Securities Regulation Daily Wrap Up, SEC NEWS AND SPEECHES—'Time is risk': Gensler looks ahead to T+1 settlement transition, (Jan 26, 2024)

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The SEC chair lauded the market's progress toward shortening the settlement cycle.

After Memorial Day weekend, the U.S. securities markets will transition to T+1 settlement, said SEC Chair Gary Gensler in remarks before the European Commission. The chair said that by saving time, the transition will save money and reduce risk; it will also reduce the amount of margin required for transactions.

Gensler added that many U.S. markets already have a settlement cycle of one day after the transaction or even settle on the same day as the transaction, in the case of money market funds. T+1 is also common around the globe.

Benefits. Repeating the refrain "Time is money. Time is risk.," Gensler highlighted the importance of clearing and settling and the importance in faster trading. His remarks roughly coincided with the three-year anniversary of the GameStop meme stock frenzy, which reinforced the importance of "market plumbing." With the clearinghouse making larger than usual margin calls, brokers had to restrict additional buying activity, depriving investors of access to the market at a critical time.

Cutting the settlement cycle in half will mean about 29 percent less margin must be placed with the clearinghouse, Gensler said. Shortening the clearance cycle also lowers risk because the sooner the parties allocate, confirm, and affirm the trade information for a transaction, the lower the likelihood that settlement fails. "Shortening the cycle also means reducing the credit, market, and liquidity risks of the clearinghouse," Gensler added.

Timetable. Starting May 28, the day after Memorial Day, the United States will transition to securities settlements of T+1. Trades relating to initial public offerings will also be cut in half, from T+4 to T+1.

Canada and Mexico are also moving to T+1 on May 27.

Gensler explained that the SEC's updated rules require brokers to have policies and procedures reasonably designed to ensure completion of allocations, confirmations, and affirmations as soon as technologically practical. Registered investment advisers must keep time-stamped records of allocations, confirmations, and affirmations. Clearing agencies also must have policies and procedures to facilitate straight-through processing via automation.

Gensler said that SEC staff has been working closely with market participants to implement these changes, holding conversations with regulatory counterparts around the world.

In particular, SIFMA, ICI, and the DTCC have been serving as a forum for market participants to discuss issues, plan, and identify best practices.

Market participants abroad who transact in the U.S. markets should ensure they are ready for the transition by reaching out to their U.S. counterparts that execute and clear their trades as well as complete the necessary testing, Gensler said.

Further policy discussions. Looking beyond the U.S. T+1 transition, Gensler identified four areas for further discussion.

First, what should other nations do? Gensler recognized that Europe has dozens of regulatory markets and 14

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clearinghouses, presenting different challenges, but still returned to his faster-is-better refrain. He allowed, though, while there are costs to settlement mismatches between markets, the markets have proven themselves able to handle the mismatch.

Second, Gensler noted the SEC's recent rules to facilitate central clearing in Treasuries. Third, he suggested that regulators and market participants start talking about shortening the settlement cycle for currency trading, particularly if Europe and the U.K. were to join North America and Asia in moving to T+1 securities trading.

Fourth and finally, Gensler brought up the idea of same-day settlement. Parts of the U.S. money markets, parts of the Chinese equity markets, and soon potentially Indian equity markets have T+0 settlement. This "raises the question as to whether further shortening beyond T+1 may be appropriate," the chair concluded.

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