Baker McKenzie.

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In The Know

Leveraged Finance Newsletter

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U.S. Securities Settlement moves to "T+1" effective May 28, 2024

The nomenclature "T+" as used in regard to the trading of debt and equity securities in North America, refers to the number of days after a trade is executed that such securities are required to cash settle. While parties can contractually agree to a longer settlement cycle, a majority of transactions are structured to comply with this standard.

On February 15, 2023, the Securities and Exchange Commission adopted rule amendments to shorten the standard settlement cycle for most broker-dealer transactions from "T+2" to "T+1," subject to certain exceptions. The compliance date for the rule amendments is May 28, 2024, at which point the standard settlement cycle will move from T+2 to T+1 in the United States (and May 27, 2024 in Mexico and Canada).

History

During the 1970s, the U.S. Securities and Exchange Commission (the SEC) established a T+5 settlement structure to reduce settlement risk and improve the overall efficiency of the financial markets. In 1994, this period was reduced to T+3, and then in September 2017, this period was again shortened to T+2. Benefits of the shortened settlement period - made possible by advances in technology and other factors - included improving liquidity and reducing intervening market and counterparty risk.

Advent of T+1

On February 15, 2023, the SEC announced rule changes that shorten the cycle to T+1, effective May 28, 2024. In their final rules and the related commentary, considerations and benefits identified included, among others:

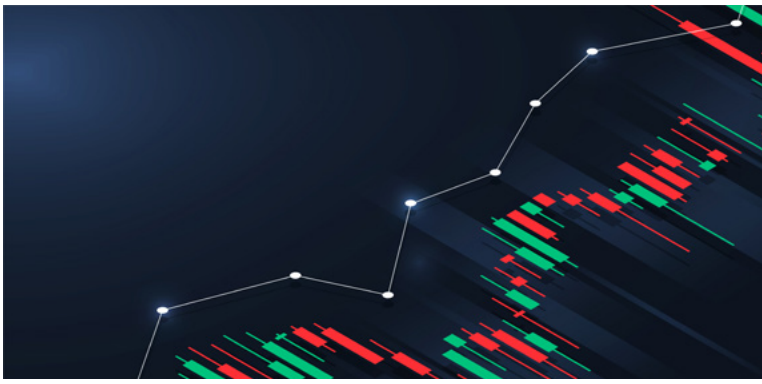
- The further reduction of market and counterparty settlement risk
- Improvements to market liquidity
- Exploitation of advanced technology
- Global regulatory and market alignment
- Cost savings and reduction in transaction expenses

Implementation

As the effectiveness of the ruling becomes imminent, IT support continue to upgrade their systems and processes to handle the faster settlement cycle, and market participants have enhanced regulatory frameworks and compliance requirements to accommodate the new settlement cycle, ensuring that issuers, purchasers, brokers, clearinghouses, and custodians and their advisors have all prepared for the transition.

What's Next

Inevitably, the next (and last?) step will be to T+0, as further technological advances (including the advent of digital bonds, as discussed here) will provide the infrastructure for immediate settlement. When will this occur? We will wait and see.



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