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June 4, 2004

Mr. Jonathan G. Katz
Secretary
U.S. Securities and Exchange Commission
Judiciary Plaza
450 Fifth Street, N.W.
Washington, D.C. 20549-0609

Re: **File No. S7-13-04**

Dear Mr. Katz:

Omgeo LLC ("Omgeo")[1] appreciates the opportunity to respond to the Commission's Concept Release regarding Securities Transactions Settlement (the "Concept Release").[2] The issuance of the Concept Release has done much to renew the discussion and debate around the issues critical to facilitating straight through processing in the US securities market and for this the Commission is to be applauded.

From our perspective as a critical service provider in the area of post-trade settlement processing, the Concept Release affords us an opportunity to share with the Commission not only our views on the various questions raised in the Concept Release, but also some supporting data that we believe will be useful to the Commission and other interested parties in gaining a better understanding of the issues raised in the Concept Release.

[1] Omgeo is a joint venture between The Depository Trust & Clearing Corporation and The Thomson Corporation. Omgeo began operations in 2001. It combines in a single business the TradeSuite service formerly operated by The Depository Trust & Clearing Corporation's subsidiary, The Depository Trust Company, with the post-trade pre-settlement services formerly operated by subsidiaries of The Thomson Corporation. Its wide range of services helps Omgeo's clients achieve straight through processing of their trades. More information about Omgeo is available on its website, www.omgeo.com

[2] Securities and Exchange Commission Release Nos. 33-8398; 34-49405; IC-26384; File No. S7-13-04; 69 F.R. 12922 (March 18, 2004).

As a starting point for our comments, it may be helpful to reiterate what we believe are the primary drivers behind the issues being addressed in the Commission's Concept Release. In our view, the US financial industry's drive toward greater post-trade processing efficiency is driven by a number of factors, including the following:

- The need to minimize risk, be it operational, systemic or credit risk, in the post-trade process.
- The desire to reduce processing costs through greater processing efficiency.
- The need to reduce the rate of trade reclaims and/or trade failures, particularly as transaction volumes grow.
- The need to keep pace with an increasing rate of growth in transaction volumes.
- The need to process a rapidly growing number of trades by non-US participants in US securities.
- The desire to position the US market to deal more effectively with an increasingly global marketplace, where trading across multiple time zones is the norm rather than the exception.
- The desire for the US to retain its status as one of the premier financial marketplaces in the world.

The questions raised by the Commission in the Concept Release must be viewed in the context of how they address the drivers of change noted above. Wherever possible, Omgeo's comments with respect to the issues raised will do that, starting with the question of the value and need for same day trade affirmation.

Same Day Trade Affirmation

Omgeo supports the notion of utilizing same day trade affirmation ("SDA") as a catalyst for improving post-trade processing efficiency and, perhaps, even as a gating factor to shorter settlement cycles in the US market. We believe this is a forward thinking approach that is worthy of serious consideration.

Much of the prior, often contentious, debate in the area of post-trade processing efficiency and shorter settlement cycles has centered on the desirability and need to mandate the use of a central matching utility to facilitate STP. In such instances, the value that could be realized by the industry from such a fundamental process change was often overshadowed by the arguments for or against central matching vs. other methods of achieving prompt trade agreement. Thus, more often than not, there was a complete loss of focus on what we were trying to achieve with any such proposal, due to the debate over how best to achieve it. For this reason, we at Omgeo believe that a keener focus on SDA will allow us to shift the focus more to the desired result, rather than the means by which the result is achieved, and in so doing, create a broad consensus on the STP results the industry is trying to achieve.

Few of Omgeo's clients – be they investment managers, brokers, or custodian banks – would argue against the value of affirming a transaction prior to settlement. In fact, our studies show that unaffirmed transactions are 37 times more likely to result in trade reclamation later in the settlement process. And since the reclaim process is often time consuming, manual and costly, there is little doubt that affirming a trade prior to settlement is the desired course of action. Nevertheless, in today's T+3 settlement environment, our trade affirmation rates are far from optimal. Consider for example the following average affirmation rates for trades processed via Omgeo's TradeSuite services:

TABLE 1: March, 2004

Affirmation On:	Aggregate Affirm Rate
T-0	23.8%
Noon T+2	87%

Equally evident, in our opinion, is the case to be made for same day affirmation in a T+1, or perhaps even a T+2 environment. As the trade settlement cycle is reduced down from its current T+3 duration, the need to affirm a trade on trade date becomes correspondingly more urgent, for the same reason mentioned earlier – i.e., unaffirmed trades are less likely to settle efficiently than affirmed trades; and without a significant increase in SDA rates in a T+1 environment, many more trades will be reclaimed, or ultimately fail.

It would therefore seem to be that the only real question to be considered here is whether SDA is at all beneficial or necessary in the current T+3 environment. To answer this question, we need only look to our TradeSuite affirmation and reclaim statistics, in this case, those statistics relative to transactions which utilize electronic allocations and central matching for the trade affirmation process. This is so because these transactions have a materially higher rate of SDA, and a significantly lower reclaim rate, as noted below:

TABLE 2: March, 2004 TradeSuite Transactions

Affirmation Rate:	Via Current Confirm/Affirm Process	Via manual allocations & Central Matching [3]	Via Electronic Allocations & Central Matching
T-0	**16.5%**	**50.9%**	**77.8%**
T+2	**85.7%**	**90.7%**	**95.5%**
Reclaim Rate per 1,000 trades	**10.2**	**N/A**	**5.0**

There are several interesting findings with regard to this analysis, i.e.

- Centrally matched trades, even with a manual allocation process, result in a much higher SDA rate than the traditional confirm/affirm method (50.9% vs. 16.5%);
- Centrally Matched trades that also utilize an electronic allocation process (e.g., OASYS) experience an even greater SDA rate than matching done with a manual allocation processing (e.g., FAX) as well as transactions processed via the traditional confirm/affirm method (77.8% vs. 50.9% vs. 16.5%)
- Similarly, in terms of T+2 affirmation rates, Centrally Matched transactions that also utilize electronic allocations experience a higher affirmation rate (95.5%) vs. centrally matched trades that continue to process allocations manually (90.7%) as well as transactions processed via the traditional confirm/affirm method (85.7%).
- Unaffirmed trades are generally settled via the submission of a "deliver order" ("DO") by the settling agent, which is a much more manual and costly process than fully affirmed trades (as previously noted, unaffirmed trades are 37 times more likely to result in a reclaim).

[3] This category consists of Investment Managers that fax their allocations to broker/dealers, but also send Omgeo matching input via the legacy TradeSuite institutional instructions ("II") format, for subsequent matching to broker/dealer confirmations.

- And while it is clearly better to affirm a trade than not, the above data also suggests that it is better still to centrally match a trade, as the overall affirmation statistics and vastly different reclaim rates result in central matching users experiencing two times fewer trade reclaims than traditional confirm/ affirm trades.

It therefore seems that there is a direct correlation between higher SDA rates and greater processing efficiency (in the form of fewer deliver orders and lower reclaim rates), regardless of the length of the settlement cycle. At least part of the explanation for this improved performance can probably be attributed to the simple fact that there is more time for processing exceptions if those exceptions are identified earlier in the settlement cycle. Thus, we believe that there is a compelling argument for promoting SDA, regardless of the length of the settlement cycle.

Mandating Same Day Affirmation

So, given the apparent value of affirming trades on trade date, the next logical question to be considered is whether the industry will move voluntarily to adopt those internal and external processes to make SDA a reality, or will some form of regulatory mandate be necessary to make widespread SDA a reality? In our opinion, history would seem to dictate that ultimately a regulatory mandate would be necessary to accomplish this objective.

From our experience over the years in providing electronic allocation, confirmation and central matching solutions to the industry, it is certain that many active and automated firms (be they broker, investment manager or bank) will voluntarily take whatever steps may be necessary to comply with any such new and voluntary industry objective, or code of best practice. However, it is equally evident that some firms will delay implementing any such changes barring a regulatory mandate. And since the overall processing of any firm is as much a function of the efficiency of its trading counter party as it is its own processing efficiency, the weaknesses of the few will tend to drag down the overall processing effectiveness of the many. In the end, the efficiencies hoped for across a broad spectrum of the industry will probably not occur without some form of regulatory mandate.

Mandatory SDA - Implementation Considerations

Implementation and ongoing enforcement of any such SDA regulation must take into account where we are today as far as affirming trades on trade date (see Table 1, above) and how any precipitous change to trade affirmation rules could disrupt the trade settlement process, at least in the short run. With regard to SDA rates, it would seem to make sense for the Commission to consider a "phased approach" to any such regulation. For example, it could be determined by the regulator overseeing this new regulation that the industry should move to achieve an 80% SDA rate within 24 months of the effective date of this new rule. This minimum level of SDA would then continue to ratchet upward over the next few years[4], until the optimal, desired SDA rate is ultimately achieved – say 95% within 48 months of the effective date of the regulation.[5]

[4] It should be noted that at present, only 85% of all transactions are confirmed by broker/dealers on trade date. Thus, until this T-0 confirm rate improves, it will be impossible to see the SDA rate continue to rise, as called for in any such SDA phasing plan.

[5] An alternative approach suggested by some in the industry is to phase in the new regulation by starting with a T+1 affirmation requirement and then move to T-0 at a later date. This may be a plausible alternative approach, but one would have to consider its ultimate feasibility against the incremental costs of re-tooling one's internal systems from T+2, to T+1 and finally T-0 affirmation.

As far as the appropriate regulatory body to oversee any such regulation and the best method to implement any such SDA requirement, we believe that, again, history may hold the answer. NYSE Rule 387 (and similar regulations of other SRO's) was enacted a number of years ago to promote, among other things, the use of electronic trade confirmation and affirmation. By tying the use of these services to a Broker's ability to settle a trade on a DVP or RVP basis[6], the industry take-up of this then relatively new method of trade processing, was greatly accelerated. And while Omgeo recognizes that many other respondents to this Concept Release will make compelling and cogent arguments for direct regulation of both the buy side and sell side by the SEC, Omgeo nevertheless suggests that before any such decision is reached, the Commission staff should give serious consideration as to whether an equally viable approach may be to extend NYSE Rule 387 (and other similar SRO regulations) to cover these new SDA requirements.

Should Central Matching be Mandated?

Because of Omgeo's extensive involvement in providing central matching solutions to the industry, we obviously have very strong opinions on the merits of central matching for improving post-trade processing efficiency. We also recognize that because of this direct stake in the central matching business, our opinions on this matter would be naturally biased. We therefore will refrain from a direct recommendation on the question of whether central matching should be mandated, as a means to bring about higher rates of SDA.

Having said that, we do firmly believe that any conclusion on the part of the commission that regulatory steps need to be taken to promote SDA, will naturally lead to a greater reliance by many firms on the use of electronic allocation and central matching services, because of the previously noted efficiencies (see Table 2). At the same time, smaller investment management firms who have the wherewithal to meet any such new SDA requirement, without adopting these more automated processing methods, will be free to carry on "business as usual". This assumes, of course, that their broker counter parties share this belief and are willing to continue doing business in a non-automated manner on the same basis as they do business with their more fully automated customers. In other words, in the future, market forces may dictate how this business is processed.

Thus, in a very real sense our position not to opine on the question of whether a central matching mandate is required is very much in line with our previously stated argument that if the Commission focuses its attention on the desired result (in this case greater processing efficiency via SDA) and not on the means to that end (i.e., central matching), the desired result may still be achieved. Moreover, it may well be done in a much less contentious manner.

Shorter Settlement Cycles

Given where we are today and the work yet to be done to improve post-trade processing efficiency, any notion of setting a target date for implementation of a shorter settlement cycle is premature, at best and may, in fact, be altogether unnecessary.

When the SIA issued the original business case for T+1, several years ago, it became the lightening rod for many in the industry who felt that such a move was unwarranted.

[6] "DVP" = Deliver Vs Payment; "RVP" = Receive Vs Payment

Consequently, many of the cost savings identified in the business case were heavily debated and in many cases, widely disputed. Despite this mixed reaction to the financial arguments put forth in the business case, there was decidedly less controversy around the other cornerstone of the SIA business case, i.e., the identification of the ten building blocks to STP[7] and shorter settlement (T+1).

It is our opinion that those ten building blocks continue to be relevant today, not only to the question of whether to consider a move to shorter settlement, but also to the more fundamental question of how best to remove as much risk as possible from the settlement process. In fact, it is our belief that it is this latter issue of minimizing settlement risk, which should be the focus of the industry, rather than resurrecting an unnecessary debate regarding the optimal length of the settlement cycle, which may or may not reduce such risk.

Furthermore, we believe that the approach the Commission is considering with regard to fostering higher levels of SDA, once implemented, will represent a major step forward in the area of risk mitigation for post-trade processing, even without the added step of imposing a shorter settlement cycle on the U.S. markets.

While this letter summarizes our views on the issues raised, we will also endeavor to answer some of the additional questions posed by the Commission staff in its Concept Release, focusing on those we believe are particularly relevant to Omgeo.

Questions re: Same Day Affirmation:

1. **What are the benefits and costs of same day trade confirmation/Affirmation?**
   Omgeo Response: For most firms, in order to effectively achieve a higher rate of SDA, it will be necessary for them to embrace a more automated approach to post-trade processing. Specifically, it will be necessary to send and receive allocations electronically via services integrated to their trade order management system. They will also have to adopt some form of electronic matching, which will provide them with the ability to "auto-affirm" (or reject) the details of a transaction immediately upon receipt of the necessary information. In most cases, this matching solution will be centralized, in that such a process allows for a more streamlined message flow leading to trade affirmation

   By affirming most trades on trade date, a firm will have a greater opportunity to identify and repair any trade exceptions. It will also position them, from a process point of view, for any subsequent decision to shorten the settlement cycle.

   To be sure, there are costs involved in adopting and maintain such improved STP systems. However, when these cost are weighed against the above mentioned reduction in trade reclaims and trade fails, the benefits should far outweigh the costs for most firms.

[7] It has been suggested that one additional building block should be considered as a pre-condition to any move to a shorter settlement cycle: i.e., the need to accommodate cross-border trades into the US market. These transactions are a growing part of the US transaction flow and as such, we must factor in the added complexity and challenges that they represent.

2. **What are the relative burdens of trade date confirmation/affirmation on the different market participants involved?**
Omgeo response: From a technology perspective, the answer to this question will vary from firm-to-firm, depending where they are as far as internal STP capabilities. All parties to a transaction (investment manager, broker and custodian) should be sure that their internal post-trade processing systems are fully integrated to external systems that perform transmission of electronic allocation, matching, enrichment of standing settlement instructions and settlement notification. Those that still operate in a batch-processing mode may need to re-think this strategy, as it may not be conducive to affirming allocation level details on trade date.

   From a process flow perspective, an SDA requirement may necessitate a fundamental change in certain process behaviors that slow down or force post-trade processing to occur later in the day on trade date. We therefore believe that there is a process re-engineering aspect to adoption of SDA; and that such a re-engineering is long overdue for many firms. It will not be enough to merely automate processes that existed when a firm was manually processing a transaction. As has been noted by others in the past, "automating chaos only gets you faster chaos". Technology improvement without commensurate process improvements will not deliver the value needed in this case.

3. **What effect would trade date confirm/affirm have on the relationship between a broker-dealer and its customers?**
Omgeo response: As previously mentioned, trading counter parties are only as efficient as the weakest participant in a trade. Thus, a fully automated broker or custodian must revert to manual processing to communicate with a manually based investment manager. Were SDA to be mandated, there would be a general rise in the use of electronic post-trade solutions and this would in turn improve the overall efficiency (and lower the cost) for all parties involved in the settlement process.

4. **Do the benefits of trade date confirm/affirm accrue to all participants? Do they accrue to large, medium and small entities?**
Omgeo response: To the extent that SDA results in lower rates of trade reclaim and fails, the broad answer is "yes", the benefits accrue to all participants. However, the degree of benefit may vary by the size of the firm and/or its volume of activity.

5. **Does SDA introduce any new risks? If so, can they be quantified?**
Omgeo response: In the event that a large percent of the institutional community was not able to meet the new affirmation standard and RVP/DVP settlement was cut off for a large portion of the population, the settlement process would clearly suffer, at least in the short-term. That is why the method of implementing such a new requirement is critical, and the need for a phased approach to compliance is probably necessary.

6. **Would the modification of the existing SRO confirmation rules, or the adoption of a new commission rule, be feasible**
Omgeo response: Yes, see previous comments above.

7. **If a rule mandating SDA are adopted, what should be the timeframe for implementation? What factors should the Commission consider in determining the implementation period?**
Omgeo response: See previous comments above.

8. **Would same-day confirm/affirm affect cross-border trading?**
Omgeo response: In Omgeo's experience, the affirmation rates on T-0, T+1 and T+2 are significantly lower for cross-border trades of US securities than for U.S. domestic trades in the same securities. It would therefore seem that a move to mandate SDA would have a positive effect on the overall processing efficiency of these transactions as well. Nevertheless, the ultimate effect of any such new regulations needs to be carefully looked at and the implications of time zone differences, foreign exchange requirements and other such issues must be carefully considered before a decision is made to move ahead with any such regulation.

9. **Should all participants in institutional trades be required to use a matching service if the Commission were to require SDA?**
Omgeo response: See previous comments above.

Shorter Settlement Cycles

7(a) Is 100% SDA or central matching on trade date a prerequisite for shortening the settlement cycle beyond T+3?

Omgeo response: In a T- 0 or T+1 settlement cycle, it is clear that an SDA rate of at or close to 100% will be needed in ensure processing efficiency. As far as matching is concerned, as noted above, it may not be necessary to mandate a particular method of achieving SDA, since this will be the natural course of action for most practitioners.

In a T+2 world, affirmation by Noon on T+1 may prove to be acceptable, but in all likelihood, the same STP solutions with respect to electronic allocation, and matching will be necessary, so the capability would still be there for SDA as well.

7(b) what are the additional costs of shortening the settlement cycle after achieving 100% SDA or matching on trade date?

Omgeo response: Incremental costs will likely vary depending on where a firm is on the internal STP curve. The lower they are, the more it will cost to upgrade their systems to an acceptable level in this new environment. It should also be noted that any such incremental costs must be measured against the efficiencies and savings realized from increased automation (such as a decline in fail rates and headcount reductions in certain manual processes).

11(d) Are there alternatives to shortening the settlement cycle that would increase efficiency in the clearance & settlement system?

Omgeo response: As previously noted, SDA by itself will allow some of the processing and risk mitigation benefits to be achieved, regardless of the length of the settlement cycle. This along with the implementation of the ten building blocks to STP, previously noted by the SIA, may provide a significant portion of the overall benefit that can be achieved, without the added burden of actually reducing the settlement cycle.

We at Omgeo thank the Commission for this opportunity to share our views on these important industry issues and welcome any further discussion the staff of the Commission may wish to have with us.

Very truly yours,