

MEMO# 14759

May 29, 2002

JOINT AGENCY DRAFT WHITE PAPER ON STRUCTURAL CHANGE IN THE SETTLEMENT OF GOVERNMENT SECURITIES

[14759] May 29, 2002 TO: FIXED-INCOME ADVISORY COMMITTEE No. 8-02 MONEY MARKET FUNDS ADVISORY COMMITTEE No. 2-02 RE: JOINT AGENCY DRAFT WHITE PAPER ON STRUCTURAL CHANGE IN THE SETTLEMENT OF GOVERNMENT SECURITIES The Securities and Exchange Commission and the Board of Governors of the Federal Reserve System have issued a concept release in which it has published for comment an interagency White Paper titled: "Structural Change in the Settlement of Government Securities: Issues and Options."¹ The White Paper is designed to facilitate the discussion of possible structural changes in the settlement of government securities transactions. The goal of the paper is to provide a framework for discussion by identifying issues and questions that need further exploration. Comments on the draft paper are due by August 12, 2002. If there are comments that you would like the Institute to consider in a possible comment letter, please forward them to Barry Simmons at (202) 326-5923 (phone), (202) 326-5827 (fax) or bsimmons@ici.org (email) by Friday, June 21, 2002. As discussed in the SEC's concept release, the White Paper was developed as a result of joint discussions held by the SEC, the Board and various market participants after the events of September 11, 2001. The discussions, among other things, provided various options for addressing vulnerabilities in settlements of government securities.² During the discussions, market participants expressed an interest in exploring structural changes in the provision of settlement services for government securities, including the concept of creating a utility. The draft paper is intended to further that discussion by identifying issues relating to the settlement of government securities transactions and describing in more detail the development and organization of a utility. Barry E. Simmons Associate Counsel 1 SEC Release No. 34-45879 (May 6, 2002); 67 Fed. Reg. 32043 (May 13, 2002). The White Paper is available from the SEC's website at <http://www.sec.gov/rules/concept/34-45879.htm>. 2 The options discussed included: (1) the clearing banks and key market participants implementing more robust contingency arrangement; (2) each primary dealer establishing a backup clearing arrangement at a bank other than its existing clearing bank; and (3) implementing structural change such as by establishing a utility to conduct settlement. The market participants agreed on the importance of developing points (1) and (3), but also agreed that establishing a backup clearing arrangement (point (2)) would be of little value.

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