

MEMO# 2416

December 24, 1990

EFFECTS TO MUTUAL FUND INDUSTRY OF PROPOSED CHANGES TO U.S. SETTLEMENT PRACTICES

December 24, 1990 TO: ACCOUNTING/TREASURERS COMMITTEE NO. 40-90
BROKER/DEALER ADVISORY COMMITTEE NO. 49-90 TRANSFER AGENT ADVISORY
COMMITTEE NO. 57-90 GROUP OF THIRTY TASK FORCE RE: EFFECTS TO MUTUAL FUND
INDUSTRY OF PROPOSED CHANGES TO U.S. SETTLEMENT PRACTICES

As you know, the U.S. Working Committee ("USWC") was established to review the Group of Thirty's ("G30") nine recommendations for worldwide, standardized settlement conventions against current U.S. market practices. Most of you received the landscape document prepared by the USWC which outlines the G30 recommendations. The USWC met with the SEC at a roundtable on November 27, 1990 to present the following proposals for change to the U.S. securities markets, which are based on the G30 recommendations:

- o By 1992, settlements and other movements of corporate and municipal securities must be effected only by book-entry movements within a depository for transactions among financial intermediaries (brokers, dealers, and banks) and between financial intermediaries and their institutional clients.
- o By 1992, all new corporate or municipal securities issued must be eligible for depository processing, and procedures have to be developed to monitor inappropriate sale transactions during new issue stabilization periods.
- o In 1992, all payments for settlements among financial intermediaries and their institutional customers should be made using same-day funds. This would also apply to payments associated with dividends, interest, redemptions, and reorganizations. The 1992 time frame is subject to validation as implementation plans are developed.
- o By 1993, settlements of corporate and municipal securities must be effected on T+3 only by book-entry for all market participants.

Alternatives to the immobilization of -2- of assets of retail customers at financial intermediaries will need to be in place prior to the implementation of book-entry settlement. The USWC proposed a direct registration system for assets of retail customers. At the roundtable, the SEC asked the USWC to continue their efforts by specifically focusing on certain difficult areas of the proposals. The Institute anticipates that the mutual fund industry will inevitably be called upon by the SEC to comment on the USWC's proposals. As such, the Institute's Group of Thirty Task Force ("GTTF"), a sub-committee of the Accounting/Treasurers Committee, was formed and had its first meeting on December 4th to discuss the effects to the mutual fund industry of the USWC's proposals. At the meeting, the GTTF determined that the first step in analyzing this issue is to create a list of questions that need to be addressed by the task force with the appropriate entities including fund complexes, DTC, custodian banks, broker/dealers, transfer agents, the USWC and others. The Task Force plans to meet with a representation of the above groups to solicit their

responses to the questions that are developed. The attached sample list of questions was compiled based on the discussion at the December 4th GTTF meeting and the written comments of two Institute members. The list of questions has been divided into two categories: "Portfolio Transactions" and "Capital Transactions". Within those categories sub-headings appear which indicate to whom the questions will be addressed. Please review the list of questions and add those items that you would like to see included. Feel free to improve or expand on the questions already listed. Please return your comments to the undersigned by January 4, 1991. If you have any questions, please call me at 202/955-3547. We hope to schedule a number of visits beginning in mid-January 1991. We are discussing matters with DTC and will communicate with a follow-up memorandum shortly. Thank you for your assistance in developing the industry "question list." Diane Butler Director - Operations/ Fund Custody Attachment

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