

MEMO# 4549

March 2, 1993

SEC PROPOSES THREE-DAY TIME FRAME FOR SETTLEMENT OF SECURITIES TRANSACTIONS

March 2, 1993 TO: BOARD OF GOVERNORS NO. 17-93 ACCOUNTING/TREASURERS
COMMITTEE NO. 10-93 BANK BROKER/DEALER ADVISORY COMMITTEE NO. 5-93
BROKER/DEALER ADVISORY COMMITTEE NO. 9-93 CLOSED-END FUND COMMITTEE NO. 5-93
INSURANCE BROKER-DEALER ADVISORY COMMITTEE NO. 3-93 OPERATIONS COMMITTEE
NO. 8-93 SEC RULES COMMITTEE NO. 17-93 SMALL FUNDS COMMITTEE NO. 6-93 TRANSFER
AGENT ADVISORY COMMITTEE NO. 16-93 UNIT INVESTMENT TRUST COMMITTEE NO. 11-93
RE: SEC PROPOSES THREE-DAY TIME FRAME FOR SETTLEMENT OF SECURITIES
TRANSACTIONS

The Securities and Exchange Commission has published for public comment proposed Rule 15c6-1 under the Securities Exchange Act of 1934, which would establish three business days (T+3), rather than five business days (T+5), as the standard settlement period for broker-dealer transactions. As proposed, the rule would apply to (among other things) securities issued by investment companies. The purpose of the proposed rule, which is based on the report of the Bachmann Task Force and on comments the Commission received on that report, is to reduce risks in the U.S. clearance and settlement system and to the U.S. securities markets generally. A copy of the proposing release is attached. Specifically, proposed Rule 15c6-1 would prohibit a broker or dealer from entering into a contract for the purchase or sale of a security that provides for payment of funds and delivery of securities later than the third business day after the date of the contract, unless the parties expressly agree to other settlement terms at the time of the transaction. The release notes that investment company securities would be covered by the rule, and requests comments on whether any particular characteristics of mutual fund shares will create difficulties for either broker-dealers or investors if those securities are included in or excluded from the rule. In this regard, the release specifically points out that many mutual funds permit purchases by telephone and that it therefore may be necessary for funds and broker-dealers to make operational changes in order to be able to confirm the sale to the investor, receive the proceeds and settle the transaction within T+3. Certain types of securities, including exempted securities, government securities, municipal securities, commercial paper, bankers' acceptances and commercial bills, would be specifically excepted from the rule's requirements. However, the release seeks comment on an appropriate time frame for eventually bringing municipal securities under the rule. The release also solicits comment on the proposed implementation date for the rule, which is January 1, 1996. Comments on proposed Rule 15c6-1 must be filed by June 30. If there are any issues you would like the Institute to consider addressing in a comment letter to the Commission, please call me at (202) 955-3514 or Diane Butler at (202) 955-3547 by April 30, 1993. Frances M. Stadler

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