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The First Move: MSRB Issues a Proposal for Shortened Settlement Cycle

By Marty Burns

Recently, the Municipal Securities Rulemaking Board (MSRB) opened the door on the regulatory filings needed to move the U.S. securities markets to a shortened settlement cycle. MSRB is the first regulator to issue its proposal for industry comment; the proposal addresses changes to its rules that will support moving the securities settlement cycle for stocks, corporate and municipal bonds, and unit investment trusts from the current standard of trade date plus three business days (T+3) to trade date plus two business days (T+2).

Shortening the settlement cycle is an important voluntary industry initiative—strongly supported by ICI—designed to reduce operational and counterparty risk by removing one day from the settlement cycle time. The initiative will result in a meaningful reduction in liquidity and operational risks, promote better use of capital, and create significant process efficiencies for market participants—changes that ultimately will benefit investors.

To achieve the transition to T+2, several regulatory agencies and self-regulatory organizations (SROs) need to amend rule sets that currently cite T+3 as the settlement time frame. These changes are a key component of the process needed to successfully migrate the financial industry to the shortened settlement cycle.

Creating the Plan and Playbook

Mary Jo White, chair of the U.S. Securities and Exchange Commission (SEC), is among the regulators focusing on the initiative. In October, she delivered a strong message of support for the move in her response to a June 2015 letter from ICI and the Securities Industry and Financial Markets Association (SIFMA), which cochair the Industry Steering Committee (ISC) organized in 2014 by the Depository Trust and Clearing Corporation (DTCC).

The ISC is working to develop an implementation plan and market participant playbook that will lay out the schedule, dependencies, and milestones that the industry must address to meet a projected third-quarter 2017 implementation time frame. ICI and SIFMA have engaged Deloitte Advisory LLP to facilitate industry discussions and to draft the plan and playbook for approval by the ISC. Work by the ISC and Deloitte is continuing quickly, and is on target to meet the December 17 release date requested by SEC Chair White.

The implementation plan follows an industry white paper released in June that gave an overview of the process, taking a deeper dive into the areas and topics identified by the ISC and the initiative's Industry Working Group during the review sessions held in 2014 and early 2015 that underpin the white paper. The implementation plan and playbook also identify remedial steps and issues for stakeholders to consider when assessing the business, infrastructure, and vendor dependencies that could be affected by the move to T+2.

Because each organization will have unique issues to address, getting an early start on the assessment process and development of a firm-level implementation plan will be key in helping firms stay in step with overall industry efforts. The playbook will provide the "how-to" guide for stakeholder staff responsible for leading their firms' efforts to migrate to T+2.

A Historic Change to Benefit Investors

Over the next several months, more regulators and SROs will be issuing proposals for rule changes supporting the industry move to T+2, including proposals from the SEC, the Financial Industry Regulatory Authority (FINRA), the U.S. Department of the Treasury, the Federal Deposit Insurance Corporation (FDIC), the securities exchanges, and the DTCC. Along with the industry work on the implementation time line and playbook, each of these rule proposals will help move participants another step along the path to achieving a historic change to the U.S. securities market—one that will strengthen the resiliency of the market for the benefit of the investing public.

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