

Locke Lord QuickStudy: T+2 Settlement Cycle is Here: Do We Have to Close Our Securities Offering in Just Two Days?

WRITTEN BY

Shannon Kelly

On March 22, 2017, the Securities and Exchange Commission (the SEC) adopted an amendment to the standard settlement cycle rule (the Amendment) to shorten the settlement cycle for broker-dealer transactions from three business days (T+3) to two business days (T+2).¹

The compliance date is **September 5, 2017**. According to the SEC, investors and market participants should reap significant benefits from a shortened settlement cycle by reducing credit, market and liquidity risks arising from unsettled securities trades. The Amendment also brings the U.S. standard settlement cycle into closer alignment with non-U.S. markets, such as those in the European Union.

While the perceived benefits for the trading markets are considerable, what will T+2 mean for issuers, underwriters and other offering participants in dealing with the process for closing public securities offerings? Fortunately, the Amendment continues to allow the managing underwriter and the issuer to agree to a trade settlement cycle other than T+2 as long as the agreement is express and reached at the time of the transaction. Moreover, the SEC retained the current exception available for firm commitment offerings. Specifically, Rule 15c6-1(c) provides an exception for registered firm commitment underwritten transactions that price after 4:30 p.m. ET to use a T+3 or T+4 settlement cycle. So, while it is possible that market participants in firm commitment offerings for conventional securities, such as straight equity or debt, may elect to settle on T+2, we expect (as does the SEC) that most primary public offerings for all types of securities, but especially those for preferred equity, convertible debt or other more complicated securities, will continue to settle on T+3 or T+4.

If participants in a securities offering desire to settle on T+2, they and their counsel will need to develop a plan for timely settlement that addresses the earlier preparation and negotiation of definitive documents and other closing deliverables.

For more information on the matters discussed in this *Locke Lord QuickStudy*, please contact the authors.

Endnotes

¹The Amendment is described in the SEC's adopting release, "Amendment to Securities Transaction Settlement Cycle" SEC Release No. 34-80295 (March 22, 2017), available at: <https://www.sec.gov/rules/final/2017/34-80295.pdf>.

RELATED INDUSTRIES + PRACTICES

- [Capital Markets](#)