Sumitomo Trust
& Banking Co. (U.S.A.)

20 May 2004

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

Dear Mr. Katz,

I would like to comment on the Concept Release: Securities Transactions Settlement, file number S7-13-04, on behalf of Sumitomo Trust & Banking, Co. (USA). STB,USA is a global custodian and a wholly owned subsidiary of Sumitomo Trust & Banking Co. Ltd. As you might imagine, the vast majority of our customers are Japanese entities and use investment managers in the Far East and Europe.

The Bank goes to considerable lengths to identify and control risk. Internal and external; market, sovereign, counterparty risk, are researched and mitigated to the best of our ability.

At first glance, the three proposed concepts, reducing the use of physical securities, implementing a shorter settlement cycle and completion of confirmation/affirmation process on trade date, have merit. But the practicality, especially for an overseas customer, is questionable.

Reduction in the use of physical securities will create the most efficiency, but physical securities are more the domain of retail customers than the apparent target audience of the Concept Release; institutional customers. Also, this efficiency will cost jobs in the transfer industry. With outsourcing being a hot button issue, the government might not want to mandate eliminating an entire segment of an industry.

Implementing a shorter settlement cycle is a function of prematching. Once a DVP trade is prematched, confirmed/affirmed, it can be settled. There was a comment noting that reducing the settlement cycle from T+3 to T+1 would reduce settlement exposure by 67%. The reduction will reduce the settlement cycle 67%. Two thirds of the counterparty, market or foreign exchange risk will not go away. The only notable markets with T+1 or T+2 settlement cycles are South Korea, Taiwan and Hong Kong, and they have either significant roadblocks to entering the market or severe penalties for trade failure or both. None of these markets has the capitalization or broad based participation of the American securities markets.
Completion of confirmation/affirmation on trade date is difficult for domestic customers. It is impractical to impossible for the overseas market participant. Omgeo's own statistics

prove the point; affirmation is only 23% on T+0. And one must remember that Omgeo is not mandatory. It's current users are volunteers and motivated. The overseas customer will not see their trade confirmation until they arrive at work on T+1. They are not able to affirm or authorize affirmation to an intermediary, like STB,USA, until well after the close of SIAC. It would be unreasonable to expect overseas market participants to staff a night shift. A mandatory affirmation on T+0 rule will reduce market participation and work against an orderly and efficient marketplace.

The Concept Release sought comments on certain issues;

1. What are the benefits and costs of same-day trade confirmation/affirmation?

   As I noted, we do not think the benefit of same day affirmation is particularly great. The costs in increased salary or systems to support the same day affirmation would be huge. Any expert quotes cost in the billions of dollars.

2. What are the relative burdens of trade date confirmation/affirmation on the different market participants involved?

   Overseas participants could not meet the requirement during any part of their normal business day. A firm's internal systems and industry wide VMU's, such as Omgeo, could be enhanced to deal with the burden, but exceptions will still require human intervention.

3. What effect would trade date confirmation/affirmation have on the relationship between a broker-dealer and its customer?

   If trade date matching were not mandatory, a broker could not require it. Customers would take their business elsewhere. Depending on the systems and utilities put in place to support trade date matching, a customer might be forced to select brokers by system compatibility. This would give the biggest players a tremendous advantage.

4. Do the benefits of trade date confirmation/affirmation accrue to all participants -- brokers, institutional customers, custodians, or matching utilities? Do they accrue to large, medium, and small entities?

   The benefits will accrue to service providers who can support trade date confirmation/affirmation. VMU's and large clearing entities that can make the investments will be able to aggregate prematching and possibly settlement unto themselves.

5. Does trade date confirmation/affirmation introduce any new risks? If so, can they be quantified?

   It might create a false sense of counterparty risk on unmatched trades.

6. Would the modification of the existing SRO confirmation rules or the adoption of a new Commission rule be feasible approaches to having trades confirmed/affirmed by T+0? Are there alternative rule changes?

Talking about the issue is always useful. T+1 affirmation, for example, would be challenging but far more feasible than T+0. Enforcement of current standards would be a valuable first step for the industry and it's SRO's. Industry affirmation rates are generally around 89%. 20 years ago a 95% affirmation rate would expose a participant to censure.

7. If rules mandating trade date confirmation/affirmation are adopted, what should be the time frame for implementing them? What factors should the Commission consider in determining the implementation period?

It really revolves around systems, both for an individual participant and industry wide. A stepped implementation is also worth considering; go to T+1 before T+0. Create negative incentives to improve compliance. The British implemented "CREST fines" on all trades not matched in a timely manner when they migrated to a T+3 settlement cycle.

8. Would same-day confirmation/affirmation affect cross-border trading? If so, how would it do so?

Absolutely. Completion of confirmation/affirmation on trade date is difficult for domestic customers. It is impractical to impossible for the overseas market participant. Omgeo's own statistics prove the point; affirmation is only 23% on T+0. And one must remember that Omgeo is not mandatory. It current users are volunteers and motivated. The overseas customer will not see their trade confirmation until they arrive at work on T+1. They are not able to affirm or authorize affirmation to an intermediary, like STB,USA, until well after the close of SIAC. It would be unreasonable to expect overseas market participants to staff a night shift. A mandatory affirmation on T+0 rule will reduce market participation and work against an orderly and efficient marketplace.

Should any confirmation/affirmation rule apply to all types of non-exempt securities?

Yes

9. Should all participants in institutional trades be required to use a matching service if the Commission were to require confirmation/affirmation on T+0?

If there isn't a requirement use a matching service, there will be limited participation.

10. What, if anything, should the Commission do to facilitate the standardization of reference data and use of standardized industry protocols by broker-dealers, asset managers, and custodians?

The industry, with regulatory participation, should be able to determine it's own standards. The SIA has many committees and produces numerous white papers. The Commission has it's hands full on enforcement.

I would like to thank you for this opportunity to comment on the proposed changes relating to securities transaction settlement.

Best Regards,

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