

FINANCIAL INFORMATION FORUM

212-422-8568

June 16, 2004

Jonathan G. Katz, Secretary
U.S. Securities and Exchange Commission
450 Fifth St. NW
Washington, D.C. 20549-0609

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

Dear Mr. Katz:

The Financial Information Forum (FIF) Service Bureau Committee appreciates the opportunity to comment on the above referenced Concept Release which considers the shortening of the securities settlement period from the current T + 3 requirement. Formed in 1996, The Financial Information Forum is a brokerage industry organization dedicated to the improvement of brokerage industry information and transaction processing systems. Participants in FIF include broker-dealers, exchanges and vendors of brokerage information and processing services. Members of the FIF Service Bureau Committee are service bureaus that develop back office software and run data centers for approximately 1500 broker/dealers.

FIF participants focus on critical issues and productive solutions to technology developments, regulatory changes, and other industry changes. The FIF Service Bureau Committee has previously worked closely with regulators and industry utilities on technical implementation considerations for such projects as OATS, INSITE, Decimalization, TRACE and the Patriot Act. We are currently working with NASD, MSRB and NSCC on the implementation of Real Time Trade Matching (RTTM) and with the NYSE on the Order Tracking System (OTS).

FIF has been an integral part of the industry-wide effort to implement straight-through-processing and shorten the settlement period. As part of the Securities Industry Association straight-through-processing project, FIF headed two subcommittees: one comprised of service bureaus and the other focused on front office issues. The FIF Front Office Committee developed a white paper outlining areas where increased standardization and automation is needed to facilitate straight-through-processing.

The SIA STP project has provided important direction in modernizing and streamlining securities trade reporting and settlement processes. In addition, securities markets, clearing corporations and other industry organizations have moved the after-trade operations from a nightly batch process toward a real-time process. These improvements have been achieved without significant regulatory change. We suggest that these industry-initiated improvements have been motivated by the inherent business benefits and operational efficiencies.

Our comments on the subject Concept Release are based primarily on the perspective of the service bureaus that provide computer-processing services to broker-dealers. These services include real-time order handling systems through clearing and settlement and customer account systems. In this multi-client environment, service bureaus provided standardized systems as well as customized services and interfaces to meet the unique requirements of each client firm. When system changes are required, service bureaus must work individually with each of their clients to implement a program that includes software development, testing, training and migration of changes into production systems and brokerage operations. The service bureau environment, in many respects, is similar to the in-house systems of large broker-dealers. However it differs significantly in its need to deal with many different external organizations with different capabilities and business profiles. The implementation of any system changes must allow time for the various planning, development and operational rollout tasks.

Trade Confirmation and Affirmation

Our comments are not organized and directed at specific questions posed in the Concept Release. There are always costs related to system changes and there are benefits in terms of lower operational costs, less risk and improved service to investors. Service bureaus have always adapted to industry changes and new regulatory requirements and they will continue to enhance the services that they provide to clients as industry-wide changes are made and as new opportunities for STP are presented. However, we feel strongly that such changes should be driven by market forces within the industry rather than by regulatory initiatives. The brokerage industry has made significant progress over the last few years and we suggest that the forces of competition and business efficiencies should be allowed to continue without setting regulatory requirements that could eventually become restraints on innovation and process improvement. For example, we do not believe that use of a matching system should be required; a better process may evolve. The trend toward same-day confirmation and affirmation will continue to improve. We suggest that it is premature for the Commission to set new regulatory requirements while the industry is in the process of implementing improvements. At some future date, the Commission may look at the levels of same day confirmations/affirmations and then assess whether regulatory intervention is needed.

Securities Settlement Cycles

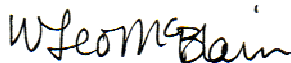
Clearly, a shortened settlement period should serve to reduce exposure to various risk factors and the implementation of more automated processes continues to make a shortened settlement period more feasible. The primary question centers around the willingness of all industry participants to implement increased automation within their organizations. Our position, again, is that it is premature to force automation through regulation. We feel that the industry-wide expansion of straight-through-processing combined with the forces of competition will eventually move all organizations to recognize the benefits of automation. We suggest that the Commission should not impose regulatory requirements for a shortened settlement period at this time. In a few years, when STP has been more widely implemented, the Commission may assess the profile of the settlement processes and determine if regulatory action is desirable.

Immobilization and Dematerialization of Securities Certificates

While service bureaus provide the computer processing to detail ownership changes, these organizations are generally not involved with the handling of securities certificates themselves. FIF recognizes the efficiencies and risk reduction that dematerialization offers. Our participants support transactions for paper securities as well as those in book-entry-only form and will continue to provide such support as required by the industry.

We hope that you find the above comments useful. If you have questions to anything that has been presented here, we will happy to discuss these areas further.

Respectfully submitted,



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