



# THAT SETTLES IT. . .

## “T+2” is coming. What is it? And what does it mean for you?

Typically, there are two dates associated with the purchase or sale of a stock, bond or mutual fund:

### Trade date

### Settlement date

Trade date is pretty simple. That's the date your trade took place. But what is settlement date? It's similar in concept to “the close of escrow” in a real-estate transaction. Let's say that on June 15 you signed documents to buy a home. You then have until the close of escrow, say, 30 days later on July 15, to do things like inspect the home and get your mortgage completed. At the close of escrow, the transaction “settles,” and the home's deed is exchanged for the agreed-upon cash.

The same “settlement period” is needed in securities transactions – just not as long. On settlement day, the security that was sold is exchanged for the agreed-upon trade price. When I first started in the investment business in the late '70s, settlement took five business days. So, after trade date, the seller had five business days to get the security that had just been sold in “good delivery form” while the buyer had five business days to get the funds in. We called that “T+5.”

But understand, that's when stocks and bonds were issued in certificate form. Paper! Which meant getting that paper to the buyer – duly endorsed by the seller – took a little time. And many times the certificates were not held in the client's account – they were sitting in the client's safe-deposit-box or under the mattress.

In 1995, after paper certificates had been pretty much replaced by electronic delivery, the SEC initiated T+3. Still, at that time, the money coming from the buyer was still mostly paid by check. Again, paper.

Now, with banking mostly paperless, the SEC will be moving the industry to T+2 on Sept. 5. How does this impact you?

If you're like most of my clients, the impact is minimal. For buyers, we already have your cash on hand, so shortening settlement by a day means nothing. And for sellers, we already have the position we're selling in your account, so we're OK there, too.

The biggest change that T+2 will bring is to those clients who call us to raise cash to pay for that new car or to take that cruise. You'll get your money one day quicker!

So, after T+2 goes into effect in September, if you call us on a Monday while the market is still open (before 1:00 p.m. Pacific time), we can have funds available on Wednesday. And for most of you, that means the cash will be sitting in your bank account on Thursday.

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