



June 16, 2004

Mr. Jonathan G. Katz
Secretary
Securities and Exchange Commission
450 Fifth Street, NW
Washington, D.C. 20549-0609

Re: Release No. 33-8398; 34-49405; IC-26384; File No. S7-13-04

Dear Mr. Katz:

The Asset Managers Forum (the “AMF” or “Forum”) is pleased to submit this comment letter to the Securities and Exchange Commission (“SEC” or “Commission”) in regard to the Commission’s concept release on securities transactions settlement, especially on matters that relate to straight-through-processing (“STP”) industry initiatives. This comment letter is intended to explain the buy-side’s position concerning the Commission’s concepts which are designed to help facilitate market efficiency by improving communications between counterparties and mitigating risk by emphasizing STP. The members of The Asset Managers Forum specialize in buy-side operations and therefore have a deep rooted stake in possible STP enhancements. In light of the foregoing, the Forum wishes to offer a well-defined, yet moderate approach in addressing securities transaction settlement issues.

The AMF, formed in 1998 in cooperation with The Bond Market Association, represents the asset management community with respect to major industry-wide securities processing, regulatory, accounting policy, compliance and operations initiatives. The Forum currently has over 50 member firms, including major institutional investors, mutual funds and insurance companies, with over \$8 trillion of assets under management.

These comments, as put forth in this letter, were formulated by members of the AMF STP Committee. Participants in the AMF STP Committee, which include asset managers, custodians and vendors, desire through the AMF to offer practical insights concerning fixed income securities operations processing as it relates to the business of an asset manager. It should be noted that the AMF met with other industry groups to discuss the Concept Release and how the industry can move collaboratively to develop operations best practices. The AMF is committed to making progress in STP (as are other industry groups) and the Forum is committed to working with other industry groups in creating these best practices.

For the industry, true STP is the automated movement of information from pre-trade processing, then to communicating trade information to counterparties and custodians, ultimately ending with the reconciliation process. STP should eliminate redundancies, such as manually re-keying information, thereby enabling information to be synchronized with other systems.

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Overall, The Asset Managers Forum supports and encourages the fostering of STP initiatives. Furthermore, STP can offer a variety of other benefits to the entire industry such as risk reduction and improved accuracy. All of these benefits can free up resources and provide operations professionals with greater opportunities to focus on exception processing, thereby bringing greater efficiency and soundness to the marketplace.

Reducing Risk through the Confirmation/Affirmation Process

One of the most significant risks in fixed income securities operations is the risk that is associated with unmatched trades; that is, the risk that exists between trade execution and trade confirmation at the block level. The AMF believes that this risk, which has been coined, “pre-confirmation risk”, is a greater risk than settlement risk. In order to mitigate pre-confirmation risk, the Forum recommends that the industry focus on communicating block level confirmations on trade date and moving toward allocation level confirmation, ideally on trade date, or at the latest, T+1.

In order for the recommended flow process described above to be effective, immediate trade matching in real time would significantly mitigate risk. Accordingly, the AMF recommends that the industry voluntarily adopt best practices to achieve block level confirmation on trade date and allocation level affirmation no later than T+1. The AMF concurs that if same day matching is not achieved through voluntary best practices, only then should the Commission revisit the consideration of a rule.

Furthermore, in the development of best practices, the AMF would work to document institutional trade processing, beginning with the kind of diagram that is attached hereto. The AMF, working with other trade groups would then be in a position to analyze all alternatives regarding institutional trade processing. Based upon this analysis, the AMF would create a set of benchmarks which would be designed to help the industry move toward STP by measuring progress in an orderly fashion.

Other Efficiencies Supported by The Asset Managers Forum

In order to achieve a shortened settlement cycle, information needs to be communicated to market participants earlier in the settlement process. Therefore, the AMF supports and encourages market participants to communicate securities descriptive data and other related information electronically through standards and protocols. In this regard, the AMF supports FIX communication protocol initiatives that help to foster industry uniformity. Moreover, the Forum believes that the buy-side will eventually be successful in achieving same-day confirmation and affirmation. Thus, when asset managers are successful in confirming and affirming trades on trade date, then the AMF would consider examining the possibility of shortening the settlement cycle. Of course, all parties would need to benefit under a cost/benefit analysis.

Furthermore, the AMF agrees that it would be preferable for both new issues and secondary market issues to settle on the same cycle to the extent that it is feasible. However, for this proposed situation to be effective, more work would need to be done in order to receive critical information in a timelier manner. The Forum recognizes that linking the settlement cycles for primary and secondary market securities would entail significant coordination with syndicate practices professionals and leading depository and clearing organizations. The AMF looks forward to working with the industry on this matter.

Immobilization and Dematerialization of Securities Certificates

In general, the AMF supports the Commission's efforts to reduce the use of securities certificates by immobilizing and dematerializing securities. In this regard, the AMF is also in agreement with other groups that also support immobilizing and dematerializing securities certificates.

In recognizing the value of paperless securities, the bond industry, in some markets, has already achieved immobilization. For example, the municipal bond markets support book-entry only trades, which enable securities to be held electronically. In moving to book-entry only, the municipal bond market has been able to increase efficiencies by fostering automation. In addition, in moving to book-entry only, there has been a reduction in delays and expenses that would otherwise be associated with processing registered securities transactions within firms and within clearance and settlement entities.

Conclusion

There is great variety and diversity between and among the organizational structure of asset management firms. Also, trade volume and trade size vary significantly even among member firms of The Asset Managers Forum. Most firms operate on a global scale, some are associated with broker/dealer firms and others are independent. There are asset management firms that operate insurance companies and others, mutual funds. In summary, it would be difficult to create regulation that addresses the particulars of each asset management firm. Therefore, the AMF believes that the most efficient and effective way to enhance industry STP is through a set of best practices. These best practices would serve as guidelines for asset management firms that use both automated and manual transaction processing.

Once again, The Asset Managers Forum (which is an independent affiliate of The Bond Market Association) thanks the Commission for the opportunity to share the buy-side's views and comments on securities transaction settlement issues affecting the securities markets.

If the Commission has any follow-up questions concerning the above matters, the leadership of The Asset Managers Forum can be reached by contacting Douglas Taggart, Staff Advisor to the AMF STP Committee at (646) 637-9273.

Very truly yours,



Christine Sumner, Pacific Life Insurance Company
Chair, The Asset Managers Forum STP Committee

Attachment

cc: Larry E. Bergmann and Jeffrey Mooney
Division of Market Regulation
U.S. Securities and Exchange Commission