of the allocation,<sup>4</sup> confirmation,<sup>5</sup> or affirmation process<sup>5</sup> either:
  - Enter into written agreements with the relevant parties (such as investment managers and bank custodians, as agents of a broker-dealer's customer) to ensure completion of allocations, confirmations, and affirmations as soon as technologically practicable and no later than the end of the day on trade date, or
  - Establish, maintain, and enforce written policies and procedures reasonably designed to ensure completion of allocations, confirmations, and affirmations as soon as technologically practicable and no later than the end of the day on trade date.

**Currently, only about 68% of trades achieve affirmation on trade date.**

- A broker-dealer's policies and procedures developed to comply with Rule 15c6-2(a) must:
  - Identify and describe any technology systems, operations, and processes used to coordinate with other relevant parties, including investment advisers and custodians, to ensure completion of the allocation, confirmation, or affirmation process for the transaction.
  - Set target time frames on trade date for completing the allocation, confirmation, and affirmation for the transaction. The SEC is mindful that a broker-dealer may not be able to complete the allocation, confirmation, and affirmation process on the trade date with respect to every transaction it executes for every customer in every circumstance. For example, for highly automated transactions with high-volume customers with direct control over their securities located in the same time zone, reasonably designed policies and procedures would set target time frames for completing the allocation, confirmation, and affirmation of the transaction very close in time to trade execution. For transactions that are more complex, such as those where a customer or its agent operates in other time zones or jurisdictions, or a separate custodian maintains securities or cash accounts on

<sup>4</sup> The process by which an institutional investor (often an investment adviser) allocates a large trade among various client accounts or determines how to apportion securities trades ordered contemporaneously on behalf of multiple funds or non-fund clients

<sup>5</sup> The operational message that includes trade details provided by the broker-dealer to the customer to verify trade information so that a trade can be prepared for settlement on the timeline established in Rule 15c6-1(a)

the customer's behalf, a broker-dealer may consider how to structure the time frames to accommodate the level of effort that will be necessary to complete the allocation, confirmation, and affirmation.

- Describe procedures for communicating trade information promptly, investigating any discrepancies in trade information, and adjusting trade information to help ensure that the allocation, confirmation, and affirmation can be completed by the target time frames on trade date.
  - Describe how the broker-dealer plans to identify and address delays if another party, including an investment adviser or a custodian, is not promptly completing the allocation or affirmation for the transaction or if the broker-dealer experiences delays in promptly completing the confirmation. Broker-dealers generally should take reasonable steps to escalate issues with their customers, or the other relevant parties acting on their customers' behalf, to resolve issues and meet the target time frames set forth in the broker-dealer's policies and procedures. The SEC believes a broker-dealer should have policies and procedures that explain what efforts it would take to resolve recurring problems, particularly if they recur with respect to one particular counterparty, customer, or custodian that routinely fails to meet the broker-dealer's targets.
  - Measure, monitor, and document the rates of allocations, confirmations, and affirmations completed as soon as technologically practicable and no later than the end of the day on trade date.
- Ensure contracts for the purchase or sale of a security (other than exempted securities) provide for payment of funds and delivery of securities no later than the first business day after the date of the transaction.
  - Ensure contracts with customers that have agreed to engage in an allocation, confirmation, or affirmation process require completion of any of those processes as soon as technologically practicable and no later than the end of the day on trade date.

## RIAs

For transactions subject to Rule 15c6-2(a), the final rule requires RIAs to make and keep records of each confirmation received, and of any allocation and each affirmation sent or received, with a date and time stamp for each indicating when it was sent or received.

As with other required records under Rule 204-2(a)(7), advisers will be required to keep originals of written confirmations received and copies of all allocations and affirmations sent or received but may maintain records electronically if they satisfy certain conditions.

Many advisers that place execution orders—or sub-advisers or other third parties acting on an adviser's behalf—make and keep originals and/or electronic copies of allocations, confirmations, and affirmations sent or received. Advisers may have varied trade allocation processes and often allocate trades using internal systems, portfolio management systems, and order management systems. Some advisers may not make and keep these records or may only retain them on paper. In many cases, affirmation is performed by the asset owner's custodian (or its prime broker) on the asset owner's behalf.

An adviser may rely on a third party to make and keep the required records, although using a third party to make and keep records does not reduce an adviser's obligations under Rule 204-2. The SEC is requiring advisers to keep records of allocations or affirmations sent or received if the adviser receives a copy of such records from a third party.

## Industry Resource

In August 2022, the Securities Industry and Financial Markets Association, the Investment Company Institute, and DTCC issued an [implementation playbook](#) that outlines a detailed approach to identifying the potential impacts, implementation activities and timelines, dependencies, and risk impacts for market participants to consider in preparing for transition to a T+1 Settlement. The playbook contemplated a transition to T+1 in the third quarter of 2024, but the final rule has now shifted the deadline to May 2024.

## Conclusion

The asset management team at **FORVIS** has more than 50 years of experience providing accounting, tax, and consulting services to various types of investment holdings, including conventional debt and equity investments, loans, businesses, alternative investments, and other unique assets. As of August 2022, Convergence Optimal Performance ranked FORVIS as a top 25 accounting and audit firm to RIAs. FORVIS also was ranked in the top 20 by assets under management. We have experience providing services to fund complexes with net assets ranging from a couple million to several billion dollars. Our experience allows us to provide tailored services to help meet your unique needs. For more information, visit [forvis.com](https://forvis.com).

## Contributors

### Brian Matlock

Partner

[brian.matlock@forvis.com](mailto:brian.matlock@forvis.com)

### Anne Coughlan

Director

[anne.coughlan@forvis.com](mailto:anne.coughlan@forvis.com)