Regulatory Notice 24-04

February 26, 2024

Shortening the Settlement Cycle for Securities to T+1

FINRA Adopts Amendments to Conform its Rules to the T+1 Settlement Cycle

Operative Date: May 28, 2024

Summary

FINRA has adopted amendments to conform its rules to the Securities and Exchange Commission's (SEC) amendments to Rule 15c6-1 and adoption of Rule 15c6-2 under the Securities Exchange Act of 1934 to shorten 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). The amendments revise provisions in the following FINRA rules:

- FINRA Rule 2341 (Investment Company Securities)
- FINRA Rule 4515 (Approval and Documentation of Changes in Account Name or Designation)
- FINRA Rule 6282 (Transactions Reported by Members to the ADF)
- FINRA Rule 6380A (Transaction Reporting)
- FINRA Rule 6380B (Transaction Reporting)
- FINRA Rule 6622 (Transaction Reporting)
- FINRA Rule 7140 (Trade Report Processing)
- FINRA Rule 7240A (Trade Report Processing)
- FINRA Rule 7340 (Trade Report Processing)
- FINRA Rule 11140 (Transactions in Securities "Ex-Dividend," "Ex-Rights" or "Ex-Warrants")
- FINRA Rule 11150 (Transactions "Ex-Interest" in Bonds Which Are Dealt in "Flat")
- FINRA Rule 11210 (Sent by Each Party)
- FINRA Rule 11320 (Dates of Delivery)

Notice Type

- Rule Amendment

Suggested Routing

- Compliance
- Government Securities
- Institutional
- Legal
- Municipal
- Mutual Fund
- Operations
- Senior Management
- Systems
- Trading

Key Topics

- Books, Records and Reports
- Special Products
- Trade Report Processing
- Transaction Reporting
- Uniform Practice Code

Referenced Rules & Notices

- FINRA Rules 2341, 4515, 6282, 6380A, 6380B, 6622, 7140, 7240A, 7340, 11140, 11150, 11210, 11320, 11620, 11860, 11893 and 11894
- Regulatory Notice 23-15
- SEA Rule 15c6-1
- SEA Rule 15c6-2

FINRA

- FINRA Rule 11620 (Computation of Interest)
- FINRA Rule 11860 (COD Orders)
- FINRA Rule 11893 (Clearly Erroneous Transactions in OTC Equity Securities)
- FINRA Rule 11894 (Review by the Uniform Practice Code ("UPC") Committee)

The amendments to these rules will become operative on May 28, 2024, which is the compliance date the SEC announced for amended Rule 15c6-1 and new Rule 15c6-2, or such later date as the SEC may announce for compliance with such rules.

The amended rule text is available in the online FINRA Manual.

Questions concerning this *Notice* should be directed to:

- Kosha Dalal, Vice President and Associate General Counsel, Office of General Counsel, at (202) 728-6903 or kosha.dalal@finra.org; or
- John Nachmann, Associate General Counsel, Office of General Counsel, at (240) 386-4816 or john.nachmann@finra.org.

Background & Discussion

On February 15, 2023, the SEC adopted final rules pertaining to the shortening of the standard settlement cycle for most U.S. securities transactions from T+2 to T+1.[1] Given the SEC's changes, FINRA has adopted amendments to its rules to conform them with these changes.[2]

Scope of Rule Amendments

FINRA has adopted amendments to its rules pertaining to securities settlement by, among other things, shortening the timeframes for delivery or settlement consistent with a T+1 settlement cycle. In this regard, FINRA has amended the following rules:

- FINRA Rule 2341 (Investment Company Securities)
- FINRA Rule 4515 (Approval and Documentation of Changes in Account Name or Designation)
- FINRA Rule 6282 (Transactions Reported by Members to the ADF)
- FINRA Rule 6380A (Transaction Reporting)
- FINRA Rule 6380B (Transaction Reporting)
- FINRA Rule 6622 (Transaction Reporting)
- FINRA Rule 7140 (Trade Report Processing)
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- FINRA Rule 11140 (Transactions in Securities "Ex-Dividend," "Ex-Rights" or "Ex-Warrants")
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- FINRA Rule 11320 (Dates of Delivery)
- FINRA Rule 11620 (Computation of Interest)
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- FINRA Rule 11893 (Clearly Erroneous Transactions in OTC Equity Securities)
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FINRA Rule 2341 (Investment Company Securities)

Rule 2341(m)(1) requires members, including underwriters, that engage in direct retail transactions for investment company shares to transmit payments received from customers for the purchase of investment company shares to the payee by the end of the second business day after receipt of a customer's order to purchase such shares, or by the end of one business day after receipt of a customer's payment for such shares, whichever is later. As amended, Rule 2341(m)(1) adjusts the two-business day transmittal requirement to one business day while retaining the alternative transmittal timeframe pertaining to the receipt of a customer's payment for the shares.

FINRA Rule 4515 (Approval and Documentation of Changes in Account Name or Designation)

Rule 4515 requires that, before a customer order is executed, the account name or designation must be placed upon the order form or other similar record for the transaction, and addresses the approval and documentation procedures for changes in such account name or designation. Additionally, Rule 4515.01 provides that, under certain circumstances, when accepting orders from investment advisers, the member may allow such investment advisers to make allocations on their orders for customers on whose behalf the investment advisers submit the orders, as long as the member receives specific account designations or customer names from such investment advisers by noon of the next business day following the trading session. FINRA has amended Rule 4515.01 to adjust the timeframe by which members must receive the specific account designations or customer names from investment advisers from noon of the next business day following the trading session to no later than the end of the day on the trade date to conform with the same-day confirmation, allocation and affirmation requirements under Rule 15c6-2.

FINRA Rules 6282 (Transactions Reported by Members to the ADF), 6380A (Transaction Reporting), 6380B (Transaction Reporting) and 6622 (Transaction Reporting)

Rules 6282(a)(4)(D), 6380A(a)(5)(D), 6380B(a)(5)(D) and 6622(a)(5)(D) address the reporting of Next Day Trades to the Alternative Display Facility (ADF), the FINRA/Nasdaq Trade Reporting Facility (NQTRF), the FINRA/NYSE Trade Reporting Facility and the Over-the-Counter Reporting Facility (ORF), respectively. Specifically, these rules require reporting members to identify a Next Day Trade by appending the appropriate modifier to a last sale report. The amendments delete the text of Rules 6282(a)(4)(D), 6380A(a)(5)(D), 6380B(a)(5)(D) and 6622(a)(5)(D) to eliminate the Next Day Trade modifier.

FINRA Rules 7140 (Trade Report Processing), 7240A (Trade Report Processing) and 7340 (Trade Report Processing

Rules 7140(a)(3), 7240A(a)(3) and 7340(a)(3) address the automatic lock-in of trades in the ADF, the NQTRF and the ORF, respectively. These rules provide that any trade that remains open (*i.e.*, unmatched or unaccepted) at the end of its entry day will be carried over for continued comparison and reconciliation. The corresponding system will automatically lock in and submit the trade to the Depository Trust & Clearing Corporation (DTCC) if it remains open as of 2:30 p.m. Eastern Time (ET) on the next business day.[3] As amended, Rules 7140(a)(3), 7240A(a)(3) and 7340(a)(3) adjust the time such a trade is submitted to DTCC from 2:30 p.m. ET on the next business day to noon ET on the next business day.[4]

FINRA Rule 11140 (Transactions in Securities “Ex-Dividend,” “Ex-Rights” or “Ex-Warrants”)

Rule 11140(b)(1) concerns the determination of normal ex-dividend and ex-warrants dates for certain types of dividends and distributions. As amended, Rule 11140(b) provides that for dividends or distributions, and the issuance or distribution of warrants, which are less than 25 percent of the value of the subject security, if definitive information is received sufficiently in advance of the record date, the date designated as the “ex-dividend date” shall be the record date if the record date falls on a business day, or the first business day preceding the record date if the record date falls on a day designated by FINRA’s Uniform Practice Code Committee (UPC Committee) as a non-delivery date.

FINRA Rule 11150 (Transactions “Ex-Interest” in Bonds Which Are Dealt in “Flat”)

Rule 11150(a) prescribes the manner for establishing “ex-interest dates” for transactions, except “cash” transactions, in bonds or other similar evidences of indebtedness which are traded “flat.” As amended, Rule 11150(a) provides that such transactions are “ex-interest” on (1) the record date if the record date falls on a business day, (2) the first business day preceding the record date if the record date falls on a day other than a business day or (3) the first business day preceding the date on which an interest payment is to be made if no record date has been fixed.

FINRA Rule 11210 (Sent by Each Party)

Rule 11210(a) concerns the requirement for parties to send a Uniform Comparison or Confirmation of a transaction. As amended, Rule 11210(a)(1) requires the sending of the Uniform Comparison or Confirmation of a transaction by the end of the day on the trade date.

Rule 11210(c) and (d) set forth the "Don't Know" (DK) voluntary procedures for using "DK Notices" (FINRA Form No. 101) or other forms of notices, respectively. Depending upon the notice used, a confirming member may follow the DK procedures when it sends a comparison or confirmation of a trade (other than one that clears through the National Securities Clearing Corporation or other registered clearing agency), but does not receive a comparison or confirmation or a signed DK from the contra-member by the close of one business day following the trade date of the transaction. As amended, paragraphs (c) and (d) of Rule 11210 provide that the DK procedures may be used by the confirming member if it does not receive a comparison or confirmation or signed DK from the contra-member by the end of the day on the trade date of the transaction. In addition, paragraphs (c)(2)(A), (c)(3) and (d)(5) of Rule 11210, as amended, adjust the time in which a contra-member has to respond to a "DK Notice" (or similar notice) from two business days to one business day after the contra-member's receipt of the notice.

FINRA Rule 11320 (Dates of Delivery)

Rule 11320 prescribes delivery dates for various transactions. As amended, Rule 11320(b) provides that for a "regular way" transaction, delivery shall be made at the office of the purchaser on, but not before, the first business day following the date of the transaction. In addition, Rule 11320(c), as amended, provides that in connection with a transaction "seller's option," delivery shall be made at the office of the purchaser on the date on which the option expires; except that delivery may be made by the seller on any business day after the first business day following the date of the transaction and prior to the expiration of the option, provided the seller delivers at the office of the purchaser, on a business day preceding the day of delivery, written notice of intention to deliver.

FINRA Rule 11620 (Computation of Interest)

Rule 11620 governs the computation of interest. As amended, Rule 11620(a) provides, in part, that in the settlement of contracts in interest-paying securities other than for "cash," there shall be added to the dollar price interest at the rate specified in the security, which shall be computed up to but not including the first business day following the date of the transaction.

FINRA Rule 11860 (COD Orders)

Rule 11860(a) sets forth various procedures members must follow before accepting collect on delivery (COD) or payment on delivery (POD) orders.[5] As amended, Rule 11860(a)(3) provides that a member must deliver to the customer a confirmation, or all relevant data customarily contained in a confirmation with respect to the execution of the order, in whole or in part, no later than the end of the day on the trade date. In addition, Rule 11860(a)(4), as amended, provides that prior to accepting a COD or POD order, a member shall have entered into the written agreement, or established the written policies and procedures, required by Rule 15c6-2 with respect to any resulting transaction.

FINRA Rule 11893 (Clearly Erroneous Transactions in OTC Equity Securities)

Rule 11893(a) provides that a FINRA officer may declare any transaction involving an OTC Equity Security arising out of or reported through a trade reporting system owned or operated by FINRA or FINRA Regulation and authorized by the SEC null and void if the officer determines that (1) the transaction is clearly erroneous, or (2) such actions are necessary for the maintenance of a fair and orderly market or the protection of investors and the public interest; provided, however, that the officer shall take action as soon as possible after becoming aware of the transaction, but in all cases by 3:00 p.m. ET on the next trading day following the date of the transaction(s) at issue. FINRA has amended Rule 11893(a) to adjust the timeframe for the FINRA officer to take action to as soon as possible after becoming aware of the transaction, but in all cases no later than the start of trading on the day following the date of the transaction(s) at issue.

FINRA Rule 11894 (Review by the Uniform Practice Code ("UPC") Committee)

Rule 11894 governs appeals of determinations to declare a transaction null and void made by a FINRA officer under Rules 11892 or 11893 to the UPC Committee. Rule 11894(b)(2), as amended, provides that with respect to appeals regarding OTC Equity Securities, determinations by the UPC Committee will be rendered as soon as practicable but in no case later than the trading day following the date of the execution(s) under review.

Preparation for the Transition to T+1

FINRA has been working with other regulators and market participants to ensure that the industry is prepared for the transition to T+1. In this regard, FINRA has conducted an outreach program with certain introducing and clearing firms to, among other things, discuss the actions the firms have taken and their readiness for the transition to the shortened settlement cycle, and FINRA will be conducting another such program with additional firms during the first quarter of 2024. FINRA also has been helping to address inquiries and concerns from firms about the T+1 settlement cycle as they arise.

FINRA reminds firms that they should consider all potential impacts that the new T+1 settlement cycle will have on their business and the changes that will be needed to address these impacts. Although the potential impacts and changes will vary from firm to firm based on such things as a firm's business lines, customer base, infrastructure and internal operations, FINRA recommends that firms particularly consider the following:

- settlement of American Depositary Receipts and exchange-traded funds with underlying foreign securities; and
- the shortened timeframe for ensuring timely settlement of end of day transactions.

FINRA further reminds firms that new Rule 15c6-2(a) requires any broker-dealer engaging in the allocation, confirmation or affirmation process with another party to either:

- enter into written agreements with the relevant parties to ensure completion of allocations, confirmations, affirmations or any combination thereof, as soon as technologically practicable and no later than the end of the day on trade date; or
- establish, maintain and enforce written policies and procedures reasonably designed to ensure completion of allocations, confirmations, affirmations or any combination thereof, as soon as technologically practicable and no later than the end of the day on trade date.

Firms should discuss this requirement with all appropriate vendors or clearing firms with which they work to develop processes and procedures so that allocations, confirmations and affirmations will be completed within the necessary timeframe. Firms also should communicate with their buy-side clients that are integral in providing the trade allocation and matching information. Firms should focus on ensuring that clients understand their responsibilities and the procedures that will be enforced to achieve same-day affirmation.

To help firms ensure that they are prepared for the transition to the shortened settlement cycle, FINRA encourages all firms to participate in the industry's T+1 testing program, which is designed to allow firms to test for the entire trade life cycle, including trade affirmation, confirmation, clearance, settlement and trade exception flows.[6] FINRA also recommends that firms test with the appropriate testing facilities for the changes to transaction reporting and the change from 2:30 p.m. ET to noon ET for when match-eligible clearing trades are automatically locked in and submitted to DTCC.[7]

Additional Guidance

FINRA issued technical notices in March 2023 and November 2023 regarding changes to the ORF and ADF, and general testing information concerning equity trade reporting under T+1.

To help firms with operational- and system-related issues, FINRA also published in September 2023 *Regulatory Notice 23-15* to provide firms with information on how to apply for Regulation T extensions using the Regulatory Extension (REX) system after the transition to T+1.

In January 2024, FINRA published an Investor Highlight to provide guidance to investors. The Investor Highlight provides investors with a brief discussion of the difference between trade date and settlement date, a description of how T+1 will impact them, and notification of the date the shortened settlement cycle will take effect.

Operative Date

The amendments to these rules will become operative on May 28, 2024, which is the compliance date the SEC announced for amended Rule 15c6-1 and new Rule 15c6-2, or such later date as may be announced by the SEC for compliance with such rules.[8]

Endnotes

1 *See* Securities Exchange Act Release No. 96930 (February 15, 2023), 88 FR 13872 (March 6, 2023) (File No. S7-05-22) (Shortening the Securities Transaction Settlement Cycle; Final Rule) (SEC T+1 Adopting Release).

2 *See* Securities Exchange Act Release No. 99075 (December 4, 2023), 88 FR 85678 (December 8, 2023) (Notice of Filing and Immediate Effectiveness of File No. SR-FINRA-2023-017).

3 On days when there is an early market close, the automatic lock-in is moved up three hours from 2:30 p.m. ET to 11:30 a.m. ET.

4 The automatic lock-in time will remain noon ET on the days when there is an early market close.

5 A COD order is a purchase by the customer where the agent is to receive the securities against payment for the purchase and a POD order is a sale by the customer where the agent is to deliver the securities against payment of the sale proceeds. Alternative industry terms for COD and POD orders are delivery vs. payment (DVP) and receipt vs. payment (RVP).

6 More information on the T+1 testing program is available from the DTCC. In connection with the transition to the shortened settlement cycle, DTCC, the Securities Industry and Financial Markets Association, and the Investment Company Institute also have requested that market participants, including corporate issuers and listing agents, avoid corporate action events with actionable dates inclusive of May 24, 2024, through May 28, 2024. Examples of such corporate action events include (1) ex-dates and record dates on distributions such as dividends and stock splits, and (2) corporate actions (voluntary and mandatory) with expiration and effective dates around or during the implementation weekend. Normal corporate actions processing—including designation of post-implementation expiration, effective and ex-dates—may resume on May 29, 2024.

7 *See* Nasdaq Equity Trader Alert 2024–12 (February 7, 2024); FINRA Technical Notice, Trade Reporting and T+1 Settlement Testing (November 27, 2023); and NYSE Trader Update, FINRA/NYSE TRF Specification Update for T+1 Settlement Change (November 2, 2023).

8 *See* SEC T+1 Adopting Release, 88 FR 13872, 13916-13918. If the SEC announces a later date for compliance with final Rules 15c6-1 and 15c6-2, the operative date of FINRA's amended rules also would change to coincide with the new date announced by the SEC.