FINANCIAL SERVICES INSTITUTE

VOICE OF INDEPENDENT FINANCIAL SERVICES FIRMS
AND INDEPENDENT FINANCIAL ADVISORS

VIA ELECTRONIC MAIL

December 5, 2016

Brent J. Fields
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Re: SEC File No. S7-22-16 Proposal to Amend Rule 15c6-1(a) of the Exchange Act of 1934 to Shorten the Settlement Cycle

Dear Secretary Fields:

On September 28, 2016, the Securities and Exchange Commission (SEC) published its request for public comment on proposed recommendations to amend Rule 15c6-1(a) (Proposal) of the Exchange Act of 1934 to Shorten the Settlement Cycle for most broker-dealer transactions from three business days after the trade date ("T+3") to two business days after the trade date ("T+2").[1] The proposed amendment 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.

The Financial Services Institute[2] (FSI) appreciates the opportunity to comment on this important proposal. FSI supports shortening the settlement cycle to enhance the efficiency and stability of the financial system. FSI encourages the SEC to continue to coordinate its efforts with other stakeholders to ensure consistent implementation and robust education for market participants.

Background on FSI Members

The independent financial services community has been an important and active part of the lives of American investors for more than 40 years. In the US, there are approximately 167,000 independent financial advisors, which account for approximately 64.5% percent of all producing registered representatives.[3] These financial advisors are self-employed independent contractors, rather than employees of the Independent Broker-Dealers (IBD).

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[1] *See* SEC Proposed Amendment (September 28, 2016) *available* at https://www.sec.gov/rules/proposed/2016/34-78962.pdf

[2] The Financial Services Institute (FSI) is an advocacy association comprised of members from the independent financial services industry, and is the only organization advocating solely on behalf of independent financial advisors and independent financial services firms. Since 2004, through advocacy, education and public awareness, FSI has been working to create a healthier regulatory environment for these members so they can provide affordable, objective financial advice to hard-working Main Street Americans.

[3] The use of the term "financial advisor" or "advisor" in this letter is a reference to an individual who is a registered representative of a broker-dealer, an investment adviser representative of a registered investment adviser firm, or a dual registrant. The use of the term "investment adviser" or "adviser" in this letter is a reference to a firm or individual registered with the SEC or state securities division as an investment adviser.

FSI's IBD member firms provide business support to independent financial advisors in addition to supervising their business practices and arranging for the execution and clearing of customer transactions. Independent financial advisors are small-business owners with strong ties to their communities and know their clients personally. These financial advisors provide comprehensive and affordable financial services that help millions of individuals, families, small businesses, associations, organizations, and retirement plans. Their services include financial education, planning, implementation, and investment monitoring. Due to their unique business model, FSI member firms and their affiliated financial advisors are especially well positioned to provide Main Street Americans with the financial advice, products, and services necessary to achieve their investment goals.

FSI members make substantial contributions to our nation's economy. According to Oxford Economics, FSI members nationwide generate $48.3 billion of economic activity. This activity, in turn, supports 482,100 jobs including direct employees, those employed in the FSI supply chain, and those supported in the broader economy. In addition, FSI members contribute nearly $6.8 billion annually to federal, state, and local government taxes. FSI members account for approximately 8.4% of the total financial services industry contribution to U.S. economic activity.[4]

Discussion

FSI appreciates the opportunity to offer supportive comments on the Proposal. FSI agrees that shortening the settlement cycle will enhance the efficiency and stability of the financial system. FSI suggests the SEC work with other stakeholders to ensure consistent implementation among market participants. These suggestions are discussed in detail below.

I. FSI supports the SEC's efforts to enhance the efficiency and stability of the financial system by shortening the securities settlement cycle.

The Proposal shortens the standard settlement cycle for most broker-dealer securities transactions to T+2 in order to enhance the efficiency and stability of the clearance and settlement system. A shortened settlement cycle benefits investors by creating:

- A more efficient clearance and settlement system that passes operational cost savings on to investors,
- A more stable financial system through reducing counterparty risk and the amount of capital required to be maintained by clearing firms to mitigate such risk,
- Less operational and systemic risk through reducing exposure between the parties to a trade, between the counterparties to the clearinghouse, and for the clearinghouse itself, and
- A system that allows for the effective allocation of resources which permits advisors to provide cost-efficient investment advice to a wider range of investors.

Many countries already operate under a shortened settlement cycle, or are moving toward it. Most European Union member states harmonized their settlement cycles to T+2 in 2014. Other major markets in the Asia/Pacific region are already operating on a T+2 or T+1 settlement cycle. Singapore, New Zealand, and Australia have recently reduced their settlement

[4] Oxford Economics for the Financial Services Institute, The Economic Impact of FSI's Members (2016).

cycle to T+2. Adopting a shortened settlement cycle would further global harmonization of the financial services industry.

In summary, FSI strongly supports this Proposal because it will meaningfully benefit investors and reduce counterparty risk, decrease clearing capital requirements, reduce pro-cyclical margin and liquidity demands, and increase global settlement harmonization.[5] FSI applauds the SEC for enhancing the efficiency and stability of the financial system by shortening the settlement cycle.

II. FSI encourages the SEC to coordinate their efforts with other regulators, industry stakeholders, and the Depository Trust and Clearing Corporation (DTCC) to ensure consistent implementation and robust education for market participants.

For the reasons stated above, FSI strongly supports shortening the settlement cycle. Additionally, FSI recommends that the SEC continue to engage in close coordination between all relevant government agencies, SROs, industry stakeholders, and the Depository Trust and Clearing Corporation (DTCC). Coordination between invested stakeholders is critical to ensuring effective implementation of this important initiative. FSI also suggests that the SEC, in coordination with other regulatory agencies and the Industry Steering Committee develop a comprehensive educational plan to ensure market participants and retail investors are well informed about the impacts of shortening the settlement cycle. Creating a comprehensive educational plan will ensure a smooth transition to T+2 that will promote the efficiency and stability of the financial system.

Conclusion

We are committed to constructive engagement in the regulatory process and welcome the opportunity to work with SEC on this and other important regulatory efforts.

Thank you for considering FSI's comments. Should you have any questions, please contact me at [redacted].

Respectfully submitted,

David T. Bellaire, Esq.
Executive Vice President & General Counsel

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