

ICI VIEWPOINTS

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US T+2 Is Coming—and Bringing Many Benefits with It

By Ahmed Elghazaly

On September 5, 2017, equities, municipal and corporate bonds, and unit investment trusts will reduce the amount of time it takes to settle trades from trade date plus three days (T+3) to trade date plus two days (T+2). This is a historic event, as the last time the cycle changed in the United States was 20 years ago, when the settlement cycle decreased from T+5 to T+3.

We have witnessed an unprecedented level of collaboration among industry participants around this initiative. A multitude of stakeholders—including mutual funds, broker-dealers, global custodians, service providers, the Securities Industry and Financial Markets Association (SIFMA), and the Depository Trust & Clearing Corporation (DTCC)—are supporting this change and are actively engaged in a successful transition. An industry steering committee cochaired by ICI is leading the charge and in early 2016 [announced the target migration date](#).

The T+2 migration is industry-led, not mandated by a regulator. However, because the rules of several regulators and self-regulatory organizations are linked to the settlement cycle established by US Securities and Exchange Commission (SEC) rules, the initiative's success relies on a timely change to the SEC rule that defines the timing of settlements. We anticipate that an SEC proposal updating the rule will be released in the next few weeks.

Why Does T+2 Matter?

A shorter settlement cycle in the United States will be a valuable step toward reducing counterparty and settlement risk in the largest capital market in the world. Many capital markets around the world—including markets in the European Union, Australia, Hong Kong, and South Korea—have moved, while others (including Canada and Japan) are considering a move to T+2, so a move to a shortened settlement cycle in the United States would further harmonize global securities settlement. A shorter settlement cycle is expected to yield other significant benefits, including:

- *Increased liquidity and cash management.* Trades will settle faster under a shorter cycle, freeing up cash one day earlier. This will increase liquidity in the market and further enhance cash management for mutual funds by more closely aligning the settlement cycles of many types of portfolio securities. Settlement for mutual fund shares is typically T+1; thus, a shorter securities settlement cycle will reduce the gap between settlement of portfolio securities and mutual fund shares, improving cash management for funds.
- *Efficiencies in settlement practices.* Shortening the settlement cycle will motivate institutional investors to tighten their operational processes, resulting in higher rates of on-time settlement and fewer failed trades. A shortened cycle also will help trade reconciliation, because—as a best practice—trade allocation and confirmation processes will be performed on the trade date. This will help institutional investors identify any discrepancies in trade details early, giving sufficient time for error correction.

Rallying market participants to the goal of reducing risk without a regulatory mandate is no small feat, particularly given the competing regulatory priorities that firms are struggling to comprehend and comply with. But there is no doubt that a shorter settlement cycle will benefit the market and, most importantly, investors. ICI applauds the commitment demonstrated by all the stakeholders in this ongoing effort to bring this change to fruition by the target date.

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