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ICI Endorses Move to Shorten Settlement Cycles

Initiative to Reduce Systemic, Operational Risks Could Benefit Investors

Washington, DC, February 18, 2014 - The Board of Governors of the Investment Company Institute has endorsed unanimously an industry initiative led by The Depository Trust & Clearing Corporation (DTCC) to shorten settlement cycles for a range of securities to trade date plus two days (T+2), ICI President and CEO Paul Schott Stevens announced today.

Under current market arrangements, settlement of securities globally occurs anywhere from one to five days after trade execution. In the United States, equity trades clearing through DTCC generally settle three days after the trade (T+3), while most mutual fund trades settle one day after the trade (T+1). The voluntary move to a T+2 settlement cycle for securities currently settling at T+3 or longer would result in a meaningful reduction in systemic, liquidity, and operational risks; would promote better use of capital; and would create significant process efficiencies for market participants—all changes that would benefit investors.

Addressing Activities and Practices to Mitigate Risks in Markets

"Regulators in the U.S. and abroad are seeking to make the financial system more resilient. The fund industry supports practical efforts to address specific activities, improve market practices, and thereby mitigate risks in the financial markets," Stevens said. "Shortening U.S. settlement cycles on a timeframe that is workable for all market participants would be a positive step toward sounder markets and would align the U.S. with initiatives in global markets."

"DTCC commends ICI for the support, attention, and efforts it is giving to this important industry issue and for its commitment to improving the resiliency of the markets and all participants," said Michael Bodson, President and CEO of DTCC. "Shortening the settlement cycle in the U.S. will promote systemic risk reduction and capital efficiency in the marketplace and strengthen our financial system. We are committed to working with ICI and the broader financial community to encourage further dialogue and gain consensus on the best way to move forward on this transformational initiative for our industry."

The change also would reduce disparities in settlement between fund shares and their underlying portfolio securities, which can present challenges in times of extreme market volatility and uncertainty.

DTCC Leading Voluntary Industry Initiative

The voluntary initiative to shorten settlement cycles was first considered more than 10 years ago by DTCC and industry stakeholders. In 2012, in the aftermath of the 2008 financial crisis, DTCC revived the initiative, highlighting the need to reduce risk and promote efficiencies in the post-trade process and identifying significant advantages to be gained from the operational changes needed to implement shorter settlements. DTCC is seeking to lead a voluntary movement among asset managers, broker-dealers, custodian banks, and other market stakeholders to shorten settlement for equities, corporate and municipal bonds, and unit investment trusts to no longer than T+2. DTCC is working with the industry to determine the best timing to implement an accelerated settlement cycle.

"Implementing shorter settlement will require significant changes to funds' middle and back office operations, particularly for portfolio settlement," said Kathleen C. Joaquin, Chief Industry Operations Officer of ICI. "But those changes can yield substantial benefits in process efficiencies and will reduce the timing and market risks that funds face due to unsettled trades."

Initiative Would Bring U.S. Standards in Line with Global Trend

The initiative also would align U.S. practices with a global movement toward shorter settlement cycles. European markets are moving to a T+2 settlement cycle in 2014, and much of Asia is already on a settlement cycle shorter than T+3. Harmonization across regions could help global funds better manage cash flows, thus reducing and simplifying financing needs.