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SEC Adopts Shorter T+1 Settlement Cycle for Securities Transactions

What You Need to Know

Recently, the SEC adopted new rules and amendments intended to reduce time between the execution of securities transactions and their settlement, and calling for, among other things, a shorter T+1 settlement cycle for most securities transactions. The final rules will become effective 60 days following the publication of the [adopting release](#) in the Federal Register. The compliance date for the final rules is set for May 28, 2024.

Rule Amendments and New Rules

The rule amendments shorten the standard settlement cycle for most securities transactions from two business days after trade date (T+2) to one (T+1), and for firm commitment offerings priced after 4:30 p.m. from T+4 to T+2. The new rules impose additional requirements related to same-day affirmation and straight-through processing on broker-dealers and/or certain clearing agencies.

According to the SEC, reducing time between the execution of a securities transaction and its settlement is intended to reduce risk, promote investor protection, and increase operational and capital efficiency. Shortening the standard settlement cycle and improving institutional trade processing can mitigate potential vulnerabilities in the U.S. securities market, which were highlighted by two recent episodes of increased market volatility – in March 2020 following the outbreak of the COVID-19 pandemic and in January 2021 following heightened interest in certain stocks.

Of the newly adopted rules and rule amendments, the most notable change is the decrease in time for the standard settlement cycle for most securities transactions from T+2 to T+1. However, it is important to recognize that the rules will still allow issuers and underwriters to agree to alternative settlement dates. This should be helpful in the context of debt transactions in particular, because such transactions require much more extensive documentation to close as compared to equity offerings. In 2017, the SEC had similarly reduced the settlement cycle for most securities transactions from T+3 to T+2. Even after the 2017 change, issuers and underwriters continued to use longer settlement cycles for debt offerings. So while market practice may shift from T+2 to T+1 for equity offerings, it is expected that issuers and underwriters will continue to agree to extended settlement cycles for debt offerings.

Please click [here](#) for more information about the new SEC rules.

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