

Regulatory Alert

Regulatory Insights for Financial Services



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SEC Examinations Risk Alert: T+1 Settlement Cycle

KPMG Insights:

- **Industry Alert:** Regulators reiterate benefits of a shorter settlement cycle but issue Risk Alert over concerns as to whether the industry will be prepared.
- **Expanded Regulatory Perimeter:** The Risk Alert covers several regulatory changes that were issued in response to the “meme stock events of 2021,” marked by high market volumes and increased volatility.
- **Examinations Coming:** Expect a focus on implementation of T+1 systems, controls, policies, and processes, as well as changes made to disclosures/communications and recordkeeping/reporting.

The Securities and Exchange Commission’s (SEC) Division of Examinations (Exams) [issues](#) a Risk Alert to provide Registrants (defined to include broker-dealers, clearing agencies, and registered investment advisers) with information about the scope and content of forthcoming examinations and outreach to assess their preparedness for the May 28, 2024 shift to a T+1 standard settlement cycle, as well as new rules related to the processing of institutional trades by broker-dealers and certain clearing agencies and recordkeeping amendments applicable to registered investment advisers, which also become effective as of May 28, 2024 (collectively, “final rules”).

The SEC states, “as May 28, 2024 nears, it is critical that Registrants and other market participants prepare for the shortened settlement cycle and understand the impacts of T+1 and the final rules to identify necessary changes and critical dependencies in order to successfully manage this transition.” The shortened settlement cycle and the final rules will require Registrants to implement changes to their business practices, computer systems, and technology solutions.

Final Rules. The Risk Alert recaps the final rules. See related KPMG Regulatory Alert, [here](#).

Final Rule	Description
<i>Amendments to Rule 15c6-1 under the Exchange Act</i>	Shortens the standard settlement cycle for most broker-dealer transactions from two business days after the trade date (T+2) to one business day after the trade date (T+1). Broker-dealers are prohibited from entering into contracts for securities purchase or sale that provides for payment of funds and delivery of securities later than T+1, unless agreed otherwise. This rule, however, does not apply to certain types of securities which include exempted security, government security, and commercial bills, among others.
<i>New Rule 15c6-2 under the Exchange Act</i>	Requires a broker-dealer to either enter into written agreements with the relevant parties to complete allocations, confirmations, and affirmations (ACA) by the end of trade date for transactions, or establish, maintain, and enforce written policies and procedures reasonably designed to address certain objectives related to completing ACA as soon as technologically possible and no later than the end of the trade date.

<i>New Rule 17Ad-27 under the Exchange Act</i>	Requires clearing agencies that are CMSPs (central matching services providers) to establish, execute, maintain, and enforce new policies and procedures designed to facilitate straight-through processing. They are also required to submit an annual progress report to the SEC.
<i>Amendments to Rule 204-2 under the Investment Advisers Act</i>	Requires all registered investment advisers to make and keep records for any transaction that is subject to the requirements of Rule 15c6-2(a). The records to be maintained include each confirmation received, any allocation and each affirmation sent or received, along with date and time stamps for each allocation and affirmation indicating when they were sent or received.

Examinations. To facilitate the transition and assess Registrant’s preparedness to comply with the requirements of the T+1 settlement cycle and the final rules, the SEC intends to continue engaging with Registrants via examinations and outreach.

The SEC denotes that Exams may assess Registrants for the following:

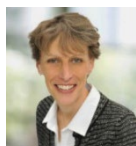
- Evaluation of the potential impacts of the final rules on:
 - Business activities
 - Operations and risk assessments
 - Services
 - Customers, clients, and/or other relevant parties
- Plans for and steps taken to prepare for the T+1 Settlement cycle including:
 - Activities in clearing and settlement; custodial or prime brokerage services; trade allocation and fail management processes; and custodial communications.

- “Operational readiness” such as implementation of or changes to related systems, controls, policies, or processes as well as related testing.
 - Disclosures, representations, and communications to customers, clients, and vendors regarding the changes that will occur.
- Preparedness for:
- The settlement and the ACA process, including changes to written agreements and processes.
 - Policies and procedures designed for straight-through processing.
 - New recordkeeping and reporting requirements.

Note: An appendix is included in the Risk Alert outlining the types of information and documents that Exams may review in their examinations and outreach.

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