DEPARTMENT OF THE TREASURY
Office of the Comptroller of the Currency
12 CFR Parts 12 and 151
[Docket ID OCC-2017-0013]
RIN 1557-AE24

FEDERAL DEPOSIT INSURANCE CORPORATION
12 CFR Part 344
RIN 3064-AE64

SECURITIES TRANSACTION SETTLEMENT CYCLE

AGENCY: Office of the Comptroller of the Currency, Treasury (“OCC’’); and Federal Deposit Insurance Corporation (“FDIC’’).

ACTION: Notice of proposed rulemaking.

SUMMARY: The OCC and the FDIC (“Agencies”) are proposing to shorten the standard settlement cycle for securities purchased or sold by national banks, federal savings associations, and FDIC-supervised institutions.

DATES: You must submit comments by [INSERT DATE 30 DAYS FROM DATE OF PUBLICATION IN THE FEDERAL REGISTER].

ADDRESSES: Interested parties are encouraged to submit written comments jointly to both of the Agencies. Commenters are encouraged to use the title “Securities Transaction Settlement Cycle” to facilitate the organization and distribution of comments among the Agencies.

OCC:
You may submit comments to the OCC by any of the methods set forth below. Because paper mail in the Washington, DC area and at the OCC is subject to delay, commenters are encouraged to submit comments through the Federal eRulemaking Portal or e-mail, if possible. You may submit comments by any of the following methods:

Click on the “Help” tab on the Regulations.gov home page to get information on using Regulations.gov, including instructions for submitting public comments.

E-mail: regs.comments@occ.treas.gov.

Mail: Legislative and Regulatory Activities Division, Office of the Comptroller of the Currency, 400 7th Street, SW., suite 3E-218, mail stop 9W-11, Washington, DC 20219.

Hand Delivery/Courier: 400 7th Street, SW., suite 3E-218, Washington, DC 20219.

Fax: (571) 465-4326.

Instructions: You must include “OCC” as the agency name and “Docket ID OCC-2017-0013” in your comment. In general, the OCC will enter all comments received into the docket and publish them on the Regulations.gov Web site without change, including any business or personal information that you provide, such as name and address information, e-mail addresses, or phone numbers. Comments received, including attachments and other supporting materials, are part of the public record and subject to public disclosure. Do not include any information in your comment or supporting materials that you consider confidential or inappropriate for public disclosure.

You may review comments and other related materials that pertain to this rulemaking action by any of the following methods:

Viewing Comments Electronically: Go to www.regulations.gov. Enter “Docket ID OCC-2017-0013” in the Search box and click “Search.” Click on “Open Docket Folder” on the
right side of the screen. Comments and supporting materials can be filtered by clicking on “View all documents and comments in this docket” and then using the filtering tools on the left side of the screen.

- Click on the “Help” tab on the Regulations.gov home page to get information on using Regulations.gov. The docket may be viewed after the close of the comment period in the same manner as during the comment period.

- Viewing Comments Personally: You may personally inspect and photocopy comments at the OCC, 400 7th Street, SW., Washington, DC. For security reasons, the OCC requires that visitors make an appointment to inspect comments. You may do so by calling (202) 649-6700 or, for persons who are deaf or hard of hearing, TTY, (202) 649-5597. Upon arrival, visitors will be required to present valid government-issued photo identification and submit to security screening in order to inspect and photocopy comments.

FDIC:

You may submit comments, identified by RIN number, by any of the following methods:

  Follow instructions for submitting comments on the Agency Web Site.

- E-mail: Comments@fdic.gov. Include the RIN number 3064-AE64 on the subject line of the message.

- Mail: Robert E. Feldman, Executive Secretary, Attention: Comments, Federal Deposit Insurance Corporation, 550 17th Street, NW., Washington, DC 20429.

- Hand Delivery: Comments may be hand delivered to the guard station at the rear of the 550 17th Street Building (located on F Street) on business days between 7:00 a.m. and 5:00 p.m.
Public Inspection: All comments received must include the agency name and RIN 3064-AE64 for this rulemaking. All comments received will be posted without change to https://www.fdic.gov/regulations/laws/publiccomments/, including any personal information provided. Paper copies of public comments may be ordered from the FDIC Public Information Center, 3501 North Fairfax Drive, Room E-I002, Arlington, VA 22226 by telephone at 1 (877) 275-3342 or 1 (703) 562-2200.

FOR FURTHER INFORMATION CONTACT:
OCC: David Stankiewicz, Special Counsel, Securities and Corporate Practices Division, (202) 649-5510; Daniel Perez, Attorney, Legislative and Regulatory Activities Division, (202) 649-5490 or, for persons who are deaf or hard of hearing, TTY, (202) 649-5597; or Patricia Dalton, Technical Expert, Asset Management Group, Market Risk, at (202) 649-6360.

SUPPLEMENTARY INFORMATION:
I. Background

Pursuant to 12 CFR 12.9 and 151.130, a national bank or federal savings association (“FSA”) (collectively, “OCC-supervised institutions”) generally may not effect or enter into a contract for the purchase or sale of a security that provides for payment of funds and delivery of securities later than the third business day after the date of the contract, unless otherwise expressly agreed to by the parties at the time of the transaction. Similarly, pursuant to 12 CFR
344.7, an FDIC-supervised institution\(^1\) (together with OCC-supervised institutions, “banks”) generally may not effect or enter into a contract for the purchase or sale of a security that provides for payment of funds and delivery of securities later than the third business day after the date of the contract, unless otherwise expressly agreed to by the parties at the time of the transaction.\(^2\) The three-day settlement cycle, which is the current standard for the securities industry in the United States, is known as “T+3”—shorthand for “trade date plus three days.”

The Agencies are proposing to amend 12 CFR 12.9, 151.130, and 344.7 by shortening the settlement cycle from three days to two (i.e., a “T+2” settlement cycle). By shortening the settlement cycle, the proposed change will directly reduce banks’ exposure to their trade counterparties during the settlement period and thus mitigate banks’ operational and systemic risk.

The Agencies’ proposal is part of a larger, industry-wide shift to a T+2 settlement cycle that includes a multi-year securities industry initiative and rule changes being implemented by other financial regulators and securities self-regulatory organizations. The industry’s compliance date for this initiative is September 5, 2017, consistent with the compliance date for the Securities and Exchange Commission’s (“SEC”) T+2 rule.\(^3\) The self-regulatory organizations overseeing transactions in securities for their respective registrants that would be covered by the

\(^1\) “FDIC-supervised institution” means any insured depository institution for which the FDIC is the appropriate Federal banking agency pursuant to section 3(q) of the Federal Deposit Insurance Act, 12 U.S.C. 1813(q). 12 CFR 344.3(h). Pursuant to section 3(q), the FDIC is the appropriate Federal banking agency with respect to: (1) any State nonmember insured bank; (2) any foreign bank having an insured branch; and (3) any State savings association. 12 U.S.C. 1813(q)(2).

\(^2\) Sections 12.9, 151.130, and 344.7 also include special provisions for settlement in connection with a firm commitment underwriting and exceptions for certain securities and contracts.

\(^3\) On March 29, 2017, the SEC published an amendment to its securities transaction settlement cycle rule. The amendment shortens the standard settlement cycle from T+3 to T+2 for many U.S. securities, including equities, corporate bonds, and unit investment trusts, and financial instruments composed of these products, when these securities are traded on the secondary market. Refer to SEC Rule 15c6-1(a) under the Securities Exchange Act of 1934. 17 CFR 240.15c6-1. Also refer to 82 FR 15564, “Securities Transaction Settlement Cycle,” March 29, 2017.
T+2 standard, including the Financial Industry Regulatory Authority (“FINRA”) and the Municipal Securities Rulemaking Board (“MSRB”), have finalized or will finalize rule changes necessary to implement the new settlement cycle and related processes.\(^4\) On June 9, 2017, the OCC issued Bulletin 2017-22, which notified OCC-supervised institutions that they should comply with the T+2 settlement standard as of the SEC’s compliance date. The FDIC issued similar guidance applicable to FDIC-supervised institutions through Financial Institution Letter 32-2017 on July 26, 2017. The Agencies expect that as of the compliance date, September 5, 2017, OCC- and FDIC-supervised institutions will adhere to industry standards and applicable securities and self-regulatory organizations’ rules for T+2 securities clearance and settlement.

The Agencies expect that most banks have already made substantial progress toward compliance with the T+2 settlement cycle. By aligning their settlement practices with those of their securities counterparties, banks’ transition to the T+2 settlement cycle will help mitigate operational risk and promote safety and soundness. Altogether, the Agencies expect that the proposed rule change, in conjunction with the industry-wide movement to the T+2 settlement cycle, will produce safety and soundness benefits by reducing banks’ counterparty settlement risks, reducing the procyclical margin and liquidity demands associated with securities clearing and settlement, and by improving banks’ overall financial condition during periods of heightened market volatility or activity.

II. Description of the Proposed Rule

Regulations governing recordkeeping and confirmation requirements for the securities transactions of national banks and FSAs, both for the bank’s own account and for customers, are

set out in parts 12 and 151 of the OCC’s regulations, respectively. Regulations governing the same for FDIC-supervised institutions are set out in part 344 of the FDIC’s regulations. As noted above, §§ 12.9, 151.130, and 344.7 require that banks generally not effect or enter into a contract for the purchase or sale of a security that provides for payment of funds and delivery of securities later than the third business day after the date of the contract, unless otherwise expressly agreed to by the parties at the time of the transaction. Section 12.9 applies to national banks, § 151.130 applies to FSAs, and § 344.7 applies to FDIC-supervised institutions.5

The Agencies propose to amend the general requirement that banks must settle their securities transactions no later than the third business day after the date of the contract by shortening the permissible settlement period from three business days to two. The proposal does not otherwise affect the regulatory requirements, exceptions, and conditions provided in §§ 12.9, 151.130, or 344.7.

The Agencies may consider, as an alternative to the approach described above, implementing the two-business-day settlement requirement by cross-reference to the standard settlement cycle provided under SEC Rule 15c6-1(a) (17 CFR 240.15c6-1(a)). Under this alternative approach, securities transactions would generally be required to settle “within the number of business days in the standard settlement cycle for the security followed by registered broker dealers in the United States,” unless otherwise agreed to by the parties at the time of the transaction. “Standard settlement cycle” would be defined by reference to SEC Rule 15c6-1(a). The Agencies invite comment on this alternative approach. The Agencies also invite comment on the use and definition of the term “standard settlement cycle.”

5 FDIC-supervised institutions include State nonmember insured banks, foreign banks having insured branches, and State savings associations. See supra note 1. In addition to stating the general settlement period requirement, §§ 12.9, 151.130, and 344.7 include special provisions for settlement in connection with a firm commitment underwriting and exceptions to the general requirement for certain securities and contracts.
III. Request for Comment

The Agencies invite comment on all aspects of this proposal, including the alternative approach described in part II of this Supplementary Information.

IV. Regulatory Analysis

Paperwork Reduction Act

Under the Paperwork Reduction Act (“PRA”), 44 U.S.C. 3501–3520, the Agencies may not conduct or sponsor, and a person is not required to respond to, an information collection unless the information collection displays a valid Office of Management and Budget (“OMB”) control number. This proposal does not introduce or change any collections of information; therefore, it does not require a submission to OMB. Nonetheless, the Agencies invite comment on their PRA determination.

Regulatory Flexibility Act

The Regulatory Flexibility Act, 5 U.S.C. 601 et seq. (“RFA”), requires an agency, in connection with a proposed rule, to prepare an Initial Regulatory Flexibility Analysis describing the impact of the proposed rule on small entities (defined by the Small Business Administration (“SBA”) for purposes of the RFA to include banking entities with total assets of $550 million or less) or to certify that the proposed rule would not have a significant economic impact on a substantial number of small entities.

FDIC: The RFA generally requires that, in connection with a notice of proposed rulemaking, an agency prepare and make available for public comment an initial regulatory flexibility analysis describing the impact of the proposed rule on small entities.6 A regulatory flexibility analysis is not required, however, if the agency certifies that the rule will not have a

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6 5 U.S.C. 601 et seq.
significant economic impact on a substantial number of small entities. The SBA has defined “small entities” to include banking organizations with total assets less than or equal to $550 million. For the reasons described below and pursuant to section 605(b) of the RFA, the FDIC certifies that the final rule will not have a significant economic impact on a substantial number of small entities.

The FDIC supervises 3,171 depository institutions, of which 2,990 are defined as small banking entities by the terms of the RFA. The proposed rule will reduce by one day the settlement time of transactions for equities, corporate bonds, municipal bonds, unit investment trusts, mutual funds, exchange-traded funds, exchange-traded products, American depository receipts, options, rights, and warrants. According to recent Call Report data, 2,742 FDIC-supervised small entities reported holding some volume of equities that are likely to be affected by the new securities settlement cycle, provide custodial banking services, or possess a subsidiary classified as a securities dealer. The effects on small entities will vary according to the degree of participation in securities transactions. According to recent Call Report data one small entity identified itself as providing custodial banking services, while seven small entities have a subsidiary classified as a securities dealer according to data from the Federal Reserve’s National Information Center (NIC).

Costs

The proposed rule is likely to pose some small costs for custodian banks whose role is administering assets for a corporation or an individual. Banks engaged in custodial activities will likely incur costs to increase infrastructure capabilities and efficiencies, as well as standardizing

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7 13 CFR 121.201 (as amended, effective December 2, 2014).
8 FDIC-supervised institutions are set forth in 12 U.S.C. 1813(q)(2).
10 Id.
data formats and communication protocols. These changes are in addition to any documentation and process changes. The 2012 DTCC study estimated that a large custodian bank will have to invest $4 million in order to conform to the two-day settlement cycle.\textsuperscript{11} Therefore, the one FDIC-supervised small institution that is engaged in custodial activities is conservatively estimated to incur a total of $4 million in costs associated with the industry-led effort to adopt a shorter settlement cycle. However, given that the industry’s planned commencement date for the shorter settlement cycle will take place before the effective date of the proposed rule, the FDIC assumes that little or none of these costs will result from actions taken by covered institutions to comply with the proposed rule.

The proposed rule is likely to pose some small costs for covered institutions that possess a subsidiary that is a securities broker-dealer. Banks that possess a securities broker subsidiary will likely have to incur analysis and testing costs for any associated changes to their transaction platform necessary to comply with the shorter settlement cycle, as well as improvements in the management of securities inventories. These changes are in addition to any documentation and process changes. The 2012 DTCC study estimated that broker-dealers will likely have to invest $4 million in order to conform to the 2-day settlement cycle.\textsuperscript{12} Therefore, the seven FDIC-supervised small institutions that operate a subsidiary classified as a securities broker are estimated to incur a total of $28 million in costs associated in the industry-led effort to adopt a shorter settlement cycle. However, given that the industry’s planned commencement date for the shorter settlement cycle will take place before the effective date of the proposed rule, the FDIC

\textsuperscript{11} “Cost benefit analysis of shortening the settlement cycle,” Prepared by the Boston Consulting Group – Commissioned by the Depository Trust and Clearing Corporation (DTCC), October 2012.

\textsuperscript{12} Id.
assumes that little or none of these costs will result from actions taken by covered institutions to comply with the proposed rule.

The proposed rule is likely to pose little or no costs for covered institutions that do not provide custodial banking services or possess a broker-dealer subsidiary. Covered institutions that transact securities but do not manage securities transactions could incur some costs related to documentation changes. However, the FDIC assumes that most of these institutions rely on third-party security transaction platforms or broker-dealers to complete their transactions, and therefore will incur little to no cost in adopting the shorter settlement cycle.

**Benefits**

Banks offering custodial services for securities and banks with broker-dealer subsidiaries are likely to incur some small benefits associated with the proposed rule. The infrastructure investments and process improvements necessary to complete the adoption of the industry’s goal of a two-day settlement cycle should result in a reduction in operational costs. Additionally, the shorter settlement cycle should reduce the duration of unsecured, uninsured settlement cycle funding provided by broker-dealers. This, in turn, should reduce counterparty risk associated with the settlement process. The shorter settlement cycle should also improve the efficiency of capital utilization for broker-dealers and custodian banks by reducing pro-cyclical margin demands, especially during episodes of heightened market volatility. The 2012 DTCC study estimated that broker-dealers and custodian banks will realize $55 million and $40 million, respectively, in costs savings over three years resulting from risk reduction, capital optimization, and improvements in operational efficiency.\textsuperscript{13} However, given that the industry-planned commencement date for the shorter settlement cycle will take place before the effective date of

\textsuperscript{13} Id.

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the proposed rule, the FDIC assumes that little or none of these benefits will result from actions taken by covered institutions to comply with the proposed rule.

Improved operational efficiency of transaction settlement, particularly the reduction in the exchange of physical securities, may benefit some covered institutions that do not provide custodial banking services or possess a broker-dealer subsidiary. The 2012 DTCC study estimated that covered institutions who transact securities but do not manage securities transactions could realize $30 million in costs savings over three years. However, the cost savings for smaller market participants is likely to be much lower, and given that the industry-planned commencement date for the shorter settlement cycle will take place before the effective date of the proposed rule, the FDIC assumes that little or none of these benefits will result from actions taken by covered institutions to comply with the proposed rule.

Although the new settlement cycle does affect a significant number of small FDIC-supervised institutions, the economic effects that directly result from the proposed rule are likely to be very small. This rule is being proposed in concert with an industry-led effort to reduce the securities settlement cycle. The planning and adoption of infrastructure and procedural improvements necessary to meet the commencement date of September 5, 2017, established by the industry pre-dates this proposed rulemaking. Therefore, very little or none of the compliance costs or operational benefits that result from adopting a shorter securities settlement cycle are a direct result of the proposed rule.

**OCC:** As of December 31, 2016, the OCC supervised approximately 956 small entities. Because the proposed rule does not contain any new recordkeeping, reporting, or compliance

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14 Id.
15 The OCC calculated the number of small entities using the SBA’s size thresholds for commercial banks and savings institutions, and trust companies, which are $550 million and $38.5 million, respectively. Consistent with
requirements, the OCC anticipates that it will not impose costs on any OCC-supervised institutions. Thus, the proposed rule will not have a substantial impact on any OCC-supervised small entities. Therefore, the OCC certifies that the proposed rule would not have a significant economic impact on a substantial number of OCC-supervised small entities.

**Unfunded Mandates Reform Act of 1995 Determination**

The OCC analyzed the proposed rule under the factors set forth in the Unfunded Mandates Reform Act of 1995 (2 U.S.C. 1532). Under this analysis, the OCC considered whether the proposed rule includes a federal mandate that may result in the expenditure by state, local, and Tribal governments, in the aggregate, or by the private sector, of $100 million or more in any one year (adjusted annually for inflation).

The proposed rule does not impose new mandates. Therefore, the OCC concludes that implementation of the proposed rule will not result in an expenditure of $100 million or more annually by state, local, and tribal governments, or by the private sector.

**Riegle Community Development and Regulatory Improvement Act**

The Riegle Community Development and Regulatory Improvement Act ("RCDRIA") requires that the Agencies, in determining the effective date and administrative compliance requirements of new regulations that impose additional reporting, disclosure, or other requirements on insured depository institutions ("IDIs"), consider, consistent with principles of safety and soundness and the public interest, any administrative burdens that such regulations would place on depository institutions, including small depository institutions, and customers of

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the General Principles of Affiliation, 13 CFR 121.103(a), the OCC counted the assets of affiliated financial institutions when determining whether to classify a national bank or federal savings association as a small entity. The OCC used December 31, 2016, to determine size because a “financial institution’s assets are determined by averaging the assets reported on its four quarterly financial statements for the preceding year.” See footnote 8 of the SBA’s Table of Size Standards.
depository institutions, as well as the benefits of such regulations. 12 U.S.C. 4802. In addition, in order to provide an adequate transition period, new regulations that impose additional reporting, disclosures, or other new requirements on IDIs generally must take effect on the first day of a calendar quarter that begins on or after the date on which the regulations are published in final form.

The proposed rule includes no additional reporting or disclosure requirements on IDIs, including small depository institutions, nor on the customers of depository institutions. Nonetheless, in connection with determining an effective date for the proposed rule, the Agencies invite comment on any administrative burdens that the proposed rule would place on depository institutions, including small depository institutions, and customers of depository institutions.

**Plain Language**

Section 722 of the Gramm-Leach-Bliley Act requires the Agencies to use plain language in all proposed and final rules published after January 1, 2000. The Agencies invite comment on how to make this proposed rule easier to understand.

For example:

- Have the Agencies organized the material to inform your needs? If not, how could the Agencies present the proposed rule more clearly?
- Are the requirements in the proposed rule clearly stated? If not, how could the proposal be more clearly stated?
- Does the proposed regulation contain technical language or jargon that is not clear? If so, which language requires clarification?
• Would a different format (grouping and order of sections, use of headings, paragraphing) make the proposed regulation easier to understand? If so, what changes would achieve that?
• Is this section format adequate? If not, which of the sections should be changed and how?
• What other changes can the agencies incorporate to make the proposed regulation easier to understand?

List of Subjects

12 CFR Parts 12 and 151

Banks, banking, federal savings associations, national banks, reporting and recordkeeping requirements, securities.

12 CFR Part 344

Banks, banking; Reporting and recordkeeping requirements; Savings associations

The Agencies propose to amend Title 12 of the Code of Federal Regulations as follows:

DEPARTMENT OF THE TREASURY

Office of the Comptroller of the Currency

PART 12—RECORDKEEPING AND CONFIRMATION REQUIREMENTS FOR SECURITIES TRANSACTIONS

1. The authority citation for part 12 continues to read as follows:


2. Section 12.9 is amended by revising paragraph (a) to read as follows:
§ 12.9 Settlement of securities transactions.

(a) A national bank shall not effect or enter into a contract for the purchase or sale of a security (other than an exempted security as defined in 15 U.S.C. 78c(a)(12), government security, municipal security, commercial paper, bankers’ acceptances, or commercial bills) that provides for payment of funds and delivery of securities later than the second business day after the date of the contract, unless otherwise expressly agreed to by the parties at the time of the transaction.

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PART 151—RECORDKEEPING AND CONFIRMATION REQUIREMENTS FOR SECURITIES TRANSACTIONS

3. The authority citation for part 151 continues to read as follows:


4. Section 151.130 is amended by revising paragraph (a)(1) to read as follows. Paragraph (a) introductory text is being reprinted for reader reference.

§ 151.130(a) When must I settle a securities transaction?

(a) You may not effect or enter into a contract for the purchase or sale of a security that provides for payment of funds and delivery of securities later than the latest of:

(1) The second business day after the date of the contract. ***

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Federal Deposit Insurance Corporation

PART 344—RECORDKEEPING AND CONFIRMATION REQUIREMENTS FOR SECURITIES TRANSACTIONS
1. The authority citation for part 344 continues to read as follows:


2. Section 344.7 is amended by revising paragraph (a) to read as follows:

(a) An FDIC-supervised institution shall not effect or enter into a contract for the purchase or sale of a security (other than an exempted security as defined in 15 U.S.C. 78c(a)(12), government security, municipal security, commercial paper, bankers’ acceptances, or commercial bills) that provides for payment of funds and delivery of securities later than the second business day after the date of the contract, unless otherwise expressly agreed to by the parties at the time of the transaction.

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Dated: August 29, 2017

/s/

Keith A. Noreika

Acting Comptroller of the Currency

By order of the Board of Directors.

Federal Deposit Insurance Corporation.

/s/

Robert E. Feldman,

Executive Secretary.