SEC Proposes T+2 Settlement Cycle

September 30, 2016

On September 28, in a long-anticipated move, the SEC **proposed** to shorten the standard settlement cycle for most broker-dealer transactions to two business days after the trade date (T+2) from the current three business day cycle (T+3). The proposal represents the near-culmination of ongoing industry efforts to move to a T+2 settlement cycle, with the most recent initiative led by a working group whose members include the Depository Trust & Clearing Corporation, the Investment Company Institute, the Securities Industry and Financial Markets Association and other market participants.

Importantly, the proposal is aimed at the secondary market and therefore, if adopted as proposed, would *not* affect the current ability in most firm commitment underwritten transactions that price after 4:30 p.m. ET to use a T+3 or T+4 settlement cycle; nor would it affect the ability of the parties to any particular transaction to expressly agree to a settlement cycle that is longer than T+2, T+3 or T+4. However, the SEC is seeking comment on shortening the T+4 timeframe for such firm commitment underwritten transactions.

The proposed T+2 settlement cycle aims to reduce credit, market and liquidity risk arising from unsettled securities trades, because shortening the time period between trade execution and trade settlement would reduce the number and market value of unsettled trades outstanding at any point in time. Implementing T+2 would also bring the U.S. standard settlement cycle in closer alignment with non-U.S. markets, such as those in the European Union.

The proposal seeks input on a number of issues, including a September 5, 2017 compliance date. There will be a 60-day public comment period on the proposal, which is expected to end in early December.

If you have any questions regarding the matters covered in this publication, please contact any of the lawyers listed below or your regular Davis Polk contact.

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