

SEC Adopts Amendment to Shorten Settlement Cycle for Securities Transactions

Article By:

Alyse A. Sagalchik

James M. Brady

Mark J. Reyes

Mark D. Wood

On March 22, the Securities and Exchange Commission adopted an amendment to Rule 15c6-1(a) that shortens the standard settlement cycle for most broker-dealer securities transactions from three business days (known as T+3) to two business days (or T+2). Specifically, the rule, as amended, would prohibit a broker-dealer from entering into a contract for or effecting the purchase or sale of securities in which payment for and delivery of the securities occurs later than T+2, unless the parties agree otherwise at the time of the transaction or the transaction involves exempted securities or other securities to which Rule 15c6-1(a) does not apply (e.g., government securities and commercial paper). Bolstered by technological improvements that support a shorter settlement cycle, the amended rule is intended to decrease counterparty default risk, market risk, liquidity risk, credit risk and overall systemic risk and reduce inefficiencies in the movement of capital from investors to companies. Investors and broker-dealers must comply with the amended rule starting on September 5.

In a statement about the amendment, SEC Commissioner Kara Stein indicated that the staff will prepare a report, by no later than September 5, 2020, on the changes resulting from the movement to a T+2 settlement cycle and make recommendations for further improvements.

To assist in the preparation for the implementation of a T+2 settlement cycle, interested persons may submit inquiries to SEC staff at T2settlement@sec.gov.

Many outstanding warrants, convertible notes and similar instruments permit settlement based on the T+3 standard. Investors who rely on warrants and other convertible securities to settle trades would be well-served to evaluate the implications of the shorter settlement period on this strategy, including how to address the reduced settlement period, if any, for securities they already hold.

The full text of the press release is available [here](#) and the adopting release is available [here](#).

Commissioner Stein's statement about the amendment is available [here](#).

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