settlement standard for securities transactions.

Rule 124(c) specifies the delivery date for regular way transactions which will be shortened to T+3. The references to a seller's option delivery to be made not less than six business days after the trade date contained in Rules 124(d) and 205C(2) will be changed to not less than four business days.

Rules 17(b) and 179(a) will require that all transactions and orders entered on a specialist's book in an issue of rights shall be made ''next day'' during the three business days preceding the final day for dealings in an issue of rights. Rules 17(c) and 179(b) will require all transactions and orders entered on a specialist's book in warrants shall be made for cash during the three final business days for trading in such issue. Rule 179(c) will require an order in an expiring equity securities entered on a specialist's book to be for ''next day'' delivery during the final three business days preceding the final day for trading.

The proposal will shorten by two days the time frames contained in Rule 423(4) for delivery of agent instructions with respect to receipt versus payment (''RVP'') or delivery versus payment (''DVP'') customer transactions. The proposal will shorten by two days the time frames contained in Rule 830 for the ex-divident period and the ex-rights period (if the terms of the subscription are known sufficiently in advance) for stock transactions not made in cash. In addition, the proposal eliminates the separate ex-dividend and ex-right periods for transfers outside of New York.

Rule 858 directs settlement in contracts in bonds dealt in ''and interest.'' The proposal will amend Rule 858 to provide that with respect to seller's option contracts, there shall be added to the contract price interest on the principle amount at the rate specified in the bond, which shall be computed up to but not including the day when delivery would have been due if the contract had been made ''regular way.''

Rule 862 will require that the return of loans of securities must be made on the third business day following the day on which notice is given. Rule 866 will require a loan of securities to be deliverable on the third business day following the day of the loan unless otherwise agreed to by the parties. Rule 882 will require that a seller deliver to the buyer a due-bill for dividends or rights to subscribe within three days after the record date if a security is sold before it is ex-dividend or ex-rights and delivery is made after the record date. The references in Rule 882 to the equivalent New York record date will be eliminated.

Amex has requested that the proposed rule change become effective on the same date as Rule 15c6–1.[5] Rule 15c6–1 is scheduled to become effective on June 7, 1995. The transition from T+5 settlement to T+3 settlement will occur over a four day period.[6]

II. Written Comment

The Commission received one comment letter from Thomson Trading Services, Inc. (''Thomson'') suggesting that additional regulatory changes may be necessary to implement T+3 settlement.[7] Thomson believes that the Amex should amend Rule 423(5) which requires the use of the facilities of a securities depository for confirmation and acknowledgement of all depository-eligible transactions.

III. Discussion

The Commission believes the proposal is consistent with the requirements of Section 6 of the Act.[8] Specifically, Section 6(b)(5) states that the rules of the exchange must be designed to foster cooperation and coordination with persons engaged in regulating, clearing, settling, and processing information. Amex's rules and other self-regulatory organizations' rules currently establish the standard time frame for settlement of securities transactions. On June 7, 1995, the new settlement cycle of T+3 will be established, as mandated by the Commission's Rule 15c6–1. As a result, the Amex's current rules providing for a T+5 settlement cycle will be inconsistent with Commission rules. This proposal will amend the Amex's rules to harmonize them with a T+3 settlement cycle.

In addition, the Commission believes that the proposed rule change is consistent with Section 6(b)(5) of the Act in that it protects investors and the public interest by reducing the risk to clearing corporations, their members, and public investors which is inherent in settling securities transactions. The reduction of the time period for settlement of most securities transactions will correspondingly decrease the number of unsettled trades in the clearance and settlement system at any given time. Thus fewer unsettled trades will be subject to credit and market risk, and there will be less time between trade execution and settlement for the value of those trades to deteriorate.[9]

While the Thomson letter supports the Amex's efforts to shorten the settlement cycle for securities transactions, Thomson believes that the Amex should amend Rule 423(5), which requires the use of the facilities of a securities depository for the confirmation and acknowledgement of all DVP and RVP depository-eligible transactions. The Commission believes that the issue raised by the Thomson letter need not be resolved prior to the approval of the proposed rule change. Discussions regarding Thomson's concerns are underway among the Commission, Thomson, DTC, and the Securities Industry Association. The Commission will continue to work with the industry to address Thomson's concerns. However, if the proposed rule change is not approved prior to the June 7, 1995, effective date of Rule 15c6–1, the Amex rules will conflict with the Commission Rule 15c6–1.

The Thomson letter suggests that approval of the proposed rule change without amendments to Rule 423 raises competitive concerns. Under the Act, the Commission's responsibility is to balance the perceived anticompetitive effects of a regulatory policy or decision against the purpose of the Act that would be advanced by the policy or decisions and the costs associated therewith. The Commission notes that the anticompetitive effects pointed to by Thomson, if in fact there are any anticompetitive effects, are not caused by the proposed rule change approved by this order but rather by an existing Amex rule. The Commission is reviewing Thomson's claim but does not believe that approval of this proposal will itself create any burdens on competition. Moreover, as discussed above, the rule advances fundamental purposes under the Act, namely the

[5] Letter from Ivonne Nagy, Special Counsel, Amex, to Michele Bianco, Attorney, Office of Securities Processing, Division of Market Regulation, Commission (December 30, 1994).

[6] Friday, June 2, will be the last trading day with five business day settlement. Monday, June 5, and Tuesday, June 6, will be trading days with four business day settlement. Wednesday, June 7, will be the first trading day with three business day settlement. As a result, trades from June 2 and June 5 will settle on Friday, June 9. Trades from June 6 and June 7 will settle on Monday, June 12.

[7] Letter from P. Howard Edelstein, President, Electronic Settlement Group, Thomson Trading Services, Inc., to Jonathan G. Katz, Secretary, Commission (January 30, 1995).

[8] 15 U.S.C. 78f (1988).

[9] The adopting release stated, ''the value of securities positions can change suddenly causing a market participant to default on unsettled positions. Because the markets are interwoven through common members, default at one clearing corporation or by a major market participant or end-user could trigger additional failures resulting in risk to the national clearance and settlement system.'' Securities Exchange Act Release No. 33023 (October 6, 1993), 58 FR 52891.