

SEC Risk Alert Shortening Transaction Settlement Cycle

On March 27, 2024, the SEC Examination Division published a risk alert regarding the upcoming shortened settlement cycle from two business days (**T+2**) to one business day (**T+1**), which officially began on May 28, 2024. The risk alert was intended to remind registrants and other market participants of the criticality of preparing for, and understanding the impact of, the shortened settlement cycle and announce the Exam program's intent to continue engaging with registrants through examinations and outreach to assist with preparedness for the shortened settlement cycle. The risk alert noted that shortening the standard settlement cycle to T+1 reduces the time frames to affect the closeout of most types of fail-to-deliver positions under Rule 204 of Regulation SHO. Further, shortening the standard settlement cycle to T+1 shortens the timeframe for broker-dealers to comply with the requirements under Rule 10b-10 of the Securities Exchange Act of 1934 (**Exchange Act**) to give or send a written confirmation at or before completion of the transaction, and also reduces the number of days that broker-dealers will have to obtain possession of customer securities before being required to close out a customer transaction under Exchange Act Rule 15c3-3(m).

The shortened settlement cycle primarily relates to the processing of institutional trades by broker-dealers and clearing agencies that are central matching service providers (**CMSPs**), and requires completion of allocations, confirmations, and affirmations (**ACA**) by the end of the trade date for transactions between broker-dealers and their institutional customers. The final rules establish certain recordkeeping amendments applicable to registered investment advisers. In summary, the final rules under the Exchange Act and Investment Advisers Act of 1940 (**Advisers Act**) include:

- **Amended Exchange Act Rule 15c6-1** – Prohibits broker-dealers from effecting or entering into a contract for the purchase or sale of a security (with limited exceptions) that provides for payment and delivery more than T+1 unless expressly agreed by both parties.
- **New Exchange Act Rule 15c6-2** – Requires broker-dealers to either enter into written agreements with relevant parties or implement written policies and procedures to complete the ACA process by the end of the trade date.
- **New Exchange Act Rule 17Ad-27** – Requires CMSPs to effectively implement policies and procedures to facilitate straight-through processing and submit annual reports to the SEC describing progress with straight-through processing.

- **Amended Advisers Act Rule 204-2** – Requires registered investment advisers to maintain records for any transaction subject to Rule 15c6-2(a), including each confirmation received and any allocation and each affirmation sent or received with a date and time stamp indicating when the allocation and affirmation was sent or received.

The risk alert noted that examiners may review whether and how registrants have evaluated the potential impact of the final rules on their: (i) business activities; (ii) operations and risk assessments; (iii) services; and (iv) customers, clients, and/or other relevant parties, including preparations relating to their:

- **Clearance and Settlement Activities** – Including clearing services provided to institutional clients, retail customers, or other broker-dealers; custodial or prime brokerage services; securities lending recall activities and payment activities that support clearance and settlement; trade allocation and fail management processes; and custodian communication;
- **Operational Readiness** – Including any implementation of, or enhancements or modifications to, systems, controls, policies, or processes associated with the shortened settlement cycle, along with information related to any testing events, such as testing events with the Depository Trust & Clearing Corporation (**DTCC**), broker-dealers, vendors, or other parties; and
- **Communication** – Including disclosures, representations, and/or other communications to customers, clients, and/or vendors regarding changes that will occur.

The risk alert further provided a sample list of requests examiners may request when conducting an examination, as an attachment to the [risk alert](#). Exam activities under this initiative to date have focused on broker-dealers and not investment advisers or private fund managers.

See Press Release - <https://www.sec.gov/news/press-release/2023-29>

See Risk Alert – <https://www.sec.gov/files/risk-alert-tplus1-032724.pdf>