

Press Coverage | May 23, 2024

SEC Risk Alert Announces Exams of Firms' Preparations for T+1 Settlement

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[Genna Garver](#)

Genna Garver, a partner in Troutman Pepper's Corporate Practice Group, was quoted in the May 23, 2024 *Hedge Fund Law Report* article, "[SEC Risk Alert Announces Exams of Firms' Preparations for T+1 Settlement.](#)"

On February 15, 2023, the SEC adopted [final rules](#) (Rules) shortening the standard settlement time for securities transactions from the current two business days after the trade date (T+2) to one business day after the trade date (T+1). The Rules also shorten the process for confirming and affirming trade information and facilitate so-called "straight-through processing" (STP) of securities transactions.

The Rules take effect for most broker-dealer transactions on May 28, 2024. In anticipation of that date, the SEC Division of Examinations (Exams) issued a [Risk Alert](#) reminding registrants it will continue to assess their preparedness for the change through examinations and outreach and detailing the information Exams will request. "As May 28, 2024, nears, it is critical that Registrants and other market participants prepare for the shortened settlement cycle and understand the impacts of T+1 and the [Rules] to identify necessary changes and critical dependencies in order to successfully manage this transition," Exams advised. This article discusses the Risk Alert, with commentary from [Genna Garver](#), partner at Troutman Pepper, and Charles A. Sommers, partner at Sidley Austin LLP.

Some advisers may have to enter into new agreements, or amendments to existing agreements, with brokers that choose the contract approach, Garver noted.

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"Requiring advisers to maintain records of those communications will help ensure that trades involving such advisers will timely settle on T+1," said Garver. "The affirmation step is a backstop to alert brokers of any discrepancies."

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"Even though the broker is responsible for settlement, advisers cannot be the cause of delay," she added.

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An adviser subject to the new recordkeeping requirements may rely on third parties to perform or communicate

allocations or affirmations and may not necessarily retain the records itself, observed Garver.

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Advisers that do not rely on third parties should ensure they can timely meet contractual obligations to their brokers or any new requirements a broker may impose in light of its obligations under new Rule 15c6?2, such as technology systems, operations or processes for communicating and coordinating with the broker, continued Garver.

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“[Advisers] may also need to conduct due diligence on their brokers to ensure they have sufficient policies and procedures in place for T+1,” added Garver.

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“Even for those advisers that do not have to make significant changes to their business, they still need to assess the impact of the new rule on their business and update their books and records policies accordingly,” she recommended.

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“Overall, this is similar to what we saw for the [Marketing Rule](#) just ahead of the required compliance date. Exams is clearly setting forth what to expect on the initial round of examinations,” said Garver. “Managers should expect questions regarding their road to implementation [of the Rules],”

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