



April 11, 2022

**Via Electronic Mail:** rule-comments@sec.gov

Vanessa A. Countryman  
Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549-1090

**Re: Shortening the Securities Transaction Settlement Cycle; File No. S7-05-22**

Dear Ms. Countryman,

Managed Funds Association<sup>1</sup> (“MFA”) appreciates the opportunity to provide comments to the Securities and Exchange Commission (“SEC” or “Commission”) on its proposed rules in “Shortening the Securities Transaction Settlement Cycle,” Release No. 34-94196 (February 9, 2022) (“**Proposal**”).<sup>2</sup> This letter addresses the SEC’s proposed amendments to 17 C.F.R. 240.15c6-1 (“**Rule 15c6-1**”)<sup>3</sup> and potential paths to and challenges associated with achieving settlement no later than the end of trade date (“**T+0**”). We support the comments made in the letter submitted by the Securities Industry and Financial Markets Association (“SIFMA”). We write separately to emphasize the following recommendations.

In 1993, the Commission adopted Rule 15c6-1 under the Exchange Act to standardize the securities transaction settlement date for broker-dealers at three business days after the trade date (“**T+3**”) and, in 2017, the Commission amended the rule to require settlement at T+2.<sup>4</sup> Subject to the recommendations discussed in further detail below, MFA is pleased to support the Commission’s proposal as timely as was the case for settlement at T+2 in 2017.<sup>5</sup> MFA concurs that shortening the securities transaction settlement cycle would provide substantial benefits to market participants by decreasing operational, systemic, credit, liquidity, and counterparty exposure risk for the reasons discussed in the

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<sup>1</sup> Managed Funds Association (“MFA”) represents the global alternative investment industry and its investors by advocating for regulatory, tax and other public policies that foster efficient, transparent, and fair capital markets. MFA’s more than 150 members collectively manage nearly \$1.6 trillion across a diverse group of investment strategies. Member firms help pension plans, university endowments, charitable foundations, and other institutional investors to diversify their investments, manage risk, and generate attractive returns over time. MFA has a global presence and is active in Washington, London, Brussels, and Asia.

<sup>2</sup> “Shortening the Securities Transaction Settlement Cycle,” 87 Fed. Reg. 10,436 (Feb. 24, 2022).

<sup>3</sup> The Commission’s proposed amendment to Rule 15c6-1 would shorten the standard settlement cycle for most broker-dealer transactions from two business days after the trade date (“**T+2**”) to one business day after the trade date (“**T+1**”).

<sup>4</sup> “Amendment to Securities Transaction Settlement Cycle,” 81 Fed. Reg. 69,240 (Oct. 5, 2016).

<sup>5</sup> See Managed Funds Assoc., *Re: File No. S7-22-16; Amendment to Securities Transaction Settlement Cycle* (Dec. 5, 2016), <https://www.managedfunds.org/wp-content/uploads/2020/04/MFA-T2-Letter.pdf>.

Proposal. However, we respectfully submit that the Commission should modify the Proposal as follows to better align its goals with the capabilities of market participants.

- **The proposed compliance date of March 31, 2024 should be delayed until no earlier than September 3, 2024, the Tuesday following Labor Day weekend, and, in any case, should land on the Tuesday following a holiday weekend.** The compliance date should occur immediately following a holiday weekend. Three non-business days would provide additional time for performing any final system changes or testing in anticipation of the transition to a T+1 settlement cycle. We respectfully submit that an earlier date could result in disruptions to the securities markets if market participants are not able to complete the changes necessary to support a T+1 settlement cycle on a shorter timeframe. The Commission has historically viewed this timeframe favorably.<sup>6</sup>
- **Rule 15c6-1 should be modified to exempt, or further exemptive relief should be provided for, security-based swaps.** Rule 15c6-1 should not apply to security-based swap transactions effected by a “security-based swap dealer,”<sup>7</sup> which is dually registered as a broker-dealer. Security-based swap transactions are typically bilateral transactions between sophisticated counterparties who deal directly with each other, and which are subject to unique capital,<sup>8</sup> margin,<sup>9</sup> and segregation requirements.<sup>10</sup> As noted by the Commission, the definition of “security” in Section 3(a)(1) of the Exchange Act covers security-based swaps and, in turn, Rule 15c6-1 would cover security-based swap transactions effected by a security-based swap dealer, which is also a broker-dealer, but is acting in its capacity as the former. We respectfully submit that there is no principled basis to apply Rule 15c6-1 to security-based swap transactions solely for the reason that a security-based swap dealer is also registered as a broker-dealer. The Commission should modify Rule 15c6-1 to exempt, or further exemptive relief should be provided for, security-based swaps as noted in the Proposal.<sup>11</sup>
- **The Commission should evaluate market participants’ experiences with the transition to T+1 and, thereafter, engage the public for comment on a transition to T+0.** The Commission should actively engage with market participants throughout the transition to T+1 so that the Commission and market participants may anticipate potential foot faults in a prospective transition to T+0. As noted by the “T+1 Report,”

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<sup>6</sup> “Securities Transaction Settlement Cycle,” 82 Fed. Reg. 15,564,15,581-82 (March 29, 2017) (“In light of the scope of industry preparation highlighted by the commenters as necessary for a successful transition by all market participants to a T+2 standard settlement cycle, the Commission believes that September 5, 2017 [(the Tuesday following Labor Day weekend)] is an appropriate compliance date, and an earlier date could result in disruptions to the securities markets if market participants are not able to complete the changes necessary to support a T+2 settlement cycle on a shorter timeframe.”).

<sup>7</sup> 17 C.F.R. 240.3a71-1 (defining “security-based swap dealer”).

<sup>8</sup> 17 C.F.R. 240.18a-1, -2.

<sup>9</sup> 17 C.F.R. 240.18a-3.

<sup>10</sup> 17 C.F.R. 240.18a-4.

<sup>11</sup> Proposal, at n.83.

[a] move towards a shortening of the settlement cycle to T+0 would require an overall modernization of current-day clearance and settlement infrastructure, changes to business models, revisions to industry-wide regulatory frameworks, and the potential implementation of real-time currency movements to facilitate such a change.<sup>12</sup>

The T+1 Report further notes that the technology costs of a transition to T+0 would disproportionately impact small- and medium-sized firms. As discussed elsewhere, we are concerned that a significant unintended consequence of hastily considered rulemaking is increased concentration of the industry as compliance and technology costs become insurmountable for new and small-to-mid-size market participants.<sup>13</sup> We respectfully submit that industry consensus, communication, and coordination are prerequisite to successfully shortening the standard settlement cycle. The Commission should further consult with market participants during and after the transition to T+1 with regards to industry views on a prospective transition to T+0.

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We appreciate the opportunity to provide our comments to the Commission's Proposal, and we would be pleased to meet with the Commission or its staff to discuss our comments. If the staff has questions or comments, please do not hesitate to call Joseph Schwartz, Director and Counsel, or the undersigned at (202) 730-2600.

Respectfully submitted,

/s/ Jennifer W. Han

Jennifer W. Han  
Executive Vice President  
Chief Counsel & Head of Regulatory Affairs  
Managed Funds Association

cc: The Hon. Gary Gensler, SEC Chairman  
The Hon. Hester M. Peirce, SEC Commissioner  
The Hon. Allison Herren Lee, SEC Commissioner  
The Hon. Caroline A. Crenshaw, SEC Commissioner

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<sup>12</sup> Deloitte, DTCC, ICI, & SIFMA, *Accelerating the U.S. Securities Settlement Cycle to T+1* (Dec. 1, 2021) ("T+1 Report"), <https://www.sifma.org/wp-content/uploads/2021/12/Accelerating-the-U.S.-Securities-Settlement-Cycle-to-T1-December-1-2021.pdf>.

<sup>13</sup> Managed Funds Assoc., *Re: Notice of Proposed Rulemaking on Position Reporting of Large Security-Based Swap Positions*; File No. S7-32-10 (March 21, 2022), at n.7, <https://www.sec.gov/comments/s7-32-10/s73210-20120700-272867.pdf>.