



Third Quarter 2024

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## T+1 Settlement Took Effect on May 28

As of Tuesday, May 28, the day after Memorial Day, a SEC new rule is in effect requiring most securities transactions to “settle” in one day. Settlement is when stock is transferred from the seller’s portfolio to the buyer, and payment is deducted from the buyer’s account and transferred to the seller.

Prior to May 28, U.S. financial institutions had two days - T+2 – to settle transactions involving:

- Stocks
- Corporate bonds
- ETFs
- Municipal securities
- Some mutual funds
- Limited partnerships that trade on exchanges.

Now those transactions are required to be completed on a next-day basis. Proceeds from selling a security will show up in investors’ accounts faster, allowing money to be reinvested quicker. Investors will need to have their funds ready, however, before they buy securities. There’s little if any lag time to have funds transferred between accounts. T+1 does not impact options and government securities like Treasuries, which are already on a next-day settlement schedule.

T+1 is expected to benefit the financial industry by reducing “failure to deliver (FTD)” risk when trades fail to settle because either the money or the stock isn’t there. The ability to reinvest funds from a transaction quicker may also add greater volume and volatility to financial markets.

Faster technology is a key reason for T+1, however, meme stock trading added impetus to the change. Frenzied meme trading in early 2021 put massive stress on retail trading platforms, increasing the amount of margin they had to post as collateral for the trades. Since the start of T+1, the balance in the National Securities Clearing Corporation’s Clearing Fund, where collateral is posted to cover FTD losses, has fallen by 25%.

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