Blogs
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Public Chatter

SEC Adopts T+1 Settlement (But Longer Settlement Cycles Permitted)

A few days ago, the SEC adopted new rules related to the settlement of securities transactions. Specifically, the new rules call for a shorter T+1 settlement cycle. The rules become effective 60 days following publication in the Federal Register and the compliance date is May 28, 2024. Here's the **SEC's 314-page adopting release** and the **fact sheet.**

Per the fact sheet, the rule amendments and new rules:

• Shorten the standard settlement cycle for most securities transactions from two business days after the trade date (T+2) to one (T+1);

• Shorten the separate standard settlement cycle for firm commitment offerings priced after 4:30 p.m. ET from four business days after the trade date (T+4) to T+2;

• Improve the processing of institutional trades through new requirements for broker-dealers and registered investment advisers related to same-day affirmations; and

• Facilitate straight-through processing through new requirements applicable to clearing agencies that are central matching service providers.

The most significant change is the reduction in time for the standard settlement cycle for most securities transactions from T+2 to T+1. From a practical perspective, it's important to note that the rules continue to permit issuers and underwriters to agree to alternative settlement dates. While it will be interesting to see if market practice shifts from T+2 to T+1 for equity offerings, particularly for relatively straightforward follow-on offerings, we expect that issuers and underwriters will continue to agree to extended settlement cycles for debt transactions.

As those who work on debt offerings know, these transactions require much more extensive documentation for closing compared to equity offerings, which the SEC noted in the adopting release as a reason why it would continue to let participants in these offerings agree to a longer settlement cycle. As an example, the indenture for a debt offering often isn't really negotiated - or even drafted - until after pricing.

As you may remember, back in 2017, the SEC shortened the settlement cycle from T+3 to T+2, and, while there was some initial panic, issuers and underwriters continued to agree to longer settlement cycles for debt offerings after that rule change. If the past is any indication, we expect extended settlement cycles, at least for debt offerings, to continue to be the norm.

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