



June 16, 2004

Mr. Jonathon G. Katz
Secretary,
Securities and Exchange Commission
450 Fifth Street, NW
Washington, DC 20549-0609

Re: US Securities and Exchange Commission Concept Release
File Number 57-13-04

Dear Mr. Katz:

ISITC-IOA is pleased to have the opportunity to provide comments to the Securities and Exchange Commission on *Concept Release: Securities Transactions Settlement*.

We commend the SEC for its efforts in developing a comprehensive document with thought provoking concepts to aid in enhancing efficiency and reducing risk in the U.S. clearance and settlement system.

ISITC-IOA (International Securities Association for Institutional Trade Communication - International Operations Association) is a global working committee of securities operations professionals representing custodian banks, investment managers, brokers and vendors. The group's mission is to foster alliances and advocate standards that promote Straight-Through-Processing (STP) of securities transactions.

ISITC-IOA has been engaged in developing market practice guidelines and improving messaging standards in the cross-border securities business for over a decade. We have been actively involved in industry initiatives to increase STP by reducing risk and improving operational efficiency.

Trade Confirmation and Affirmation

We believe that the sooner a trade is confirmed and affirmed, the higher the benefits and lower the risk. A commission rule may need to be adopted however to require broker dealers and their customers to confirm their trades on trade date (T) and customers to affirm the transactions on T. Advances in technology over the past 30 years offer automated solutions that were not possible when NYSE Rule 387 was enacted. We also believe that the Commission should be responsible for enforcement. The Self Regulatory Organizations could assist in the process and their rules should be altered to adhere to the new regulations. However, we believe in order to comply with the new rules, the Commission should be the regulator. Additionally, a Commission ruling is necessary for regulation to cover the customers of broker-dealers.

ISITC is concerned that small and medium sized investment managers may not have the degree of automation required to achieve T+0 affirmation at this time. We propose achieving a T+0 goal in



incremental steps, beginning with achieving T+1 by a specified date followed by a move to T+0 the next year. This would afford the smaller firms the opportunity to investigate solutions for automating the allocation process and the flexibility to implement the solution that is the most feasible for them.

We understand that there will be instances with cross-border transactions where timing issues will come into play. We believe that there are alternative solutions for cross-border trades, such as allowing confirmation and affirmation on a T+1 basis when T+0 is not possible. Additionally, while there may be an impact to certain functions within firms dealing with confirmation and affirmation, we believe that adjustments are necessary in order to achieve STP. For example, organizations have incorporated staggered work hours over the past few years to deal with business changes. We believe that the majority of the confirmation and affirmation process can be accomplished via automation, with the small number of exceptions being handled by staff as necessary.

ISITC believes that the use of standardized message protocols, identifiers and reference data is necessary to achieve STP. Whenever possible, the Commission should communicate its agreement with the efforts of the G30, the SIA, ISITC, ANSI X9, Securities Market Practice Group and other organizations that are working to develop and implement industry standards and market practices within the securities business. ISITC believes that the Commission's voice of support (for example at industry conferences) will assist the aforementioned organizations in achieving their goals of increased standardization and STP.

Securities Settlement Cycle

Although ISITC agrees that a shorter settlement cycle is desirable, we believe that the US securities industry must first achieve STP. We must reach as close to 100% trade date confirmation, affirmation, and matching as is possible. This step alone greatly reduces operational risk. Additionally, ISITC believes that the industry will gain tremendous efficiencies, for example, through automating allocations, and reducing manual deliveries and receives by the custodian banks.

The long-term goal should be to achieve T+1 settlement. A statement outlining the views of the Commission on the benefits to the US markets of a move to a T+1 settlement conversion would be helpful and create focus around the subject. ISITC agrees that the expansion of coverage of Rule 15c-6 is warranted. Insurance products, municipal securities and any other securities with regular settlement cycles longer than T+1 should be included in the expansion of coverage. This includes cross-border transactions and "dually" listed securities.

ISITC understands that there are timing challenges with cross-border securities and with new issues. We believe that the industry, along with the Commission, can develop solutions for these challenges and alleviate risk while allowing for the exceptions. For example, new issues priced after 4:30pm may have to settle on T+2 to allow time necessary to process trades. Cross-border transactions may also have to settle on T+2 rather than on T+1 due to time zone differences.

Reduction of risk, whether operational or pre-settlement, can be achieved as long as STP solutions are in place prior to shortening the settlement cycle. ISITC believes that all parties will benefit from shortened settlement cycles.



Immobilization and Dematerialization of Securities Certificates

In ISITC's view, securities currently in certificate form should be immobilized, while new securities should only be issued in a dematerialized format. While complete dematerialization should be the long-term goal, we believe that a combination of the two forms is more realistic over the next decade. Immobilization and dematerialization will also assist in the possibility of moving to a shorter settlement cycle.

Dematerialization and immobilization will alleviate many of the problems related to late settlement due to transfer of ownership. A direct registration system (DRS) can assist in lowering costs to all parties to a trade, as it lowers costs associated with loss of securities, registration and transfer, and storage for securities held on premises. The SEC and the SIA should undertake an education program for investors on the benefits of DRS and dividend reinvestment. As the world becomes more automated and the public becomes more comfortable with technology, ISITC believes that public confidence in certificate-less systems will grow.

ISITC would like to thank the Commission for its diligent work on the Concept Release. We appreciate the opportunity to provide you with our feedback on the report, and hope to engage in continuing dialogue with the Commission on these efforts.

Sincerely,

Kevin R. Smith
Chair
ISITC-IOA (North America)

Disclaimer:

The views represented in this letter are those articulated by the Executive Committee members of ISITC-IOA and may not represent the opinions of the underlying individual member firms of the ISITC-IOA or their representatives. This letter is intended to represent opinion and comment on the subject matter referenced and should not be relied upon beyond the purpose for which it is intended.