

# Chapman Client Alert

September 29, 2016

Current Issues Relevant to Our Clients

## SEC Proposes T+2 Trade Settlement Cycle

After several years of securities industry efforts, the Securities and Exchange Commission (“SEC”) has formally proposed a rule change that would shorten the standard settlement cycle for most broker-dealer securities transactions from three business days after the trade date (“T+3”) to two business days after the trade date (“T+2”). The proposed amendment to Rule 15c6-1 under the Securities Exchange Act of 1934 is designed to reduce systemic risk for U.S. market participants by reducing risks such as credit risk, market risk, and liquidity risk. The industry is targeting T+2 implementation for September 2017 but the rule proposal states that the SEC will consider that date and others for implementation. The securities industry has established a website to provide guidance on T+2 settlement at [www.ust2.com](http://www.ust2.com). The SEC release proposing the rule change is available [here](#). You may comment on the proposed rule [here](#) by clicking on “Submit comments on S7-22-16”.

Rule 15c6-1 currently prohibits broker-dealers from effecting or entering into a contract for the purchase or sale of a security that provides for payment of funds and delivery of securities later than the third business day after the date of the contract unless otherwise expressly agreed to by the parties at the time of the transaction. Subject to certain exceptions in the rule, the prohibition applies to all securities. Among other things, the rule applies to equities, corporate bonds, unit investment trusts (“UITs”), mutual funds, exchange-traded funds, American depositary receipts, security-based swaps, and options. Certain of these securities already typically settle on less than a T+3 cycle and will not be impacted by the current proposal. The rule’s standard settlement cycle does not apply to exempted securities, government securities, municipal securities, commercial paper, bankers’ acceptances, or commercial bills. Consistent with the current rule, the amended rule will allow a broker-dealer to agree to a trade settlement longer or shorter than T+2 as long as the agreement is express and reached at the time of the transaction.

Note that the proposed rule change does not change the statutory payment period requirement under the Investment Company Act of 1940 (“1940 Act”) applicable to redeemable securities issued by open-end funds and UITs. Subject to certain exceptions, Section 22 of the 1940 Act requires that open-end funds and UITs pay redemption proceeds to redeeming investors within seven calendar days after the tender of a security for redemption. Notwithstanding this statutory requirement, most funds and UITs have settled redemption transactions on a T+3 cycle or less since the T+3 rule cycle was adopted over twenty years ago.

### For More Information

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To discuss any topic covered in this Client Alert, please contact a member of the Investment Management Group or visit us online at [chapman.com](http://chapman.com).

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