June 13, 2004

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

File number S7-13-04

Dear Mr. Katz,

The Financial Information Services Division (FISD) of the Software & Information Industry Association (SIIA) is pleased to provide these comments to the Concept Release on Securities Transactions Settlement (Release No. 33-8398; 34-49405; IC-26384; File No. S7-13-04).

FISD members applaud the Commission on a balanced and insightful review of the issues as outlined in the concept release. There has been large scale and often-heated discussion on all of these issues among FISD members on both sides of the Atlantic. While our diversity has made it difficult for us to achieve consensus on the core issues of improving the trade confirmation/affirmation process, shortening the settlement cycle or reducing the use of physical securities, the FISD Executive Committee has been able to coalesce around the importance of reference data standards as a critical pre-requisite to securities processing automation. As such, the focus of this comment letter is on the relationship of reference data standards to STP automation, the current status of the global standards discussion and the potential role of the Commission in supporting standards implementation.

FISD is a unique trade organization that offers a balanced and neutral business forum for exchanges, market data vendors and financial institutions to address and resolve market data business and securities processing automation related issues. Participants are responsible for their own strategic and commercial interests within FISD. Our role is to act as a neutral facilitator of the discussion and manager of the consensus agenda that emerges as a result. The organization is governed by a 27-member Executive Committee consisting of nine exchanges, nine vendors and nine user firms. A complete list of the FISD Executive Committee is available via the FISD web site (http://www.fisd.net/about/executive.asp).

FISD is an active participant in global standards initiatives. We are the founders and facilitators of the global Reference Data Coalition (REDAC). We sit on the Steering Committee of the UK-based Reference Data User Group. We were recently named as a direct liaison to ISO TC68/SC4 – the ISO body dealing with standards for the securities industry – and participate on ISO Working Group 8 (standards for business entity identification) and Working Group 11 (focused on the creation of an industry standard market data model and common vocabulary). FISD is a voting member of ANSI X9D, the group that holds the vote on ISO standards for the US and a member of the Standards & Protocols Working Group within the Securities Industry Association. We are also members of the ISIN User Group within ANNA, focused on issues related to unique instrument identification. Finally, FISD is the originator and owner of Market Data Definition Language (MDDL), the XML specification for reference data, corporate actions and pricing and fisdMessage, a standard distribution protocol for exchanging XML content in real time streaming environments.

A number of FISD members are likely to comment independently on the concept release. This letter represents the majority view of the FISD Executive Committee, but should not be interpreted as the views of any single member.

<u>The Reference Data Standards Connection</u>

Reference data and standards have been in the spotlight of the financial information industry for the past few years. The discussion is being driven by the objectives of cost containment, risk mitigation and regulatory compliance. Financial institutions are working on improving operational efficiency and automating transactions processing (the objectives of STP) because it makes business sense for them to do so. However, the challenge is made significantly more difficult due to the lack of standards in three core areas:

1. The lack of standards for precisely identifying and communicating financial instruments listed and traded in multiple markets.
2. The lack of standards for identifying and communicating the one-to-many parent, subsidiary, legal hierarchy and fund structures associated with complex financial transactions.
3. The lack of a unified data model and standard glossary of terms, definitions and relationships for all data elements involved in the transactions lifecycle.

When the financial industry refers to "reference data" they are focusing on the identification of the underlying accounts and parties involved in a transaction, including who's buying, who's selling, the parties involved in clearing, settlement and account management, the instrument being traded and corporate action information affecting the instrument. The common statistic that is used in the industry is that about 40% of a trade record is composed of referential data. Reference data becomes very important because it is the underpinning of securities processing automation and a component of virtually every process within financial institutions. In the front office, reference data is used for sales, research, trading, and order management. In the middle office, it is used for collateral management and regulatory reporting. And in the back office it is a fundamental component for trade confirmation, settlement and asset management.

The core of the problem is that even though reference data is ubiquitous, it is decentralized with multiple systems (up to 25 separate processes/systems for each cross-border trade) containing client, counterparty and instrument data within a firm and managed, scrubbed and maintained on a mostly manual basis. Recent studies by the Tower Group and others consistently maintain that inconsistent, incomplete and inaccurate reference data is the number one cause of internal STP failure. The latest Tower study indicated that over 30% of all transaction breaks are caused by poor quality reference data – and that 59% of instructions need some form of repair, 10% result in mismatches and 15% fail to settle on time.

From our perspective, there is a clear link between reference data and automated trade processing. If settlement cycles shrink beyond T+3, more automation will be needed. And automation needs accurate data that is compatible across multiple functions throughout the enterprise. Bad data causes exception processing, the enemy of automation. In this emerging STP environment, financial infrastructure and reference data becomes much more important. Securities need to be set up well before they trade and identifiers and descriptive data must be accurate. Firms must make sure their security master files are up-to-date because the new world of "just in time processing" won't allow much time to correct missing or inaccurate data. Consistent, accurate, timely and standardized reference data could be viewed as almost a prerequisite for the financial industry to meet the objectives of securities processing automation.

The Three Pillars of Reference Data Standards

From the financial information industry perspective, the overall goal is to establish a common infrastructure for STP automation. That includes making sure that the standards are in place to facilitate global electronic commerce. And as indicated above, those standards fall into three broad categories. The first are the standards required for unique and precise identification of financial instruments. This includes discussions related to numbering schemes and instrument symbology. The second are the standards required for unique and precise identification of entities. This is a two sided discussion including activities related to business entity relationships for managing risk and counterparty relationships for improving the efficiency of clearing and settlement. The third are the standards for content. This is the vocabulary exercise required to ensure that there is a common understanding of all terms, definitions and relationships so firms will know what they are receiving at a very granular level and with absolute precision.

Unique Instrument Identification (UII)

Most of the initial attention on reference data has been about the requirements for precision in instrument identification and the issues associated with numbering schemes and symbology. This one is fundamental. Financial institutions buy and sell a variety of instruments that can be issued, priced, traded and settled in many ways. As such, different types of identifiers are relevant at various levels and for a variety of functions including -- investment decisions, portfolio valuation and rebalancing, risk management decisions, trading decisions, pre-matching and matching functions, back office and settlement compatibility issues, corporate action processing, accounting challenges and regulatory reporting requirements.

The underlying problem is that the international standard (ISIN) alone is not sufficient for the automation requirements of STP. And while ISIN is a unique issue identifier, it is not always a unique security identifier because one ISIN can be shared among offerings in multiple locations. The most critical data element for unique identification is the official place of listing (OPOL). OPOL identifies the primary and secondary markets where the security is listed and is needed to differentiate the security in the case of multiple listings.

A market issuance in multiple locations will be subject to different settlement, pricing, tax/corporate event treatment and allocation of national numbers.

UII Status

The issues related to unique instrument identification have been under active global debate for the past three years. The good news is that the industry has finally coalesced around both the importance of precise instrument identification and the criteria for uniqueness (see white paper). The challenges now are both operational and commercial. On the operational side, the required level of uniqueness varies according to the user role in the transactions lifecycle. Participants performing various functions use different identifiers and there is a requirement to cross-reference identifiers between each party of the trade. Any delay in identifying the relevant instrument slows down the process and contributes to STP failure. On the commercial side, multiple entities (including international standards maintenance agencies) are engaged in creating commercial products to address the UII requirement. The debate focuses on both the nature of the commercial terms as well as on the acceptability of the competing product offerings.

FISD is part of an international coalition working on both the operational and commercial issues related to UII. We are available to brief the Commission on the status of the discussions as well as the nature of the issues under debate at your request.

International Business Entity Identification (IBEI)

The business entity identification activity is a two-sided issue focusing on both processing efficiency as well as on compliance/risk management requirements. At the core of the problem is the fact that financial institutions interact with multiple entities for a wide variety of functions without much operational coordination among the various groups.

For example, financial institutions need to do their due diligence to set-up new accounts and to verify entities before taking on new business. They need identifiers for communication of trade processing information. They need to identify individual funds (or pools of money under management) for post trade allocation and settlement, particularly with the use of electronic allocation via FIX. They need identifiers for regulatory compliance and timely reporting to meet their obligations under the UK Financial Services Act and to meet their KYC and AML procedures which place emphasis on client reporting, transactional information and the relationship of the client to corporate entities. And they need identifiers for managing their risk requirements for grouping entities in order to assess operational risk exposure towards organizations made up of multiple legal and business entities.

The result is that the multiple parties involved in a trade often have different identifiers for the same entity, fund or counterparty – and different hierarchical structures on how these entities relate to one another. There is no single view of the world – credit, risk, front office trading, compliance, operations, etc all see the world from their own perspective. As a result, many firms use internal proprietary identifiers to communicate with their counterparties, resulting in manual efforts, mismatches, reconciliation costs and delays in post-trade processing. The problem is there is no international standard identifier for identifying and linking legal entities and portfolios under management. The lack of these standards, and their critical one-to-many relationships, makes it difficult to automate the order execution, trade allocation and settlement process as well as difficult to extract relevant information need for regulatory compliance.

IBEI Status

The challenges of international business entity identification are daunting and have been under debate within the financial community for many years. Once again, the good news is that there is now broad agreement on the importance of developing an IBEI standard. Earlier this year, the International Organization of Standards (ISO) under the direction of Technical Committee 68, Sub-Committee 4 (TC68/SC4) created Working Group 8 (WG8) and charged them with developing a global scheme for uniquely identifying business entities playing a role in the lifecycle of a financial instrument.

ISO TC68/SC4/WG8 is very active and has made good progress in defining the IBEI requirement and developing recommendations on the design and structure of the standard, the assignment and maintenance process, rights of access to IBEI data and on the data elements required to help facilitate processing efficiency, risk management and regulatory compliance objectives. These standards will form the basis for building hierarchical relationships and facilitating automated processing. As with UII, there are both operational and commercial challenges to overcome because implementation of the IBEI standard is not a trivial matter. Firms would have to either replace their internal identifiers with the international standard or maintain cross-references between the two – and there are likely to be significant commercial and intellectual property rights considerations that need to be reconciled before implementation of the IBEI standard is possible.

FISD is an active member of TC68/SC4/WG8 and is available to brief the Commission on both the status of the discussion and the nature of the operational/commercial challenges under debate.

Data Model and Standard Vocabulary

Financial institutions spend a significant amount of time and money on data scrubbing and repair. The creation of a common data model and standard vocabulary is really about the establishment of common names, values and formats for all data elements involved in the transactions lifecycle from set-up and indications of interest to post-trade settlement and allocation. At the core of this issue are the problems financial institutions have interpreting, comparing, translating and integrating data delivered from multiple sources. The lack of precision and transparency at the content level makes it very difficult to compare data across various vendors and even more difficult to compare data between counterparties. Data element precision and transparency is a prerequisite for reducing the miscommunication and misinformation errors related to trade processing.

One of the best illustrations of the challenge is the term "closing price." Closing price could be the official closing price of an exchange (although not all exchanges publish an official closing price). It could be the last traded price. It could be a volume weighted price or a mid-point price or an indicative price. All of these prices are valid depending on the requirements of the specific application. The goal is to eliminate confusion and ambiguity between and among sources.

This is also where we make the connection between reference data and XML. And there are two sides of the XML story. On the one hand, as a common format, XML allows firms to integrate data from multiple data sources, feed numerous internal applications and add functionality without the need to translate and normalize the data. On the other hand, XML promotes a common understanding of the content of the data including how one data element relates to another. The objective is to have agreed terminology and transparent definitions so that people working with the data delivered by lots of sources can understand what they are working with and use it as appropriate for their specific application

Standard Vocabulary Status

FISD believes that the development of a common market data model and standard vocabulary is at the core of every organization's reference data strategy. It was the prime motivator behind the development of Market Data Definition Language (MDDL) – the XML standard for market data, and remains the top reference data priority among our members.

Again, the good news is that the global market data industry agrees with the importance of establishing common terms, definitions and relationships. The issue has also found its way into the ISO process with the creation of ISO TC68/SC4 Working Group 11 (WG11). WG11 is charged with producing a data model that provides a single standard for describing a financial instrument throughout its lifecycle. ISO TC68/SC4/WG11 is very active and has made significant progress toward producing a single standard for describing financial instrument attributes. However, this is a complicated activity in that it includes defining all data elements required to build and maintain product master files as well as those needed to price financial instruments. In addition, adoption of the common vocabulary will require operational resources and a coordinated strategy among financial institutions. Adoption will likely be associated with technology migrations and incremental.

FISD is donating the MDDL vocabulary to the ISO process and is working in cooperation with SWIFT, FIX and others to ensure the development of a complete data model for the financial industry. We are active members of TC68/SC4/WG11 and available to brief the Commission on both the status of the discussion and the outlook for developing a common data model and standard vocabulary for the financial industry.

Conclusion

FISD is grateful for the opportunity to comment on the Commission's concept release on securities transactions settlement. FISD takes no position on the value of improving the confirmation/affirmation process, shortening the settlement cycle or reducing the use of physical securities. Our main points can be summarized as follows:

- We agree with the Commission's hypothesis that achieving straight through processing is a prerequisite to shortening settlement cycles. The industry has not yet achieved STP, but there is now broad agreement with the value and objectives of securities processing automation. Based on the activities of our members, we feel confident in stating that financial institutions are seriously working on making STP a reality.

  We believe that risk mitigation and processing efficiency are the two core components of the STP equation. Without regulatory action on shortening settlement cycles, financial institutions need a valid processing efficiency business case, with measurable return on investment metrics, to move toward STP. That business case has been slow to develop, but there are now very promising indicators that these data and processing issues are now becoming a priority. Mandating T+1 at this time is not the preferred option. We'd rather see the financial industry continue its quest to develop and build the core standards-based infrastructure as a business, not a regulatory, mandate.

- The global financial industry has spent a significant amount of time debating and defining the standards requirements associated with building that infrastructure. The core activities have been defined and there is broad agreement on objectives. We believe the Commission could be helpful in moving the development and adoption of these standards along by setting broad target for the industry, monitoring the commercial/operational issues as they arise and encouraging the adoption of common standards.

FISD stands ready to provide the Commission with more detail on our activities and on the issues outlined in this letter. Thank you again for the opportunity to respond. Please don't hesitate to contact us if we can be of additional service.

Sincerely,

Michael Atkin
Vice President and Director,
Financial Information Services Division
Software & Information Industry Association