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SEC Independent Task Force Offers Plan
To Improve Safety, Soundness of U.S. Securities Markets

Bachmann Task Force Plan Emphasizes Several Areas
Including Settlement Cycle, Automated Clearing System

Group Urges Implementation by July 1994

WASHINGTON, May 26, 1992 -- A Securities and Exchange Commission independent task force has developed a 10-point plan to improve the safety and soundness of the U.S. securities markets, John W. Bachmann, task force chairman and the head of a St. Louis-based brokerage, said May 26 here.

The group called for the proposals to be implemented by July 1, 1994.

The task force, representing a variety of segments of the securities industry, singled out for special attention the need to shorten the settlement cycle, thereby reducing the time between a transaction and its completion, and thus reduce the risk inherent in the system; and the need to revise the

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automated clearing house system to enable swift confirmation of electronically transmitted payments, rather than the current 60-day period, Bachmann said.

"Shortening the settlement cycle will uncover potential problems before they mushroom or begin to cascade through the industry," Bachmann said. "In addition, if retail trades must settle more quickly, then the wiring of funds to and from customers should be a practical, inexpensive and reliable alternative. Steps are currently being taken to eliminate the rescission aspect from the settlement process."

The task force also highlighted the need for an interactive identification process. "To permit days to pass before verifying an institutional transaction is as much of an anachronism as the physical certificate," Bachmann said. "All trades should be confirmed by trade date plus one, which would also reduce settlement risk materially."

The report called for the inclusion of tax-exempt bonds in this process, said Bachmann, managing principal of Edward D. Jones & Co.

The task force was formed last autumn by Securities and Exchange Chairman Richard D. Breeden to address ways to strengthen the clearance and settlement process, "which were identified during the 1987 market crash, and despite study, remain unchanged," Bachmann said.

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Other recommendations call for:

* Transactions among financial intermediaries to be settled in book-entry form only rather than paper certificates, and for transactions to be paid for in same-day funds or funds that can be used immediately;

* All new securities to meet criteria making them eligible for securities depositories;

* The implementation of "cross-margining," a technical measure to deal with liquidity, which the report called the greatest single risk following Oct. 19, 1987, when securities markets plunged worldwide.

  Currently, because of a lack of communications (among markets), each market could (in the event of a crisis) call for added cash even though the investment has been rendered riskless. The effect would be to take the liquidity out of the market at the exact moment when greater, not lesser, liquidity is needed.

* The monitoring of all market activity.

  Today, data about markets is fragmented, although interdependency is increasing, the report's authors noted. Information on the financial markets should be gathered, examined and made publicly available so all interested parties can better understand risks.

The task force called for no action to change the handling of certificates. However, if certificates prove to be a barrier to implementation of these recommendations, then, at a minimum, investors holding securities should be required to deliver them before entering a sell transaction. Currently, investors have five business days, plus a 10-day grace period, after entering a "sell" order to deliver their certificates.

"The most conservative individual investors already purchase investments such as tax-exempt bonds, mutual funds, certificates of deposit, U.S. Treasury and U.S. government agency securities in electronic book-entry form, which is a certificateless form of ownership," said Bachmann. "As a result, the need to provide certificates shouldn't be permitted to stand in the way of increasing the safety of the markets."

The task force also called for continued monitoring of "flipping," a violation that involves selling into an underwriter's syndicate and that can destabilize a public offering. This practice is currently monitored through delivery of physical certificates, and the ability to monitor it should not be lost should a certificateless environment develop, the report noted.

Although they didn't offer a specific solution, the task force's members also cited five factors, individually and in combination, that have changed the risk profile faced by the securities industry. These problems are the ever-increasing volume of transactions, the complexity of investments and transactions, the increasingly international nature of transactions, the speed with which transactions take place and a rapid increase in off-balance sheet exposures.

"It would be nice to say these trends affect only a few large firms," Bachmann said, "but that is not the case. Today's markets are so interdependent that a problem in the institutional markets is simultaneously a problem to retail firms and investors, as October 1987 proved.

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"All the trends suggest that markets are gravitating toward greater speed, size and complexity, precluding a return to simpler days. Our industry must prepare for a new reality."

In addition to Bachmann, members of the task force are: David M. Kelly, president and CEO of National Securities Clearing Corp.; Richard G. Ketchum, executive vice president of National Association of Securities Dealers, Inc.; John F. Lee, president of New York Clearing House; Gerard P. Lynch, advisory director of Morgan Stanley & Co. Inc.; James J. Mitchell III, executive vice president of The Northern Trust Co.; Richard J. Stream, managing director of Piper Jaffray Inc.; and Arthur L. Thomas, senior vice president of Merrill Lynch, Pierce, Fenner & Smith Inc.

"The rare unanimity that this diverse group reached underscores the importance of the report's findings and the need for immediate discussion followed by prompt implementation," Bachmann concluded.

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