Speeding Up Settlement

July 2024

The Arrival of T+1

For many investors, trading securities feels instantaneous. Placing an order often takes just seconds. But behind the scenes, settlement—the actual transfer of securities from one party to another—takes a bit longer.

Until recently, the standard settlement cycle for most securities in the U.S. was T+2, meaning trades were finalized or "settled" two business days after the transaction date. As of May 28, 2024, however, that changed. Thanks to a new rule from the Securities and Exchange Commission, the settlement cycle for stocks, bonds, exchange-traded funds (ETFs), and other related assets shortened to T+1, meaning they settle in just one business day.

Securities Affected

The securities impacted by the shift to T+1 include:

- Stocks
- Corporate bonds
- Municipal bonds
- Exchange-traded funds (ETFs)
- Certain mutual funds
- Real Estate Investment Trusts (REITs)
- Master-limited partnerships (MLPs) traded on U.S. exchanges

Importantly, the change did not affect U.S. government bonds or money market funds, which already settle at T+1.

Investor Benefits

For investors, T+1 provides several improvements, chief among them faster access to funds. Whereas investors normally had to wait two days for a trade to settle before withdrawing funds from their account, the change shortens that process by a day. It also means that proceeds from sales can be made available for reinvestment more quickly. The shortened settlement also provides benefits less visible to everyday investors, such as improved liquidity and greater efficiency for the market as a whole.

Of course, T+1 has come with some added complications, primarily for custodians and advisors. Faster settlement means there is now less time to correct erroneous trades or make cost basis adjustments, but careful diligence in placing trades should mitigate these risks.

A Tech-Enabled Shift

The shift to T+1, which has been years in the making, was enabled by a combination of technological advancements and evolving investor preferences. With the rapid pace of innovation in financial technology, the infrastructure supporting trading and settlement has become increasingly efficient. Long gone are the days when settlement was done manually. When Micthell Sinkler & Starr opened in 1969, it took five days on average to settle trades. Since then, improved technology, coupled with increased trading volumes and a desire among investors for faster settlement, paved the way for the transition to T+1.

The Bottom Line

The arrival of T+1 marks a significant step towards a faster, more efficient securities market. While the change has necessitated some behind-the-scenes adjustments for market participants, the benefits for investors—from quicker access to funds to improved overall market health—are a welcome development.

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