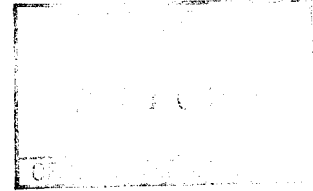




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June 15, 2004



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Mr. Jonathan G. Katz, Secretary
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

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

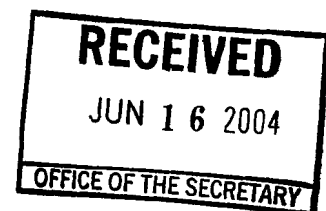
Dear Mr. Katz:

I am writing on behalf of SBC Communications Inc. ("SBC"), a Delaware corporation, on the above referenced concept release, especially with respect to the Direct Registration System ("DRS") and the reduction in the use of physical certificates in the trading environment. We are pleased to have the opportunity to comment on this release.

SBC is a Fortune 50 company, whose subsidiaries provide a full range of voice, data, networking, e-business, directory publishing and advertising, and related services to businesses, consumers and other telecommunications providers. SBC has approximately 1,000,000 registered stockholders, the great majority of which hold stock certificates, along with a higher number of stockholders who hold through brokers.

SBC began issuing uncertificated shares in 1997 and was one of the original participants in the DRS program. DRS is a service that allows shares in a company to be registered and held in an individual's name and to be tracked electronically without the issuance of a certificate. Under §158 of the Delaware General Corporation Law [Del.Code Ann. tit.8, § 158], this is referred to as an "uncertificated share."

Uncertificated shares are to be contrasted with other "book entry" holdings, where an intermediary, such as a transfer agent or a broker (through DTC), holds the shares on behalf of the stockholder. The principal difference between the direct ownership of the uncertificated shares and the book entry method through an intermediary is that the stockholder is subject to loss in the event of the bankruptcy of the intermediary unless the intermediary sets up a trust or there is sufficient insurance available. For purposes of clarity, we would urge the Commission to clearly differentiate between the two forms of ownership in future releases. For purposes of this letter, we will limit our comments to uncertificated ownership.



We agree that certain aspects of DRS are helpful. Specifically, DRS has been helpful in issuing shares resulting from stock splits and as a default for issuance of shares as a result of an acquisition. In addition, DRS allows for ease of electronic transfers, sales and movement to and from brokers.

SBC has found that many of its stockholders insist on certificates notwithstanding the positive attributes of uncertificated shares. Certificates provide clear evidence of ownership and a record of their holdings. They can also help establish the tax basis of a stockholder's stock. Under Treas. Reg. §1.1012-1(c)(2), a stockholder may track the basis in his or her stock through the use of certificates: "the stock sold or transferred is charged to the lot to which the certificates delivered to the transferee belong." As an alternative, for shares held by a broker, the regulations permit a stockholder to designate the shares sold for tax purposes; unfortunately, few if any on-line brokers allow stockholders to use this method to identify the shares sold.

We also note that Article 8 of the Delaware Uniform Commercial Code [Del. Code Ann. tit. 6, §§ 8-102(a)(11) and (12) and 8-107], is far more flexible in the requisites for the transfer of uncertificated shares than for certificated shares. While certificates must be "endorsed" with a signature, an electronic "instruction" is sufficient for the transfer of uncertificated holdings. A stockholder that objects to this can limit the ability to have electronic transfers by demanding a certificate.

Quite simply, we believe that for those stockholders who want certificates, the industry should accommodate them rather than forcing them to accept electronic holdings.

We also disagree with the suggestion that there would be a cost savings with mandatory DRS. At SBC, we find that DRS holdings are not less expensive to maintain than accounts with certificates. Certificates are relatively inexpensive to issue, and holders of certificates do not need reminders of their holdings. When a stockholder has uncertificated shares, it is important to mail periodic statements to holders to ensure they have an accurate record of their holdings in the same way that mutual funds send quarterly statements.

Regardless of whether the Commission adopts mandatory DRS, we believe that non-dividend paying issuers should be required to mail periodic statements to holders in the same manner as mutual funds. Without periodic statements, we believe stock holdings may easily be overlooked, especially when an administrator of an estate is gathering a decedent's assets. On the other hand, dividend paying companies regularly issue dividends along with a statement of holdings, so no additional notices should be required of these companies.

As to the argument that mandatory DRS would reduce costs to brokers, we note that most brokers charge \$25 or more to request a certificate. Obviously, brokers are recouping their costs. These types of charges properly leave to stockholders the determination of whether to bear the cost of the issuance of certificates. Again, this leads to the conclusion that the decision of whether to take certificated or uncertificated shares should remain with the individual shareholder.

We also note that the elimination of certificates is not allowed in some state jurisdictions, such as Delaware. Section §158 of the Delaware General Corporation law requires every Delaware corporation to issue a stock certificate to any stockholder who requests a certificate. As noted above, SBC is a Delaware corporation and is subject to this provision.

This requirement fits SBC's experience that stockholders appreciate the ability to both hold their shares in "uncertificated" positions and in certificated form, as they choose. We do not believe forcing stockholders to adopt a procedure that may be unfamiliar to them is in the interest of issuers or the Commission.

The concept release states that the use of DRS will "prevent forgery, theft and other misappropriation." We disagree. Under the DRS/uncertificated share system, it may be, in fact, no more difficult to forge documents. In SBC's experience, forgeries often take the form of a thief physically taking and forging an endorsement on a certificate and delivering the certificate to a broker for transfer. The thief may even attempt to use an existing account of the true stockholder. SBC's experience is that this may be a family member or other related party with knowledge of the stockholder. The principal deterrent to this kind of fraud is the requirement that the broker place a medallion guarantee on the certificate, requiring the broker to take steps to positively identify the stockholder before transferring the shares.

Contrary to the suggestions in the concept release, this theft can also be accomplished in the DRS/uncertificated shares system. The thief can complete a DRS transfer request as simple as a letter to the transfer agent, with the same medallion guarantee from the brokerage house as would be required with a certificate. There is no difference in the paperwork required for certificates or DRS shares, except that in the case of a certificated share, the certificate must actually be presented.

Moreover, we are concerned about the lack of safeguards in a relatively new electronic transfer system used by DRS participants to transfer shares electronically, without any writing, to and from DTC, known as the DRS Profile Modification System ("Profile"). The Profile system was implemented by DTC in May 2000 to allow brokers and other participants to electronically convey to the transfer agent an investor's request to move securities to and from the investor's registered account from and to the investor's brokerage or other account. The registration of the brokerage account and the account with the issuer must be identical. With this sole requirement, the issuer and the transfer

agent give up all control over transactions arising through the Profile system. DTC participants have direct and unfettered access to the holdings of the stockholder, and it is up to the requesting DTC participant (usually a broker) to ensure the authenticity of the transfer. Unfortunately, SBC has found that brokers and even transfer agents lack sufficient or meaningful training on the use of DRS Profile, creating an element of confusion and resulting errors when stockholders request share transactions.

As compared to the traditional methods of transferring securities, SBC believes the DRS Profile system may be, in fact, easier for a thief to circumvent. In the DRS system, a thief need only persuade a broker of the thief's false identity. At that point, the broker can electronically remove the DRS shares from the stockholder's account without notice to the true stockholder and without any medallion guarantee or writing of any kind provided to the issuer. The system relies on the broker's care in identifying the customer. No medallion guarantee or other document is required to move the shares. Although Section 8-402 of the Delaware UCC [Del Code Ann. tit. 6, § 8-402] permits an issuer to require assurance that an electronic instruction is genuine and authorized, the DRS Profile system denies issuers this basic right.

DRS Profile is a relatively new system, and we are not aware of, nor do we expect to find in the near future, frauds having occurred using the system. However, we believe that once the public is educated about the ease of transfers between uncertificated accounts and brokers, thefts may begin to occur, especially with the lack of traditional safeguards. To counteract this, SBC requires its transfer agent, Equiserve, to mail a confirming letter to every account holder who has shares withdrawn from his or her account. We would urge the Commission to adopt, at a minimum, a similar requirement for all such transfers and to also require each broker to keep an electronic copy of the customer's signature to confirm the identity of the customer, similar to the use of a medallion guarantee.

Although the DRS Profile system makes a surety bond available, SBC would note that in the past when SBC has been forced to act upon a surety bond, it can typically be required to file suit to recover its losses. This can be expensive and time consuming, and *the bond should not be used as an alternative to instituting strong controls over transactions in the Profile system.*

SBC believes that the better course would be to require improved procedures for identification of the true stockholder and to include in the system an accessible copy of the signature of the stockholder. As noted above, SBC would also require the issuer to send a separate notice to the stockholder when the stockholder's DRS account is accessed.

In summary, we do not support total elimination of certificates and mandatory DRS. However, we do support providing DRS as an option for stockholders. In addition, we believe it appropriate for the Commission to take steps to improve the security of the

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DRS Profile system with respect to securing proper authorization for the transfer of shares.

Thank you for the opportunity to respond to this concept release. Please contact Dru Cessac at 210-351-2058 or Wayne Wirtz at 210-351-3736 with any questions or comments regarding this letter.

Sincerely,

A handwritten signature in black ink that reads "Wayne Wirtz". The signature is written in a cursive, slightly slanted style.

Wayne A. Wirtz
Assistant General Counsel