

# Regulatory Notice

## 23-15

## Regulatory Extension (REX) System Update

### Regulation T and SEA Rule 15c3-3 Extension of Time Requests Under a T+1 Settlement Cycle

#### Summary

The Securities and Exchange Commission has amended Rule 15c6-1(a) under the Securities Exchange Act of 1934 to shorten the standard settlement cycle for most broker-dealer transactions from two business days after the trade date (T+2) to one business day after the trade date (T+1). To aid firms in preparing for this transition, FINRA is updating the Regulatory Extension (REX) system to enable firms to file extension of time requests under the shortened settlement cycle. Firms may file such requests beginning May 31, 2024, via the batch file process and by completing the online request form by logging into the REX system via FINRA Gateway. Further, FINRA is updating the REX Customer Test Environment to allow testing under various scenarios for both batch and online request form filings.

Questions concerning this *Notice* should be directed to:

- ▶ James Barry, Director, Credit Regulation, at (646) 315-8347 or [james.barry@finra.org](mailto:james.barry@finra.org);
- ▶ Joseph David, Senior Principal Specialist, Credit Regulation, at (646) 315-8444 or [joseph.david@finra.org](mailto:joseph.david@finra.org); or
- ▶ Theresa Reynolds, Senior Credit Specialist, Credit Regulation, at (646) 315-8567 or [theresa.reynolds@finra.org](mailto:theresa.reynolds@finra.org).

#### Background & Discussion

The Securities and Exchange Commission (SEC) has amended Rule 15c6-1(a) under the Securities Exchange Act of 1934 (SEA or Exchange Act) to shorten the standard settlement cycle for most broker-dealer transactions from T+2 to T+1, subject to specified exceptions as set forth in paragraphs (b) through (d) of the rule as amended.<sup>1</sup> The SEC has generally set May 28, 2024, as the compliance date for the new

September 5, 2023

#### Notice Type

- ▶ Guidance

#### Suggested Routing

- ▶ Compliance
- ▶ Institutional
- ▶ Legal
- ▶ Operations
- ▶ Registered Representatives
- ▶ Senior Management
- ▶ Systems

#### Key Topics

- ▶ Extension Processing
- ▶ Trade Settlement Cycle

#### Referenced Rules & Notices

- ▶ FINRA Rule 4230
- ▶ Regulation T Sections 220.4 and 220.8
- ▶ SEA Rule 15c6-1
- ▶ SEA Rule 15c3-3

shortened standard settlement cycle. The information below is provided to aid firms in preparing for this transition by providing guidance on how to apply for Regulation T extensions after that date using the Regulatory Extension (REX)<sup>2</sup> system.

Regulation T, issued by the Federal Reserve Board pursuant to the Exchange Act, governs, among other things, the extension of credit by broker-dealers to customers to pay for the purchase of securities. As specified in Sections 220.4(d) and 220.8(b)(4) of Regulation T, a broker-dealer must promptly cancel or otherwise liquidate a customer purchase transaction in a margin account or cash account if payment is not received within one payment period<sup>3</sup> from the date of purchase or, pursuant to Sections 220.4(c)(3) and 220.8(d)(1), apply to extend the time period specified. Under a T+1 settlement cycle, the payment period will be shortened from T+4 to T+3.

Extensions of time under SEA Rule 15c3-3(n) are not affected by the change to T+1 settlement.

### Regulatory Extension (REX) System Update

Firms applying for extensions with trade dates prior to the May 28, 2024, compliance date for the new settlement cycle must continue to apply for extensions based on a T+4 payment period. This means that when filing an extension request on May 28, 29 or 30, 2024, firms will need to use T+4 as the payment period. Beginning May 31, 2024, firms must file Regulation T extension requests under a T+1 settlement cycle. The REX system extension validations for Regulation T have been updated to accommodate the new T+1 settlement cycle. For further information on Regulation T extensions, including the updated filing time periods, please see FINRA's [Margin Regulation](#) page.

### Testing

FINRA is updating the current REX Customer Test Environment (CTE) to allow testing under various scenarios for both batch and the online request form filings. The below table describes the T+1 simulated effective date and the Depository Trust & Clearing Corporation (DTCC) Test Cycle that will be supported. FINRA encourages firms to begin testing as soon as possible to ensure extension requests are submitted accurately beginning on May 31, 2024. Based on industry feedback, FINRA has attempted to align testing with the DTCC Test Cycles 4 to 17.<sup>4</sup> [REX CTE T+1](#) testing will be available beginning September 25, 2023, through April 5, 2024. After April 5, 2024, REX CTE will revert to normal production emulation with May 28, 2024, as the commencement of T+1 settlement. Similarly, after April 5, 2024, DTCC T+1 Test Cycles 18 through 21 will not be supported. For purposes of this testing, firms' current entitlements will remain unchanged, and firms will continue to use their existing FINRA CTE user ID and password for this testing.

REX T+1 Testing Events			
Event	Implementation Date (End of Day)	DTCC Test Cycle	T+1 Simulated Effective Date
REX 1	Friday, September 22, 2023	4 and 5	July 5, 2023 (Default Start Date)
REX 2	Friday, November 3, 2023	6 to 11	November 6, 2023
REX 3	Friday, January 12, 2024	12 and 13	January 16, 2024
REX 4	Friday, February 9, 2024	14 to 17	February 12, 2024
REX 5	Friday, April 5, 2024	18 to 21 not supported	May 28, 2024

FINRA will begin accepting test data files transmitted through its test environment on September 23, 2023. Firms that transmit testing files via SFTP should send files to their current Regulation T SFTP test server and place those files into the */rex/in* subdirectory. Firms will have access via FINRA Gateway to reports that will include information on all the extension of time requests a firm submitted and their associated data elements. Firms will also be able to query the REX CTE for information on all extension of time requests that are granted, denied, or rejected. The reports showing the test results will be posted the next business day to the same test server, in the firm's */rex/out* subdirectory.

Firms that encounter technical problems or need to request a FINRA user ID and password should contact the FINRA Help Desk at (800) 321-6273.

All T+1 testing questions should be emailed to Credit Regulation at [CreditReg@finra.org](mailto:CreditReg@finra.org).

### 2024 Margin Extension Schedule After Transition to T+1 Settlement

To assist firms with determining extension filing dates after the transition to T+1 settlement, FINRA has made available an updated [Extensions of Time Filing Schedule](#) page, which includes holidays and other market events. In addition, [general guidance on filing extensions](#) is available on FINRA's [Margin Regulation](#) page. Questions regarding due dates may be directed to Theresa Reynolds at (646) 315-8567 or [theresa.reynolds@finra.org](mailto:theresa.reynolds@finra.org).

## Endnotes

- 1 Securities Exchange Act Release No. 96930 (February 15, 2023), 88 FR 13872 (March 6, 2023) (Shortening the Securities Transaction Settlement Cycle).
- 2 FINRA introduced the REX system in August 2010. See [Regulatory Notice 10-28](#) (June 2010) (Extension of Time Requests); see also [Regulatory Notice 17-12](#) (April 2017) (Regulatory Extension (REX) System Update). Clearing firms for which FINRA is the designated examining authority must submit requests for extensions of time with FINRA for approval pursuant to FINRA Rule 4230.
- 3 Section 220.2 of Regulation T defines a “payment period” as the number of business days in the standard securities-settlement cycle in the United States, as defined in paragraph (a) of SEA Rule 15c6-1 (17 CFR 240.15c6-1(a)), plus two business days.
- 4 See [DTCC T+1 Test Approach: Detailed Testing Framework](#).