Recommendations of the Primary Markets Sub-Working Group of the T+2 IWG

The primary markets sub-working group of the T+2 IWG (Industry Working Group) has held a number of meetings over 2015 and has identified the following primary market recommendations to support the move to T+2:

1. Many fixed income primary market distributions currently have extended settlement dates (T+4 and beyond). These securities generally have a “first settlement date” which may be a long as 20 days after the first trade date. All primary market trades and secondary market trades done between the first trade date and the first settlement date will settle on the first settlement date. Following the first settlement date, all secondary market trades will follow the established settlement cycle, i.e., T+3. The implementation to T+2 will not change the practice of trades in fixed income securities having extended settlement dates until the first settlement date and secondary market trades following the established settlement cycle after the first settlement date. However, the established settlement cycle will become T+2.
2. Equity securities related to primary distributions will move to T+2 along with the rest of the market. That is, all primary market trades and secondary market trades related to primary distributions will settle T+2.
3. The only concern related to equity distributions moving to T+2 is related to the requirement to deliver physical copies of prospectus to customers in 48 hours for certain corporate securities that do not qualify for “access equals delivery”. (Access equals delivery is the relief firms have from having to deliver physical copies of prospectus to customers. Access equals delivery applies to most registered securities offerings by operating companies, i.e. equity and fixed income securities, but does not apply to mutual funds, ETFs and a limited number of equity and fixed income securities.) To address these limited scenarios, the group is suggesting:

    A. The SEC provides relief from the requirement to deliver physical copies of prospectus to customers in 48 hours for certain corporate securities that do not qualify for access equals delivery.

    B. The request for relief would be in the form of a no-action letter or an exemption from any amendments to SEC rules intended to facilitate T+2 (not necessarily a rule change).

    C. The request for relief would be to extend the 48 hour requirement to 72 hours (one day).

D. The request would only apply to corporate securities that do not qualify for access equals delivery (S-8 offerings, and all N-2 offerings which include business development company offerings, registered exchange offers, closed-end funds and business combinations).

E. The relief would only be for the first settlement date (primary and secondary trades) of new issuances only.

4. In conjunction with the request for relief, the industry will produce a “best practice” recommending the printers and lawyers have all required documentation complete, and ready for distribution, by the day after trade date. The SEC relief would only apply in the event documentation is not available on T+1.

5. An issue was also identified regarding the syndication of 144A block offerings and the time needed for transfer agents to cleanse restricted shares. In many cases, the delay is caused by the need for physical medallion stamps as part of the cleansing process. Suggestions were made that transfer agents accept electronic copies of medallion stamps (e.g., PDF files). This suggestion was forwarded to the Securities Transfer Association (STA) who is reviewing the issue. No required changes are being requested at this time pending the outcome of the STA review.