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

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Dear Mr. Katz:

Here are my comments on the Concept Release on Securities Transactions Settlement:

1. Users of paper should pay the full cost they impose on others.

As far as paper certificates go, it makes sense to move further towards dematerialization. Alas, some investors still like paper certificates. As long as those who use paper bear *all* of the costs of using paper, I see no reason why they should not be allowed to do so. Companies should charge appropriate fees for shareholders who request paper certificates rather than use the DRS. Many brokerage firms already charge for delivering paper certificates, and they should charge for accepting them as well.

As long as the price of using paper is correct, the market place will optimally determine the speed with which paper certificates die their own natural death.

2. Direct registration services and brokerage firm street name services should facilitate securities lending.

One of the weaknesses in the existing market structure is the inability to borrow and short many stocks, particularly low priced stocks. This inability to borrow shares leads to the inability to short overpriced stocks, and to failures to deliver that gum up the settlement process.

In general, loanable stocks come from two sources: custodian banks that operate securities lending programs, and stock held in margin accounts upon which there are margin loans. While these sources supply enough shares for the more liquid stocks, there are many stocks that are “hard to borrow,” particularly low priced stocks.

Because of the antiquated rules regarding the margining of low priced stocks, there are not a lot of low priced shares available to borrow and short. This means that low priced stock will have higher than necessary volatility because short sellers will not be able to stabilize prices that have gone above realistic levels.

As we move toward a totally paperless environment with more use of direct registration services (DRS), it is important that shareholders retain the right to lend or not lend their shares.

Each DRS and street name account should be required to allow the beneficial holders of securities to easily designate whether their securities would be available for securities lending activities. Indeed, such activities could be a modest sideline for the DRS services much as securities lending operates for custodian banks.

3. The Commission should seriously consider whether we should bypass T+1 and move directly to real time settlement.

As the Release indicates, there are many excellent reasons for T+1 settlement. These same arguments also apply to settlement in real time on T+0. Indeed, the infrastructure necessary for real time settlement would eliminate many of the problems with today’s system, such as credit risk, systemic risk, and failures to deliver.

The Commission should seriously consider the costs and benefits of moving to real time settlement as it ponders this issue. T+1 was delayed first by the Y2K project, and then by the industry recession and post 9/11 problems. In the meantime, Moore’s Law has continued produce dramatic reductions in the cost of computing power. Perhaps it is cost effective to just leapfrog over T+1 and go directly to T+0 now? Or maybe it is more advantageous to delay T+1 another year or so and then move directly to T+0?

In a real time settlement system, the market architecture would make sure that the securities and cash were available in good deliverable form for instant settlement before the execution of the trade. This would be done electronically and very quickly, and would totally eliminate failures to deliver or pay for securities, as well as totally eliminate systemic and counterparty risk.

For example, suppose a customer places a sell order with a broker. The order message would contain the location of the shares to be sold (e.g. in street name with the broker, or in a DRS, or at a custodian bank.) The brokerage firm’s computer system would query the designated location of the shares to verify that the shares were actually available for delivery. Upon verification, the brokerage firm then passes the order on to a trading platform for execution.

If the customer just happened to have an old fashioned paper certificate, it would have to be delivered first to the broker, a DRS, or a custodian before the trade could be executed. Many brokerage firms already require this before accepting an order.

For a buy order, the order message would contain the particular account containing the funds and authorization to withdraw those funds if the transaction is executed. The brokerage firm would then query the account to verify that the funds were there. This could probably be done with a system similar to the existing payment system that processes ATM and debit card transactions.

Upon execution, the trading platform then notifies the brokers for both buyer and seller and sends locked in settlement instructions to the locations holding the stock and the cash, which then make the appropriate delivery and receipt to the settlement organization.

The U.S. payment system has evolved to the point where we have virtually instant settlement of our debit and credit card transactions, so it seems reasonable that instant settlement could also happen with securities transactions. Real time gross payment systems are already in operation in many countries for various interbank and currency transactions.

Even if real time settlement is not yet cost effective right now, it is likely that it will be in the future as technology advances. As we plan for T+1, we should also consider T+0 and design a settlement architecture that will be easily scalable to a real time settlement environment. We should seriously consider bypassing T+1 and moving directly to real time settlement.

Cheers,

James J. Angel