



# Regulatory Alert

Regulatory Insights for Financial Services

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## SEC final rule for T+1 settlement cycle

### *KPMG Regulatory Insights:*

- Long anticipated, the benefits of a shorter settlement cycle are widely recognized; concern remains over whether the industry needs more than 15 months to prepare.
- The transition is one of a several regulatory changes being introduced concurrently that respond to the “meme stock events of 2021,” marked by high market volumes and increased volatility.
- Operational challenges may include shifts from manual to automated systems, organizational changes, and changes in the relationships with market participants; operational risks may include less time to address process errors or potential fraud.
- The SEC will continue to evaluate operational and technical challenges to shift toward a T+0 settlement standard cycle in the future.

The Securities and Exchange Commission (SEC) adopted a [final rule](#) to shorten the standard settlement cycle for most broker-dealer transactions from two business days (T+2) to one (T+1) after the trade date. In addition, the new rule impacts the processing of institutional trades by broker-dealers and certain clearing agencies and amends certain recordkeeping requirements for registered investment advisers (“RIAs”).

Highlights of the final rule are outlined below.

### **Standard Settlement Cycle**

The final rule amends Rule 15c6-1 of the Exchange Act to shorten the standard settlement cycle by:

- Prohibiting broker-dealers from the purchase or sale of a security that provides for payment of funds and delivery of securities (other than an exempted security, a government security, a municipal security, commercial paper, bankers’ acceptances, or commercial bills) later than the first business day after the date of the contract (T+1), unless otherwise expressly agreed to by the parties at the time of the transaction.
- Adding security-based swaps to the list of items exempted securities.

- Shortening the settlement cycle for firm commitment offerings for securities priced after 4:30PM ET from T+4 to T+2, unless otherwise expressly agreed to by the parties at the time of the transaction.

### **Same-Day Allocation, Confirmation, and Affirmation**

The final rule adopts new Rule 15c6-2 of the Exchange Act to require broker-dealers engaging in the allocation, confirmation, or affirmation process (collectively, “processes”) with another party or parties to achieve settlement of a securities transaction subject to the T+1 settlement cycle to either:

- Enter into written agreements with the “relevant parties” (e.g., investment managers and bank custodians, as agents of a broker-dealer’s customer) to ensure completion of the processes as soon as “technologically possible” and no later than the end of the trade day.
- Establish, maintain, and enforce written policies and procedures “reasonably designed” to ensure completion of the processes as soon as “technologically possible” and no later than the end of the trade day. The policies and procedures must:



- Identify and describe any IT systems, operations, and procedures used to coordinate with relevant parties to ensure completion of the processes for the transaction.
- Set target time frames on trade date for completing the processes for the transaction.
- Describe procedures for communicating trade information, investigating discrepancies in trade information, and adjusting trade information to help ensure that the processes can be completed by the target time frames.
- Describe plans to identify and address delays in the processes.
- Measure, monitor, and document the rates of the processes completed as soon as possible and no later than the end of the trade day.

### RIA Recordkeeping

The final rule amends Rule 204-2 of the Advisers Act by:

- Requiring RIAs to make and keep true, accurate, and current records of each confirmation they receive and allocation and affirmation they send or receive (including date and time stamps) for any transaction that is subject to the requirements of Rule 15c6-2.

### Requirements for CMSPs to Facilitate Straight-Through Processing

The final rule adds Rule 17Ad-27 of the Exchange Act to require clearing agencies that provide a central matching service (“CMSPs”) to:

- Establish, implement, maintain, and enforce “reasonably designed” written policies and procedures that facilitate

straight-through processing (“STP”) of transactions for broker-dealers and their customers.

- Submit an annual report via EDGAR, tagging the information in the report using the structured (i.e., machine-readable) Inline XBRL data language, that provides:
  - A summary of current policies and procedures reasonably designed to facilitate STP.
  - A qualitative description of progress in facilitating STP during the twelve-month period covered by the report.
  - A quantitative presentation of data that includes specified metrics and organized in a specified manner.
  - A qualitative description of the actions to facilitate STP during the twelve-month period that follows the period covered by the report.

### Effective Dates

The final rule will become effective 60 days after publication in the Federal Register. Compliance with all elements of the final rule is required beginning May 28, 2024, except for the exclusion of security-based swaps from the requirements of Rule 15c6-1, which will become effective as of the effective date of the final rule.

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