Securities Industry Association
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May 16, 1995

Brandon Becker, Esq.
Director
Division of Market Regulation
U.S. Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, DC 20549

Dear Brandon:

The Securities Industry Association ("SIA")[1] understands that the Securities and Exchange Commission (the "Commission") seeks to ensure that broker-dealers promptly pay funds to customers and that the Commission has a particular interest in ensuring swift payment to individual customer accounts. We further understand that some individual investors may be concerned that the implementation of Rule 15c6-1 will encourage broker-dealers inappropriately to hold funds, while insisting on prompt payment to accommodate the shorter settlement cycle of T+3. SIA shares the concern that customers should be treated properly and paid timely. As discussed below, SIA believes that its members pay customers promptly and that they do not now, and will not in the future, delay payments inappropriately.[2] Nonetheless, to address these concerns, SIA will survey a sample of its members and report back to the Commission staff with those results.

SIA has consulted with some of its members about their payment practices. Although our survey was not scientific, we consulted with a number of different firms with different business mixes. We understand that the following practices are typical:

(i) securities sales - when a customer sells a stock, the firm will credit that customer's account with the proceeds on the same day as settlement with no delay. If the customer has requested a check, the firm will cut and send a check on the same day as the settlement (even where a branch office cannot cut its own checks and must have a regional processing center send the check); and

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1 The Securities Industry Association is the securities industry's trade association representing the business interests of more than 700 securities firms in North America, which collectively account for about 90 percent of securities firm revenue in the United States.

2 SIA's members appreciate that they have responsibilities under the federal securities laws to deal appropriately with their customers. Rules of the Self-Regulatory Organizations also govern treatment of customers' funds. *See e.g.*, National Association of Securities Dealers, Inc., *NASD Manual*, Rules of Fair Practice (CCH), Art. III Sec. 1, para. 2151, Art. III, Sec. 2, para. 2152, and Art. III Sec. 19, para. 2169. Of course, good business practice encourages firms to treat customers well.

(ii) dividend and interest payments - when a customer receives dividends or interest, the firm credits the customer's account with the payment, even if the firm has not received payment from the issuer. Firms often give a customer options about how to receive payment. Some firms cut checks daily; other firms cut checks on a periodic basis (*e.g.*, monthly). Some firms offer services whereby balances can be swept daily or weekly into an interest bearing or cash management account and then paid out on a monthly basis.

A customer's choice of how he or she wants funds handled may affect the speed of payment. A customer who does not choose to use a cash management account, or who seeks to have the firm remit excess funds by mailing a check may encounter greater delays based on factors external to the securities industry. For example, a customer who asks a firm to mail a check may experience delay because of mail service. Similarly, a customer may not have access to funds because of the time that a bank requires to clear a check.

With respect to the implementation of T+3, SIA believes that its members have no intention of using this rule as a means for delaying payment in order to profit inappropriately. To comply with Rule 15c6-1, in general a firm must collect from its customer the purchase price of a security two days earlier than under prior practice. However, the firm also will be able to pay proceeds of a sale two days earlier than under prior practice, and our members intend to do so. Customers that choose the methods of payment that engender delays will continue to experience those same delays, irrespective of the change in settlement cycle. For example, a customer who chooses to have a broker-dealer mail proceeds by check sent through the mail will experience the same type of delays as in a T+5 environment. But we do not believe that our members intend to use the change in settlement cycle as an excuse to delay payment.

SIA believes that its members promptly remit funds in accordance with our customers' preferences and relevant legal requirements. Nonetheless, to address the Commission's concerns, we will survey a representative sample of our members and provide the aggregate results of that survey to the Commission staff. We hope that this survey will allay further concern. We would like to work with your staff to ensure that the survey addresses the areas about which you are concerned. Depending upon the scope of the survey, we would hope to complete the survey and report back to the staff by July 30, 1995. To the extent that the survey identifies unforeseen problems that are within our members' control, we will try to work with the Commission and the staff to address those issues.

We appreciate the interest of the Commission in this matter, and look forward to resolving any lingering questions.

Sincerely yours,

Stuart J. Kaswell

Stuart J. Kaswell
Senior Vice President
and General Counsel