DTCC
Securing Today. Shaping Tomorrow.

Larry E. Thompson
Vice Chairman and General Counsel

55 Water Street
New York, NY 10041
TEL: [redacted]
www.dtcc.com

Via Electronic Submission

December 5, 2016

Brent J. Fields, Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-1090

Re: Amendment to Securities Transaction Settlement Cycle (File Number S7-22-16)

Dear Mr. Fields:

The Depository Trust & Clearing Corporation ("DTCC")[1], in conjunction with its subsidiaries, The Depository Trust Company ("DTC"), National Securities Clearing Corporation ("NSCC") and Omgeo LLC ("Omgeo"), appreciates the opportunity to provide comments to the U.S. Securities and Exchange Commission ("SEC" or "Commission") regarding its proposed amendment (the "Proposed Rule") to Rule 15c6-1(a) under the Securities Exchange Act of 1934 ("Exchange Act") set forth in Release No. 34-78962, dated September 28, 2016 (the "Release").[2]

DTCC commends the SEC for its support of shortening the standard settlement cycle from three business days after the trade date ("T+3") to two business days after the trade date ("T+2") in the U.S. The Proposed Rule reflects a change the U.S. securities industry has advocated for some time and is a critical step for the move to T+2. The SEC rightly notes that shortening the standard settlement cycle is consistent with the broader focus by the Commission on enhancing the resilience and efficiency of the U.S. clearance and settlement system. A regulatory framework for shortening securities transactions settlement cycle – as proposed by the Release – is the most appropriate and effective way to ensure a successful transition to T+2. Moving to T+2 without the Proposed Rule could be disruptive to the U.S. securities industry because such a move would be relying upon potentially inconsistent rules and regulations enacted by various regulators, self-regulatory organizations and key market participants.

Introduction

The Proposed Rule, which would amend Exchange Act Rule 15c6-1(a),[3] would shorten the standard settlement cycle for most broker-dealer transactions from T+3 to T+2. The Proposed Rule is designed to reduce a number of risks, including credit, market and liquidity risks and, as a result, reduce systemic risk for U.S. market participants.[4]

---

1 DTCC, through its subsidiaries, is the largest post-trade market infrastructure for the U.S. securities industry and supports clearance and settlement activities in U.S.

2 Amendment to Securities Transaction Settlement Cycle, 81 Fed. Reg. 69240 (proposed September 28, 2016) (to be codified at 17 CFR. pt. 240).

3 17 CFR 240.15c6-1(a).

4 Supra note 2.

The standard settlement cycle has not changed since the SEC adopted the existing Rule 15c6-1(a), which (subject to certain exceptions) prohibits any broker-dealer from entering into a contract for the purchase or sale of a security that provides for payment and delivery later than three business days after the trade date, unless otherwise expressly agreed to by the parties at the time of the transaction.[5]

In recent years, as technology and market infrastructure have expanded and evolved, many foreign jurisdictions have shortened their settlement cycles, with most European Union member states reducing their settlement cycles to T+2 in 2014, Australia and New Zealand moving their settlement cycles to T+2 in March 2016, Canada planning to move to T+2 in conjunction with the U.S. and many major markets in Asia adopting T+2 settlement cycles.

The current industry initiative to shorten the standard settlement cycle for trades in U.S. equity, corporate and municipal debt securities from its current T+3 settlement cycle to a T+2 settlement cycle has been a multi-year effort with broad industry support. The move to T+2 is widely recognized by industry members as a way to significantly reduce risk for all market participants. The industry has formed many working groups, comprised of representatives from all impacted market segments, to facilitate the move to T+2 and to determine the target T+2 implementation date. These working groups conducted an extraordinary amount of research and analysis and were instrumental in moving the industry towards T+2. Many of the T+2 working groups continue to meet regularly, demonstrating the industry's commitment to this initiative. Throughout this process, DTCC has been working closely with the industry groups to facilitate a smooth transition to T+2.

Discussion of Specific Comments

Benefit to the Financial Services Industry

DTCC fully supports the move to a T+2 standard settlement cycle and believes the benefits of moving from a T+3 settlement cycle to a T+2 settlement cycle far outweigh the costs of such a move. DTCC believes that the move to a T+2 standard settlement cycle is a good policy that will be beneficial to the U.S. capital markets and the broader U.S. economy. Shortening the standard settlement cycle to T+2 is expected to yield benefits for the financial services industry, including counterparty risk reduction, operational process efficiencies, potentially lower collateral requirements and liquidity demands, and enhanced global settlement harmonization.[6]

I. Reduction in Risk

DTCC believes that the Proposed Rule would protect investors and the public interest by reducing the risk to clearing corporations, their members and public investors which is inherent in settling securities transactions. The reduction of the time period for settlement of most U.S. securities transactions will correspondingly decrease the number of unsettled trades in the clearance and settlement system at any given time. Thus fewer unsettled trades will be subject to counterparty risk and market risk. In addition, the market risk of those trades will be reduced because there will be less time between trade execution and settlement for potential price movements in the securities underlying those trades. The migration to T+2 is therefore anticipated to reduce counterparty risk and associated market risks. Furthermore, the reduction in counterparty risk would directly translate into a reduction of collateral requirements from central counterparties, thus improving capital utilization by their member organizations.[7]

---

[5] 17 CFR 240.15c6-1(a).

[6] Deloitte & Touche LLP & Industry Steering Committee, T+2 Industry Implementation Playbook (Dec. 18, 2015), http://www.ust2.com/pdfs/T2-Playbook-12-21-15.pdf, at 8, 12.

[7] A recent analysis conducted by DTCC over a three-month period indicates that the move to T+2 would reduce NSCC clearing fund deposits by an average of almost 25%. This reduction in clearing fund deposits translates into approximately $1.36 billion of freed capital for NSCC members. In addition, analysis conducted by DTCC indicates

II. International Harmonization

A transition to a T+2 settlement cycle will align the U.S. market with other major international markets that currently operate in a T+2 environment. Twenty-three European Union member states[8] moved to a T+2 settlement cycle in October 2014. Australia and New Zealand transitioned to a T+2 settlement cycle in March 2016. Canada plans to move to T+2 in conjunction with the U.S., and Japan is also considering a transition to a T+2 settlement cycle in 2019. Shortening the settlement cycle to T+2 would assist market participants with the settlement of cross-border transactions because the U.S. settlement cycle would be harmonized with non-U.S. markets that have already transitioned to a T+2 settlement cycle.

III. Cost to Implement T+2

A transition from a T+3 to T+2 standard settlement cycle will result in varying burdens and costs for market participants because of the required implementation of operational, technical and business changes. DTCC's all-in cost related to the shortening of the U.S. settlement cycle to T+2 is approximately $10 million. This cost includes approximately $4 million in systems development and approximately $6 million in the creation of a new DTCC test environment; however, DTCC believes that the risk-reducing benefits described above justify the implementation burdens and costs of moving to a T+2 settlement cycle.

Why T+2 (not T+1 or T+0)

DTCC will take direction from its members on whether shortening the settlement cycle to T+0 or T+1 makes sense. That being said, DTCC recognizes the challenges a move to a T+0 or T+1 standard settlement cycle would present for many industry members and the significant changes such a move could entail.

Transitioning to a T+0 or T+1 model would likely require a significantly larger effort across the industry, as many firms would need to make significant investments to react to major process changes in existing business practices. In addition, some firms may incur significant investment cost when putting in place new systems and/or transition existing systems from a batch mode of operation to near real-time.

Given the industry's focus on moving to T+2, DTCC has not at this time attempted to quantify the cost or benefit of supporting an industry-wide move to T+0 or T+1.

Industry Readiness and Rationale for Selection of the Implementation Date

DTCC believes that the U.S. marketplace is well-positioned to move to a shortened settlement cycle on September 5, 2017, as currently planned by the U.S. financial services industry.

The industry has carefully analyzed the third quarter of 2017 to determine the lowest risk date on which to migrate to a shorter settlement cycle. Considerations included holidays, high-volume events such as index rebalancing, options

---

that the move to T+2 could reduce NSCC's liquidity requirement, lowering NSCC's liquidity costs and helping to mitigate the risk that NSCC may not be able to secure sufficient liquidity to properly function as a central counterparty.

8 European Union members states that moved to a T+2 settlement cycle in October 2014 are Austria, Belgium, Czech Republic, Cyprus, Denmark, Estonia, Finland, France, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Lithuania, Luxembourg, Norway, Portugal, Slovakia, Sweden, Switzerland, the Netherlands and the United Kingdom.

expiration and scheduled corporate action events, among others. The industry ultimately selected September 5, 2017[9] (the Tuesday following the 2017 Labor Day holiday) as the least disruptive migration date for a move to a shorter settlement cycle. The date of September 5, 2017 also has the added benefit of following the Labor Day weekend, providing industry members an additional day to migrate and test systems and procedural changes. DTCC fully supports the industry's selection of September 5, 2017 as the T+2 implementation date. DTCC believes the target implementation date meets the implementation date requirements established by the industry and provides industry members the appropriate amount of time needed to make any required changes.[10]

<u>Conclusion</u>

DTCC fully supports the proposed move to T+2 as set forth in the Release. DTCC believes the move to T+2 will generate significant risk reduction for industry members and is an initiative that can be implemented at a reasonable cost. DTCC also supports the target implementation date of September 5, 2017 and believes the U.S. financial services industry is well-positioned to meet all the industry-established milestones prior to the target implementation date.

* * *

We appreciate this opportunity to comment on the Proposed Rule and your consideration of the views expressed in this letter. We welcome the opportunity to further discuss any of these comments with you at your convenience. If you have any questions or need further information, please contact me at [redacted].

Sincerely,

Larry E. Thompson

Larry E. Thompson
Vice Chairman & General Counsel

---

[9] September 5, 2017 will be the first trade date on which in-scope securities will settle T+2 regular way. Thursday, September 7 will be a "double-settlement day" where the last trades that settle T+3 (from the previous Friday) settle, along with the first trades that settle T+2.

[10] The functional changes required to migrate DTCC's systems to T+2 were identified in 2015 and documented for members in early 2016. Formal projects have been created across multiple product lines, and DTCC is well on-track to have all required changes completed and positioned to support industry testing scheduled to take place in February 2017. DTCC also has been working closely with its members to monitor T+2 readiness and believes all members are well-positioned to meet the target implementation date of September 5, 2017. In addition, DTC and NSCC have been discussing with the SEC their respective requisite rule changes for T+2 and have filed proposed rule changes with the SEC. DTC's T+2 proposed rule change became effective upon filing, and NSCC's T+2 proposed rule change is currently pending regulatory approval.