FINANCIAL SERVICES INSTITUTE
VOICE OF INDEPENDENT FINANCIAL SERVICES FIRMS
AND INDEPENDENT FINANCIAL ADVISORS

VIA ELECTRONIC MAIL

April 4, 2016

Marcia E. Asquith
Office of the Corporate Secretary
FINRA
1735 K Street, NW
Washington, DC 20006-1506

Re: **Regulatory Notice 16-09: Shortening the Settlement Cycle for Securities to T+2**

Dear Ms. Asquith:

On March 4, 2016, the Financial Industry Regulatory Authority (FINRA) published its request for public comment on proposed amendments to facilitate shortening the settlement cycle for secondary market transactions in securities (Proposed Amendments).[1] The Proposed Amendments are in response to an industry-led initiative to shorten the regular-way settlement cycle for equities, corporate bonds, municipal bonds, and unit investment trusts from the current T+3 (trade date plus three days) to T+2 (trade date plus two days).

The Financial Services Institute[2] (FSI) appreciates the opportunity to comment on this important proposal. A shorter settlement cycle has the potential to improve the efficiency of the securities markets through operational cost savings, reduced counterparty risk, and a reduction in capital required to be maintained by clearing firms to mitigate such risk. However, the move to T+2 will necessitate significant operational and behavioral changes for both firms and investors. Therefore, we request that FINRA work with fellow regulatory bodies, industry stakeholders, and the Depository Trust and Clearing Corporation (DTCC) to ensure consistent implementation and robust education for market participants.

Background on FSI Members

The independent financial services community has been an important and active part of the lives of American investors for more than 40 years. In the U.S., there are approximately 167,000 independent financial advisors, which account for approximately 64.5% percent of all producing registered representatives. These financial advisors are self-employed independent contractors, rather than employees of Independent Broker-Dealers (IBD).

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[1] Regulatory Notice 16-09, Shortening the Settlement Cycle for Securities to T+2 (Mar. 4, 2016).
[2] The Financial Services Institute (FSI) is an advocacy association comprised of members from the independent financial services industry, and is the only organization advocating solely on behalf of independent financial advisors and independent financial services firms. Since 2004, through advocacy, education and public awareness, FSI has been working to create a healthier regulatory environment for these members so they can provide affordable, objective financial advice to hard-working Main Street Americans.

FSI member firms provide business support to financial advisors in addition to supervising their business practices and arranging for the execution and clearing of customer transactions. Independent financial advisors are small-business owners who typically have strong ties to their communities and know their clients personally. These financial advisors provide comprehensive and affordable financial services that help millions of individuals, families, small businesses, associations, organizations and retirement plans with financial education, planning, implementation, and investment monitoring. Due to their unique business model, FSI member firms and their affiliated financial advisors are especially well positioned to provide middle-class Americans with the financial advice, products, and services necessary to achieve their investment goals.

Discussion

SEC Rule 15c6-1 defines regular-way settlement as occurring no later than T+3 for equities and corporate bonds. In anticipation of the SEC amending Rule 15c6-1 to shorten the settlement cycle to T+2 FINRA is proposing changes to rules impacting securities settlement. The Proposed Amendments would also correspond to rule amendments undertaken by other self-regulatory organizations to account for the shift to T+2. The Proposed Amendments include changes to a variety of rules in the FINRA Rulebook that specifically address the settlement cycle.[3]

Earlier this year, in a letter responding to a request from the Industry Steering Committee, SEC Chair Mary Jo White stated that she strongly supports shortening the settlement cycle to T+2.[4] She indicated that she was committed to ensuring the necessary regulatory changes, including amending SEC Rule 15c6-1, and requested that the self-regulatory organizations (SROs) finalize schedules of necessary rule changes by October 31, 2015.[5] FINRA issued the Proposed Amendments in response to that request.

We support the efforts of the Industry Steering Committee and regulators to enhance the efficiency and stability of the financial system by shortening the securities settlement cycle. We believe close coordination between all government agencies, SROs, industry stakeholders, and DTCC is critical to ensuring effective implementation of this important initiative. We request that FINRA continue to coordinate with all agencies closely and ensure that regulatory changes are finalized expeditiously in accordance with the proposed goal of implementation by third quarter of 2017.

Additionally, we request that FINRA, in coordination with other regulatory agencies and the Industry Steering Committee develop a comprehensive educational plan to ensure market participants and retail investors are well informed about the impacts of shortening the settlement cycle. In order to minimize any detrimental impacts to investors, it is critical for broker-dealers to educate their personnel as well as their retail clients on the behavioral changes required by shortening the payment period for a securities purchase. Failure to pay for a securities purchase within the payment period may result in increased trading costs due to an extension request or a

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[3] The amended rules include: NASD Rule 2830 (Investment Company Securities) and FINRA Rules 11140 (Transactions in Securities "Ex-Dividend," "Ex-Rights" or "Ex-Warrants"), 11150 (Transactions in "Ex-Interest" in Bonds Which are Dealt in "Flat"), 11210 (Sent by Each Party), 11320 (Date of Delivery), 11620 (Computation of Interest), and 11860 (COD Orders).

[4] *See* Letter from May Jo White, Chair, SEC, to Kenneth E. Bentsen, Jr., President & CEO, SIFMA and Paul Schott Stevens, President & CEO, ICI (Sept. 16, 2015).

[5] *Id.*

"close out" of the investor's purchase.[6] Comprehensive education and training undertaken in advance of the T+2 implementation date is critical to minimizing the potential for such impacts. We stand ready to work with any interested parties to assist in such education and training efforts.

Conclusion

We are committed to constructive engagement in the regulatory process and welcome the opportunity to work with FINRA on this and other important regulatory efforts.

Thank you for considering FSI's comments. Should you have any questions, please contact me at (202) 803-6061.

Respectfully submitted,

David T. Bellaire, Esq.
Executive Vice President & General Counsel

[6] Federal Reserve Board Regulation T, 12 C.F.R. § 220.8(b)(i) & (d).