

SEC Proposes Rule Changes Shortening the Securities Settlement Cycle to T+1 By March 31, 2024

WRITTEN BY

Heather M. Ducat | David I. Meyers | Betty Linkenauger Segar | Rachael M. Bushey | Jennifer L. Porter | Neil J. Doogan | Alexandra Hazday

On February 9, the Securities and Exchange Commission (SEC) [proposed rule amendments](#) to shorten the standard securities settlement cycle for most broker-dealer transactions to one business day after the trade date (commonly referred to as T+1). The SEC believes this change will help reduce risks in the clearance and settlement of securities and also increase operational efficiency. Currently, the standard settlement cycle for most broker-dealer transactions in securities is two business days after the trade date (or T+2). The so-called “override” provision of the current rules permits the parties to expressly agree to a settlement cycle longer than T+2 at the time of the transaction.

For firm commitment offerings priced after 4:30 p.m. ET, the current rules permit the trade to be treated as made on the next business day, with settlement then occurring on a T+3 cycle. The proposed rule also eliminates this longer settlement cycle and also proposes to shorten it to T+1, requiring, by default, firm commitment offerings priced after market close to close the next day, which effectively shortens the typical settlement cycle for most equity and equity-linked offerings (which typically price after market close) from three days to one day.

The SEC indicated that the current rules were originally intended to allow market participants time to print and deliver final prospectuses, but that the expanded application of the “access equals delivery” standard for prospectus delivery supports removing this longer settlement cycle. However, the SEC indicated that the continued availability of the override provision will permit parties to offerings involving more complex documentation to agree to a longer settlement cycle where a T+1 settlement is impractical. The proposal also includes rules aimed at improving the processing of institutional trades with new requirements for broker-dealers and registered investment advisors. Further, the rule proposal seeks to facilitate straight-through processing with new requirements applicable to clearing agencies that are central matching service providers (CMSPs).

The proposal demonstrates the SEC’s continuous efforts to further decrease the settlement cycle for these types of transactions. In 1993, the settlement cycle was shortened from T+5 to T+3, and then again in 2017, the settlement cycle was shortened to its current requirement of T+2. While the SEC is not proposing a same-day (or T+0) standard settlement cycle at this time, it is requesting comments regarding potential pathways to this timeframe, as well any challenges that may occur in implementing it.

The proposed changes will have a 60-day public comment period following publication in the *Federal Register*. If approved, the T+1 settlement cycle would be implemented by March 31, 2024.

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