# SEC Regulation SHO T+2 Guidance

## 200(g) long sale order marking

https://www.sec.gov/divisions/marketreg/mrfaqregsho1204.htm#2.7

***Question 2.7: After a T+2 standard settlement cycle has been implemented, in the context of a loaned security, when does a broker-dealer need to initiate a bona fide recall of such loaned security in order to be able to mark the sale of such loaned but recalled security "long" for purposes of Rule 200(g)(1) of Regulation SHO?***

***Answer:*** If a broker-dealer lends an equity security pursuant to a securities lending agreement that requires delivery of a loaned security ("recall period") within two business days after a bona fide recall, and then sells the loaned security, and recalls the loaned security by no later than two settlement days following the trade date (or T+2), then the broker-dealer may mark the sale of the security "long" for purposes of Rule 200(g)(1), provided that the seller has a net long position in the security under Rule 200(c) of Regulation SHO. Alternatively, if the recall period is three business days after initiation of a recall, then the broker-dealer would need to initiate the recall of a loaned security by T+1 in order to be able to mark such sales "long" for purposes of Rule 200(g)(1) of Regulation SHO.

In the Rule 204 Adopting Release, the Commission stated that "if a person that has loaned a security to another person sells the security and a bona fide recall of the security is initiated within two business days after trade date [(*i.e.*, T+2)], the person that has loaned the security will be 'deemed to own' the security for purposes of Rule 200(g)(1) of Regulation SHO, and such sale will not be treated as a short sale . . . . In addition, a broker-dealer may mark such orders as 'long' sales provided such marking is also in compliance with Rule 200(c) of Regulation SHO." Exchange Act Release No. 60388 (July 27, 2009), 74 FR 38266, 38270 n.55 (July 31, 2009). The Commission's statements were made in the context of a T+3 settlement cycle, the standard settlement cycle at the time Rule 204 was adopted.

In the T+2 Adopting Release, the Commission stated that "in a T+2 settlement cycle, a broker-dealer seeking to mark an order 'long' for loaned but recalled securities would need to initiate a bona fide recall of a security on the settlement day before the settlement date (*i.e.*, T+1), provided the seller is also net long under Rule 200(c) of Regulation SHO." Exchange Act Release No. 80295 (March 22, 2017), 82 FR 15564, 15578 (March 29, 2017). This conclusion was premised on the Commission's understanding that pursuant to industry standards for loaned but recalled securities, such recalls would likely be delivered within three business days after initiation of a recall and thus, "bona fide recalls initiated on T+2 . . . would likely not be delivered before the close-out requirement for fails on sales marked 'long' under Rule 204 (*i.e.*, no later than the beginning of regular trading hours on T+5 under a T+2 settlement cycle)." Exchange Act Release No. 80295 (March 22, 2017), 82 FR 15564, 15578 (March 29, 2017).

After the publication of the T+2 Adopting Release, a number of broker-dealers have expressed an intention to amend their existing securities lending agreements to shorten the period for delivering loaned but recalled securities from three settlement days after initiation of a recall to two settlement days after initiation of a recall (or have indicated that, once the T+2 standard settlement cycle has been implemented, the delivery period for loaned but recalled securities under existing securities lending agreements will automatically decrease to two settlement days after initiation of a recall). If a broker-dealer lends securities to a borrower pursuant to a securities lending agreement that requires the delivery of loaned but recalled securities within two settlement days of a recall, a bona fide recall by no later than T+2 would result in the delivery of such loaned but recalled securities before the close-out period for fails on sales marked "long," as required by Rule 204(a)(1) of Regulation SHO (*i.e.*, no later than the beginning of regular trading hours on T+5).

Broker-dealers that lend securities pursuant to securities lending agreements that require delivery of loaned but recalled securities within three settlement days, or otherwise lend securities pursuant to securities lending agreements that would not require the delivery of loaned but recalled securities before the beginning of regular trading hours on the close out date for fails on sales marked "long" under Rule 204(a)(1) of Regulation SHO (or T+5), would need to initiate a bona fide recall of a loaned security by T+1 in order to be able to mark such sales "long" for purposes of Rule 200(g)(1) of Regulation SHO.