

Regulatory Extension (REX) System Update

Regulation T and SEA Rule 15c3-3 Extension of Time Requests Under a T+2 Settlement Cycle

Summary

FINRA is updating the Regulatory Extension (REX) system¹ to enable firms to file extension of time requests under a shortened settlement cycle. The Securities and Exchange Commission (SEC) has amended Rule 15c6-1(a) under the Securities Exchange Act of 1934 (SEA or Exchange Act) to shorten the standard settlement cycle for most broker-dealer transactions from T+3 to T+2.² Firms may file such requests beginning September 11, 2017, via the batch file process and by completing the currently available online request form that is accessible by logging in to the REX system via the FINRA Firm Gateway.

Questions concerning this *Notice* should be directed to:

- ▶ Adam Rodriguez, Director, Credit Regulation, at (646) 315-8572 or adam.rodriquez@finra.org;
- ▶ Peter Grassi, Project Manager, Credit Regulation, at (212) 416-1786 or peter.grassi@finra.org; or
- ▶ Theresa Reynolds, Senior Credit Specialist, Credit Regulation, at (646) 315-8567 or theresa.reynolds@finra.org.

Background & Discussion

The SEC has amended SEA Rule 15c6-1(a) to shorten the standard settlement cycle for most broker-dealer transactions from T+3 to T+2. The implementation date for the transition to a T+2 settlement cycle is September 5, 2017. This *Notice* provides guidance to firms on how to apply for Reg T extensions after that date.

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Notice Type

- ▶ Guidance

Suggested Routing

- ▶ Compliance
- ▶ Institutional
- ▶ Legal
- ▶ Operations
- ▶ Registered Representatives
- ▶ Senior Management
- ▶ Systems

Key Topic(s)

- ▶ Extension Processing
- ▶ Trade Settlement Cycle

Referenced Rules and Notices

- ▶ FINRA Rule 4230
- ▶ Regulation T Sections 220.4 and 220.8
- ▶ SEA Rule 15c3-3
- ▶ SEA Rule 15c6-1(a)

Regulation T, issued by the Federal Reserve Board pursuant to the Exchange Act, governs, among other things, the extension of credit by broker-dealers to customers to pay for the purchase of securities. As specified in Sections 220.4(d) and 220.8(b)(4) of Regulation T of the Federal Reserve Board, a broker-dealer must promptly cancel or otherwise liquidate a customer purchase transaction in a margin account or cash account if payment is not received within one payment period³ from the date of purchase or, pursuant to Section 220.4(c)(3) and 220.8(d)(1), apply to extend the time period specified. Under a T+2 settlement cycle, the payment period will be shortened from T+5 to T+4.

SEA Rule 15c3-3(m) requires firms to take prompt steps to obtain possession or control of securities sold through a buy-in procedure or otherwise, if securities are not received within ten business days from the settlement date of the sale. Firms may apply for an extension of time under SEA Rule 15c3-3(n)⁴ to extend the ten business day period, allowed under the rule.

REX System Update

The implementation date, September 5, 2017, will be the first trade date under a T+2 settlement cycle. FINRA anticipates that between September 5 and September 8, 2017, firms will continue to apply for extension requests through the REX system for trades executed under a T+3 settlement cycle. Beginning September 11, 2017, firms will file Reg T extension requests under a T+2 settlement cycle. The REX system extension validations for Reg T have been updated to accommodate the new settlement cycle (T+2). The transition to a T+2 settlement cycle will not have an effect on the REX system extension validations under SEA Rule 15c3-3. Attachment A to this *Notice* includes a list of all new and modified REG T extension request validations.

Testing

Because the REX system changes will require firms to make modifications to their systems, FINRA has created a REX Customer Test Environment (CTE) for both batch and online request form filings.⁵ FINRA encourages firms to begin testing as soon as possible to ensure extension requests are submitted accurately beginning on September 11, 2017. Based on industry feedback, FINRA has attempted to align testing with the DTCC testing cycles 8 - 14.⁶ Connectivity testing will be available at <https://gateway1.firms.qa.finra.org/> beginning May 8, 2017, and testing of extension submissions will be available beginning May 22 through August 24, 2017. In order to accurately simulate the extension request process under a T+2 environment, FINRA has divided testing into two periods. Each period includes a holiday (May 29, 2017 (Memorial Day) and July 4, 2017) and a double settlement date (June 1, 2017 and July 6, 2017). For purposes of this testing, firms' current entitlements will remain unchanged, and firms will continue to use their existing FINRA CTE user ID and password for this testing.

For ease of reference to the time frames available for testing, FINRA has provided detailed information in Attachment B to this *Notice*.

FINRA will begin accepting test data files transmitted through its test environment on May 22, 2017. Firms that transmit testing files via SFTP should send files to their current Reg T SFTP test server and place those files into the */rex/in* subdirectory. Firms will have access via FINRA Firm Gateway to reports FINRA makes available that will include information on all the extension of time requests a firm submitted and their associated data elements. Firms will also be able to query the REX test environment for information on all extension of time requests that are granted, denied or rejected. The reports showing the test results will be posted the next business day to the same test server, in the firm's */rex/out* subdirectory.

Firms that encounter technical problems, or need to request a FINRA user ID and password, should contact the FINRA Help Desk at (800) 321-6273.

2017 Margin extension schedule Post T+2

In December 2016, FINRA published [Information Notice 12/14/16](#), 2017 Holiday Trade Date, Settlement Date and Margin Extension Schedule,⁷ to provide firms the filing due dates for extension requests to be made in 2017. The filing dates specified within that *Notice* consider the effects of the T+2 settlement cycle. FINRA reminds firms to review the *Information Notice*, and any questions in regards to due dates can be directed to Theresa Reynolds, Senior Credit Specialist, Credit Regulation, at (646) 315-8567 or theresa.reynolds@finra.org.

Endnotes

1. FINRA introduced the REX system in August 2010. See [Regulatory Notice 10-28](#) (June 2010) (Extension of Time Requests). Clearing firms for which FINRA is the designated examining authority must submit requests for extensions of time with FINRA for approval pursuant to FINRA Rule 4230.
2. See Securities Exchange Act Release No. 80295 (March 22, 2017), 82 FR 15564 (March 29, 2017) (Amendment to Securities Transaction Settlement Cycle) (File No. S7-22-16). See also Securities Exchange Act Release No. 80004 (February 9, 2017), 82 FR 10835 (February 15, 2017) (Approval Order of SR-FINRA-2016-47 Proposed Rule Change to Amend FINRA Rules To Conform to the Commission's Proposed Amendment to Commission Rule 15c6-1(a) and the Industry-Lead Initiative to Shorten the Standard Settlement Cycle for Most Broker-Dealer Transactions From T+3 to T+2).
3. Section 220.2 of Regulation T defines a "payment period" as the number of business days in the standard securities settlement cycle in the United States, as defined in paragraph (a) of SEA Rule 15c6-1 (17 CFR 240.15c6-1(a)), plus two business days.
4. The provision continues to provide that a self-regulatory organization (SRO) may extend certain time periods for one or more limited periods commensurate with the circumstances, where the SRO is satisfied that the broker or dealer is acting in good faith in making the application; and exceptional circumstances warrant such extension.
5. File Format Layout for the REX system and Reg T file format layouts are available at www.finra.org/rex/technicalinformation.
6. See the [DTCC T+2 Testing Approach: Detailed Testing Framework](#).
7. See [Information Notice 12/14/16](#).

Attachment A

New and Modified REG T Extension Request Validations

Extension Type	Validation Identifier	Current Rex Message	Disposition/ Status	Rex Message under T+2 environment
RegT	BR3500	For New Issues that are NOT reason code 021, 008, 012, 014, 015, the system will require settlement date to be exactly 5 business days before the request date.	Denied	For Reg T extension requests on New Issue Securities filed under all reason codes except 008, 012, 014, 015, 021 the request shall be made on S+4 business days.
RegT	BR3520	For New Issues that ARE reason code 008, 012, 014, the system will require the settlement date to be at most 34 calendar days before the request date and at least 5 business days before the request date.	Denied	For Reg T extension requests on New Issue Securities filed under codes 012, 014, the request shall be made between S+4 business days and S+34 calendar days.
RegT	BR3530*		Denied	For Reg T extension requests on New Issue Securities filed under code 008, the request shall be made between S+6 business days and S+34 calendar days.
RegT	BR3600	For Filings that are not for New Issues, and for reason codes that are not 021, 008, 012, 014, 015, the system will require the trade date to be exactly 5 business days before the request date.	Denied	For Reg T extension requests other than New Issue Securities filed under all reason codes except 008, 012, 014, 015, 021, the request shall be made on T+4 business days.
RegT	BR3615	For Filings with reason code 015, the system will require the request date to be T+35 calendar days.	Denied	For Reg T extension requests other than New Issue Securities filed under code 015, the request shall be made between T+4 business days and T+35 calendar days.
RegT	BR3540*		Denied	For Reg T extension requests on New Issue Securities filed under code 015 the request shall be made between S+4 business days and S+35 calendar days.
RegT	BR3620	For Filings that are not for New Issues, and for reason codes 012, 014, the system will require the request date to be between T+5 business days and T+34 calendar days.	Denied	For Reg T requests other than New Issue Securities filed under codes 012, 014, the request shall be made between T+4 business days and T+34 calendar days.
RegT	BR3630	For Filings that are not for New Issues, and for reason code 008, the system will require the request date to be between T+6 business days and T+34 calendar days.	Denied	For Reg T requests other than New Issue Securities filed under code 008, the request shall be made between T+6 business days and T+34 calendar days.
RegT	BR3000	Reason code 021 goes to pending.	Pending	Reason code 021 goes to pending, requiring FINRA approval.

*New BR Code

Attachment B

REX Customer Test Environment Timeframes

Note: All dates noted below are for testing purposes only to ensure proper operation upon implementation. The implementation date for the transition to T+2 settlement cycle is September 5, 2017.

TEST CYCLE 1—May 22 – June 29, 2017				
Week	T+2 Action		T+3 Action	
	New Issues	Non-New Issues	New Issues	Non-New Issues
May 22 – 26, 2017	T+2 settlement cycle has not begun, no action required.		The Rex System will accept Reg T extension requests on all securities, under all codes. May 26, 2017 will be the last trade day under T+3 settlement cycle for testing purposes.	
May 29, 2017 – Memorial Day (Holiday)	Holiday—No extension requests required to be filed			
May 30 – June 2, 2017	T+2 settlement cycle for testing begins on May 30, 2017. No Reg T extension requests required since payment period has not reached T+4 and/or Settlement (S)+4.		Reg T extension requests can be filed, on all securities, under all codes.	
Monday, June 5, 2017	Reg T extension requests with a settlement date of May 30, 2017 for testing, can be filed on all securities, under all codes except code 008. The payment period will be four business days (T+4 and/or S+4).	Reg T extension requests with a trade date of May 30, 2017 for testing, can be filed on all securities, under all codes except code 008. The payment period will be four business days (T+4 and/or S+4).	Reg T extension requests can be filed, on all securities, under all codes.	
Tuesday, June 6, 2017	Reg T extension requests with a settlement date of May 31, 2017 for testing, can be filed on all securities, under all codes except code 008.	Reg T extension requests with a trade date of May 31, 2017 for testing, can be filed on all securities, under all codes except code 008.	Reg T extension requests can be filed, on all securities, under all codes.	
June 7 – 29, 2017	Reg T extension requests can be filed, on all securities, under all codes. End of test cycle one—June 29, 2017.			
Friday, June 30, 2017	Preparing for Test Cycle 2			

TEST CYCLE 2—July 3 – August 24, 2017				
Week	T+2 Action		T+3 Action	
	New Issues	Non-New Issues	New Issues	Non-New Issues
Monday, July 3, 2017	T+2 settlement cycle for testing begins. No Reg T extension requests required since payment period has not reached T+4 and/or S+4.		Reg T extension requests can be filed, on all securities, under all codes.	
July 4th – Fourth of July (Holiday)	Holiday—No extension requests required to be filed			
July 5 – 7, 2017	T+2 settlement cycle for testing began. No Reg T extension requests required since payment period has not reached T+4 and/or S+4.		Reg T extension requests can be filed, on all securities, under all codes.	
Monday, July 10, 2017	Reg T extension requests with a settlement date of July 3, 2017 for testing, can be filed on all securities, under all codes except code 008. The payment period will be four business days (T+4 and/or S+4).	Reg T extension requests with a trade date of July 3, 2017 for testing, can be filed on all securities, under all codes except code 008. The payment period will be four business days (T+4 and/or S+4).	Reg T extension requests can be filed, on all securities, under all codes.	
Tuesday, July 11, 2017	Reg T extension requests with a settlement date of July 5, 2017 for testing, can be filed on all securities, under all codes except code 008.	Reg T extension requests with a trade date of July 5, 2017 for testing, can be filed on all securities, under all codes except code 008.	Reg T extension requests can be filed, on all securities, under all codes.	
July 12 – August 8, 2017	Reg T extension requests can be filed, on all securities, under all codes.			
Sunday, August 6, 2017	For Reg T extension requests with a settlement date of July 3 for testing, under codes 008, 012, and 014, August 6, 2017, is S+34 calendar days.	For Reg T extension requests with a trade date of July 3 for testing, under codes 008, 012, and 014, August 6, 2017, is T+34 calendar days.	Reg T extension requests can be filed, on all securities, under all codes.	
Monday, August 7, 2017	For Reg T extension requests with a settlement date of July 3 for testing, under code 015, August 7, 2017, is S+35 calendar days. All other Reg T extension requests can be filed, on all securities, under all codes.	For Reg T extension requests with a trade date of July 3 for testing, under code 015, August 7, 2017, is T+35 calendar days. All other Reg T extension requests can be filed, on all securities, under all codes.	Reg T extension requests can be filed, on all securities, under all codes.	
August 11 – 24, 2017	Reg T extension requests can be filed, on all securities, under all codes. End of test cycle two—August 24, 2017.			