



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

**Securities and Exchange Commission file S7-13-04  
Concept Release: Securities Transaction Settlement**

The Northern Trust Company is pleased to have the opportunity to provide comments to the Securities and Exchange Commission on the Concept Release: Securities Transactions Settlement.

**Trade Confirmation and Affirmation**

The Northern Trust Company supports the recommendation to mandate matching or confirm/affirm on trade date. We also believe there is a need for some type of financial penalty or disincentive to those firms that do not comply or mass affirmers who cause cancel/rebills. Today, many firms will blindly execute mass affirms of confirms without the benefit of a matching process, resulting in additional effort to clean up the incorrectly affirmed and settled transactions. We feel that a rule is needed in order to help encourage compliance with trade dated matching. Without a rule, there is no incentive for firms to change their current mode of business.

To successfully implement and mandate trade date affirmation/matching we feel two obstacles need to be addressed. First the industry will need to define timings, as where the clock should start and stop on trade date. We support the clock being aligned to the close of the NYSE +given hours (i.e. 2 hrs past 4pm EST). Second, we feel a phased approach of percentage over time is needed to implement this initiative. One possible solution is to establish affirm/confirm percentage levels for every participant, with the percentage levels increasing over set periods of time. (For example, each participant must match 60% of the trades on trade date for a 6 month period. Upon completion of this 6 month period, the percentage level could increase to 75%, etc. . . ). The goal should be to have 100% within a reasonable timeframe, such as 2 years.

Today, many firms will execute mass affirms/confirm, resulting in additional effort to clean up the results. By phasing the implementation and increasing the matching percentages over time, firms will be encouraged to look for continual improvement, thus avoiding the big bang impact of moving to 100% matching on day 1. In order to help facilitate this industry initiative, the Commission also must support the industry body efforts that are working for standardization of processes.

Some challenges we see with trade date affirm/confirm is that it will require a need for extended hours for both the brokers and managers to support changes, allocations or trade recalls. Additionally, some new risks that could be introduced due to same day confirm/affirm would be a higher number of cancels/rebills and DKs. In regards to cross border trading, not all foreign investors fully utilize US domestic systems, so there will most likely be time zone issues regarding same day affirm/confirm.

The Northern Trust Company disagrees with the concern that mandating trade date affirm/confirm may force smaller firms out of business. There are numerous products in the market today that allow for trade date confirmation/affirmation and are offered free by various firms and vendors. Thus it is not cost prohibitive for the smaller firms and should not have a negative impact on the industry.

**Immobilization and Dematerialization of Securities Certificates**



The Northern Trust Company is in full support of the dematerialization of all physical US certificates for any new security issuance, as well as the de-conversion of previously issued physicals to book entry. We feel this would help minimize post settlement risk, eliminate numerous delays resulting from the manual processing of physical securities, improve the transition of assets process for all involved parties, and eliminate all costs associated with bearer bonds. In order to accomplish this, some type of rule or regulation must be enacted

We feel the implementation plan should be accomplished in a phased approach. First, set a date for no more physicals issuance for any type of security. Second, convert any outstanding physicals to book-entry. The conversion of physicals to book entry can begin in a phased approach by security type, thus helping to ease the effort of transfer agents and avoiding a huge impact.

We do realize there is a market psychology whereby direct investors want the feel of direct access, however, with the plethora of product offerings available today, all investors can have access via Treasury Direct or DRS at DTC. In order to implement dematerialization, cost and effort must be considered. Heavy communication to the public is needed. The industry will still need a methodology to cash in remaining physicals should they be discovered in safe deposit boxes, etc. These should be processed as collection items, and not as part of the custodian relationship.

### **Securities Settlement Cycle**

The Northern Trust Company does not support an immediate mandate to shorten the settlement cycle to T1. We feel the above two initiatives, mandated trade affirmation/matching and dematerialization of physicals, should be implemented first and this issue reviewed subsequently. By focusing on those two huge efforts first, the industry will already have achieved risk reduction. If the affirm/confirm process is done correctly it will become the primary contributor to STP and eventually could help lead to a faster and easier transition to a T+1 settlement cycle.

T1 settlement remains an aggressive target, given the outstanding issues surrounding Security Lending and FX. Other tasks, such as verifying data for new issuance and receiving the information in a timely manner will always be an ongoing challenge. Shortening the settlement cycle would reduce some counterparty risk. There will always be the risk of the huge market slides, but trade date confirm/affirm dictates legal ownership, so the shortened settlement cycle only affects the settlement process and not the true change of ownership. In the circumstance where one of the settling parties defaults before settlement, the original owner still has the benefit of owning the shares or cash.

Sincerely,

Jeff Potter  
Vice President  
The Northern Trust Company