Client Update
SEC Reduces Standard Settlement Cycle from T+3 to T+2

NEW YORK
Peter J. Loughran
pjloughran@debevoise.com

Paul M. Rodel
pmrodel@debevoise.com

Steven J. Slutzky
sjslutzky@debevoise.com

David Aman
daman@debevoise.com

Lee A. Schneider
lschneider@debevoise.com

Max M. Borg
mmborg@debevoise.com

Lilya Tessler
ltessler@debevoise.com

On March 22, 2017, the Securities and Exchange Commission (the "SEC") announced that it has amended Rule 15c6-1(a) under the Securities Exchange Act of 1934, as proposed, to shorten the standard settlement cycle for broker-dealer transactions from three business days after trade date ("T+3") to two business days after trade date ("T+2"), subject to certain existing exceptions. A shorter standard settlement cycle has been discussed for over a decade and market participants have been preparing in earnest since before the SEC proposed the amendment in September 2016.

The SEC also requested and received no comments regarding possible amendments to the existing exceptions to the standard settlement cycle set out in paragraphs (b)-(d) of Rule 15c6-1. As a result, the shortened standard settlement cycle in amended Rule 15c6-1(a) will not affect these exceptions, including:

- purchases or sales of unlisted limited partnership interests;
- purchases or sales of securities which the SEC has, in light of market practice, exempted by order from the standard settlement cycle (*e.g.*, securities that do not generally trade in the U.S., registered variable annuity contracts and variable life insurance contracts);
- sales for cash of securities that are priced after 4:30 p.m. Eastern time and that are sold by an issuer to an underwriter pursuant to a firm commitment underwritten registered offering, provided that such sales settle not later than T+4 (though we expect introduction of a T+2 standard settlement cycle may limit use of longer-than-standard settlement cycles in the equity markets) ; and

- sales for cash of securities pursuant to a firm commitment offering if the managing underwriter and issuer have agreed to an alternate date for all securities sold pursuant to such offering.

Convertible debt, preferred equity, securities options and fixed-income markets often rely on the last exception to agree to longer-than-standard settlement cycles. The SEC's adopting release confirms that these markets may continue to make use of such exception to agree to longer settlement cycles.

Other rules from the SEC and various other regulatory agencies require market participants to perform regulatory obligations on the settlement date or within a specified number of business days thereafter, or are otherwise keyed off of the settlement date. Accordingly, the shorter T+2 standard settlement cycle could have ancillary consequences for how market participants comply with these existing regulatory obligations, including Rules 200 and 204 of Regulation SHO, Rules 10b-10, 15c3-3(m) and Regulation T under the Exchange Act of 1934. For detailed discussion of the effect of the shorter standard settlement cycle on broker-dealers, see the article by our colleagues Lee Schneider, Lilya Tessler and Claire Lascelles, *Moving the United States to T+2 Settlement*, to be published in 2017 in the Journal of Securities Operations & Custody. Among other things, the article notes that two banking regulators, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation, have similar rules requiring banks to settle trades by T+3. Presumably those rules will be amended in due course.

For the submission of inquiries to the staff of the SEC about the T+2 standard settlement cycle, the SEC has created an email address: T2settlement@sec.gov.

The compliance date for amended Rule 15c6-1(a) is September 5, 2017.

* * *

Please do not hesitate to contact us with any questions.