

SEC Proposes Rule Changes to Shorten Securities Settlement Cycle

Article By:

Ryan Hajen

John S. Marten

Nathaniel Segal

Jacob C. Tiedt

On February 9, 2022, the SEC issued a release proposing rule changes to shorten the standard settlement cycle for most broker-dealer transactions from two business days (T+2) to one business day (T+1). The proposed rule changes would also shorten the process of confirming and affirming trade information necessary to prepare a transaction for settlement and add a new requirement for central matching service providers to facilitate the achievement of “straight-through processing,” whereby the entire trade process from execution to settlement is automated, obviating the need for manual intervention. Finally, the SEC is seeking comment on challenges associated with and potential paths to achieving a same-day settlement cycle (T+0).

Highlighting recent periods of increased market volatility following the outbreak of the COVID-19 pandemic in March 2020 and the heightened interest in certain “meme” stocks in January 2021, the SEC stated that the proposed amendments are intended to reduce credit, market and liquidity risks in securities transactions faced by market participants. The SEC last shortened the standard settlement cycle from T+3 to T+2 in 2017.

For broker-dealers, the SEC has proposed to amend Rule 15c6-1 under the Securities Exchange Act of 1934 to shorten the standard settlement cycle for most broker-dealer transactions from T+2 to T+1, to repeal the T+4 standard settlement cycle for firm commitment offerings priced after 4:30 p.m. Eastern time, and to amend Rule 15c6-2 under the Exchange Act to prohibit broker-dealers from entering into contracts with institutional customers unless those contracts require the parties to complete allocations, confirmations and affirmations by the end of the trade date (same-day affirmation). In addition, for registered investment advisers, the SEC has proposed to amend Rule 204-2 under the Investment Advisers Act of 1940 to require advisers to make and retain records of confirmations, allocations and affirmations sent to broker-dealers.

In the proposing release, the SEC proposed a compliance date of March 31, 2024 for the transition to

T+1 settlement. The SEC stated that comments received regarding the feasibility of same-day settlement would be used to inform any future action to further shorten the settlement cycle beyond T+1.

The SEC's proposed rule is available [here](#). The public comment period will be open through April 11, 2022.

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