



Federal Deposit Insurance Corporation  
550 17th Street NW, Washington, D.C. 20429-9990

Financial Institution Letter  
FIL-32-2017  
July 26, 2017

## Securities and Exchange Commission Rule Amended to Shorten the Securities Transaction Settlement Cycle

**Summary:** The Federal Deposit Insurance Corporation (FDIC) is issuing this announcement to highlight actions that banks should take to prepare for the change in the Securities Exchange Commission's (SEC) rule governing the securities settlement cycle for securities transactions conducted by most broker-dealers. The effective date for the change is September 5, 2017.

**Statement of Applicability to Institutions with Total Assets under \$1 Billion:** This Financial Institution Letter applies to all FDIC-supervised financial institutions.

### Suggested Distribution:

FDIC-Supervised Institutions (Commercial and Savings)

### Suggested Routing:

Chief Executive Officer  
Chief Compliance Officer  
Trust Officer

### Attachment:

[FDIC Announcement to Highlight Actions that Banks Should Take to Prepare for the Shortening of the Securities Transaction Settlement Cycle](#)

### Related Topics:

[SEC Regulations Regarding Shortening the Securities Transaction Settlement Cycle](#)

[FDIC FIL-44-2008, "Guidance for Managing Third Party Risk."](#)

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### Note:

FDIC Financial Institution Letters (FILs) may be accessed from the FDIC's website at <https://www.fdic.gov/news/news/financial/2017/>.

To receive FILs electronically, please visit <https://service.govdelivery.com/accounts/USFDIC/subscribe/new>.

Paper copies may be obtained through the FDIC's Public Information Center, 3501 Fairfax Drive, E 1002, Arlington, VA 22226 (877-275-3342 or 703-562-2200).

### Highlights:

- Following an amendment to the SEC's Securities Transaction Settlement Cycle Rule 15c6-1, effective September 5, 2017, the industry settlement cycle for transactions involving many U.S. securities, including equities, corporate and municipal bonds, unit investment trusts, and financial instruments composed of these products, will be shortened from the third business day after the trade date (T+3) to the second business day after the trade date (T+2).
- FDIC-supervised institutions should prepare to meet the new T+2 settlement time period for trades related to banks' securities activities that include banks' investment and trading portfolios and securities settlement and servicing provided to banks' custody and fiduciary accounts.
- For many FDIC-supervised institutions, the majority of the changes needed to implement T+2 will be completed by third party industry custodians, systems and service providers, broker-dealers, through which institutions trade for themselves or on behalf of their fiduciary and custody accounts, and broker-dealers providing retail securities brokerage services to institution customers. For guidance on assessing and managing risks associated with third-party relationships, institutions should refer to FDIC FIL-44-2008, "Guidance for Managing Third Party Risk."

## **FDIC Announcement to Highlight Actions that Banks Should Take to Prepare for the Shortening of the Securities Transaction Settlement Cycle**

### ***Background***

On March 22, 2017, the SEC adopted an amendment to the Securities Transaction Settlement Cycle Rule 15c6-1 shortening the regular settlement cycle from T+3 to T+2 for many U.S. securities including equities, corporate bonds, unit investment trusts—and financial instruments composed of these products—when these securities are traded on the secondary market. [See 82 Fed. Reg. 15564 \(March 29, 2017\)](#). SEC’s compliance date for this amendment is September 5, 2017 (T+2 compliance date). In addition, on March 28, 2017, the Municipal Securities Rulemaking Board (MSRB) made similar changes to the settlement cycle for municipal securities. Other securities self-regulatory organizations have finalized, or plan to finalize, rules necessary to implement the new settlement cycle and related processes.

These rule changes, made in conjunction with a multi-year securities industry initiative to shorten the settlement cycle, are intended to reduce counterparty risk, lower margin requirements for clearing agency members, reduce procyclical margin and liquidity demands during periods of market volatility, and better align the U.S. securities transaction settlement requirements with other markets across the globe. Industry participants have been developing and testing the necessary changes to processes and systems to implement this industry-wide change. These changes to the securities trading clearance and settlement process and, indirectly, to income processing, corporate action processing, securities lending, and other related processes significantly affect a broad range of market participants and services including:

- Financial institutions;
- Financial market utilities that provide central counterparty services and central securities depository services;
- Matching and electronic trade confirmation services;
- Broker-dealers;
- Municipal securities dealers;
- Custodians;
- Transfer agents;
- Institutional and retail investors;
- Asset managers;
- Securities lending agents; and
- Systems and service providers that support these activities.

## **Guidance**

The FDIC anticipates that, as of the T+2 compliance date, FDIC-supervised institutions would not effect or enter into a contract for the purchase or sale of an affected security that provides for payment of funds or delivery of securities later than the second business day after the date of the contract, unless otherwise expressly agreed to by the parties at the time of the transaction.

Institution management and the directorate should take appropriate steps to ensure they are prepared for this industry-wide change to T+2 standards on September 5, 2017. Preparation includes identifying all lines of business, products, and activities that involve securities settlement and servicing. Institution management should also monitor regulatory changes that affect securities settlement and servicing, system and process changes at financial market utilities, custodians' system and process changes, and third-party system or service provider changes.

Based on the nature and scope of the institution's securities processing activities, management should determine what system and process changes or outreach may be needed for a smooth transition to T+2. Institution management should establish and follow an appropriate project plan for implementation. Issues management should consider when developing the project plan include:

- Changes to trust accounting or other securities processing systems;
- Changes to operational procedures for securities clearance and settlement, income processing, corporate action processing, and securities lending;
- Changes to client communications, agreements and disclosures that reflect settlement time frames;
- Oversight of third parties' T+2 implementation processes;
- Changes to service level agreements with third parties providing trade clearance and settlement, income processing, or other services affected by T+2 implementation;
- Training for employees that deal with securities clearance and settlement;
- Heightened focus on risk management practices and surveillance systems to effectively identify and address potential increases in failed trades or processing exceptions; and
- Contingency planning and staffing for the days leading up to and immediately following implementation.