

ThinkAdvisor

Reddit GameStop Incident Could Spur Move to T+1

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Robinhood's CEO is pushing for a shorter trade settlement cycle, but it's not a quick change for the industry to make.

The Reddit GameStop squeeze has cast a spotlight on what's being called the "antiquated" T+2 standard settlement cycle for most broker-dealer securities transactions.

"It's time for T+2 to go," Vlad Tenev, CEO and co-founder of Robinhood Markets, said **in a tweet** Feb. 2.

The current "two-day period to settle trades exposes investors and the industry to unnecessary risk and is ripe for change," Tenev **said in a blog post** the same day. "Every day, clearing brokers like Robinhood Securities have to meet deposit requirements imposed by clearinghouses to support customer trades between the trade date and the date the trades settle. Investors are left waiting for their trades to clear, and the clearing brokers have their proprietary cash locked up, until the settlement is final days after the trade."

The clearinghouse deposit requirements, Tenev continued, "are designed to mitigate risk, but [the week of Jan. 25] wild market activity showed that these requirements, coupled with an unnecessarily long settlement cycle, can have unintended consequences that introduce new risks."

In **a Feb. 5 tweet**, Tenev suggested a T+0 settlement, what Jennifer Schulp, director of Financial Regulation Studies at The Cato Institute's Center for Monetary and Financial Alternatives, called "instantaneous" settlement.

Tenev's tweet stated: "Thank you to everyone who has reached out re: T+0. We've heard from so many people who think it's time for this to change. We're moving forward and will report back soon!"

Former SEC Commissioner Michael Piowar **responded in a Feb. 3 tweet** that "@vladtenev, if you're leading an effort on whether/how to shorten the settlement cycle to T+1, I encourage you to follow our successful example of going from T+3 to T+2. Many of us stand ready to help. In the meantime, on behalf of all of us, you are welcome for T+2."

As acting SEC chairman in 2017, Piowar **finalized a rule** to change the settlement cycle for securities transactions to T+2 from T+3.

"That was the easiest regulatory layup in the history of the commission," Piowar, now executive director of the Milken Institute Center for Financial Markets, said Friday during a

podcast by the Securities Traders Association. “We had been at T+3 for 22 years; we were behind the rest of the world,” he said. It was a “win, win, win to shorten the settlement cycle.”

With the changes in technology four years later, “is it appropriate to look at shortening the settlement cycle now” to T+1? Piwowar asked rhetorically. “Of course it is. This should be one of the more high priority things the commission works on.”

Schulp noted on an early February podcast by Cato that with the rapid increase in GameStop’s price and the volatility in the price, “the clearing company ... required a significant amount more capital from these brokerage platforms in order to make the clearing process work.”

During the two days it takes to clear a stock trade, “the risk and the liability for that trade stays on the books of that brokers and as the stock prices increases and gets a little bit wild, it costs more to keep that liability for the brokerage platform,” Schulp explained.

In separate comments to ThinkAdvisor on Monday, Schulp said that “the move to T+1 is something that would take a bit more time; it cannot be immediately done because of all of the complexities.”

While the move “will be on the SEC’s radar, it’s not an easy thing to flip the switch on.”

Added Schulp: “I think the [GameStop] incident itself could be a catalyst” for a move to T+1. “It’s drawn this argument about settlement into a public sphere. It had a real impact on retail investors.”

Jim Toes, president and CEO of STA, told ThinkAdvisor Monday in an email that Gary Gensler, if confirmed by the Senate as the new SEC chairman, “will focus on this [T+1] at least initially. How much time he devotes to it in the long run will be determined by what the Commission and FINRA discover as they conduct investigations and gather data” about the Reddit GameStop incident.

“The benefit of a shorter settlement cycle is less risk due to the shorter window of time,” Toes said. “Less time means less transactions that have not settled and less time for some market event to occur.”