



June 15, 2004

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

Re: Release Nos. 33-8398; 34-49405; IC-26384; File No. S7-13-04

Dear Mr. Katz:

FIX Protocol Limited (FPL) appreciates this opportunity to comment on the rule proposals described in the above-captioned Releases. We wish to compliment the Securities and Exchange Commission (SEC) for initiating this public dialog on this relevant topic.

These proposals apply to methods and procedures to improve the speed, safety and operational efficiency of the U.S. clearance and settlement system and to help the U.S. securities industry achieve further straight-through processing.

The use of protocols developed by FPL and its pre-incorporation promoters as referred to in this document as FIX, has been instrumental in assisting firms to better automate the trading process.

Should the Commission so desire, representatives of FPL would be willing to meet with SEC officials to answer any questions that the Commission may have and to amplify our views regarding this submission.

Background of FIX

A group of institutional investors and broker-dealers created the Financial Information eXchange (FIX) Protocol to standardize the delivery of relevant pre-trade and trade information. This information includes indications of interest, orders, executions, allocations and confirmations. The U.S. FIX Committee was formed in 1993 and the initial version, FIX 2.7, was placed in production in 1995.

The most recent version of FIX Protocol Specification is 4.4 and was released on April 30, 2003. FIX Protocol is provided freely available to all interested parties and its development and expansion is assisted by FIX Protocol Limited which is a not-for-profit organisation.

The organization has expanded globally throughout the years to include the Europe Regional Committee (formed in 1996), the Japan Regional Committee (formed in 1999) and the Asia/Pacific Regional Committee (formed in 2000). All regional committees are united under the umbrella of the FPL Global Steering Committee.



FPL represents a truly international cross-section of firms, including buy-side, sell side, vendors, standards organizations, stock-exchanges, liquidity pools and related trade associations that have implemented FIX protocol to improve securities processes involving all phases of trading, reporting and operational processing. The principal reason that acceptance of FIX Protocol has been so pervasive is that the protocol is wholly derived from industry specialists, who give of their time and expertise for the common benefit of all industry participants.

After consulting widely with its members and studying the improvements detailed in the proposal, we are confident that FIX protocol can be used to achieve the process improvements described in the SIA's 10 building blocks. FIX protocol has been adopted by the Securities Industry because of the flexibility it affords, and as it has achieved widespread acceptance, it has become a universally recognized enabling technology for process improvement.

The concept release asks for comments in three areas including Confirmation/Affirmation Process, Securities Settlement Cycles and the Immobilization and Dematerialization of Securities Certificates. This submission will principally address issues around the pre-settlement processes as they relate to Trade Confirmation / Affirmation.

Trade Confirmation/Affirmation

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

FPL fully supports the notion of same-day trade confirmation/affirmation. This practice will result in less fails, lower settlement costs, a reduction in risk and more straight through processing. It should reduce the amount of capital committed to supporting the trading cycle and in addition reduce systemic risk. It will also tend to migrate the practices of the US market to be closer towards the emerging international standard of T+1 settlement.

In particular supporting block level trade matching within the fixed income community, where the main objective is to reduce fails, then the same day block level confirmation would most significantly reduce that risk.

FPL believes that market participants that use a recognized electronic messaging protocol are already equipped to support this practice.

On the other hand, the burdens on a firm's infrastructure will need to be analyzed, especially on extended hours that may be needed to produce same-day trade affirmation. Accommodations must be considered for non-US products and the sale of US securities to non US persons.

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

Due to its unique structure and organization, FPL understands the messaging and protocol needs of the securities industry. The burdens experienced by industry participants in implementing changes to the current trade date confirmation / affirmation process relate to additional costs and changes in operational structures. It is likely that the advantages to the



industry in operational efficiencies, reduced risks and lower personnel costs will easily outweigh the disadvantages of marginally higher implementation costs at an industry level.

Those clients outside of the United States or those that are less sophisticated will have a greater difficulty moving to trade date confirmation/affirmation. This would most likely result in a change in infrastructure including such processes as new account setups and the problem of being able to resolve exception processing within the same day.

FIX protocol has been utilized to achieve efficiencies in all aspects of the trade process and is flexible enough to support best market practices.

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

FPL believes that improvements in efficiency, reduced operational errors and the benefits of automation will allow brokerage charges to more accurately reflect the cost of doing business and in many cases may lead to reductions in costs. Assuming that these were passed on to customers it is clear to see that the relationship between broker-dealers and their customers would be improved.

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?

It is our belief that all participants would benefit. However we accept that these benefits will not be achieved without further investment by industry participants. For example, the smaller asset management firms, would get a benefit because they would be far less paper driven and so any increase in trade volumes could be achieved without an increase in overheads.

The proposals may also lead to an increase in third party provision of settlement and clearing facilities to the asset management community. It is worthy to note that this model is almost exclusively used at this time by the non-traditional or hedge fund management community.

The benefits would be similar for large, and medium sized firms who would certainly enjoy greater operational efficiencies and thus be able to reduce their overheads.

Individual firms may have operational issues implementing the proposal. The stock-loan business and corporate actions processes may also be impacted.

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

The removal of dvp/rvp privileges could introduce additional risks. The number of failures from firms unwilling or unable to move towards a new industry standard may increase which would result in the need for increased resources to respond to these instances. This would have a number of ramifications on the change of the work flow as people would have to change their trading behaviors and a second shift would be necessary in some trading scenarios.



New issues and corporate actions will need to have their settlement standards adjusted, to be in sync with the security settlement standard of T+1. This will help to avoid putting additional burdens on firms to settle corporate actions and new issues. Any T+0 trade would have to be addressed as a special situation. Otherwise we do not see much risk.

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?

FPL does not believe additional regulations are necessary. There are clearly benefits to STP and a continued focus by organizations such as SIA, TBMA, FPL, DTCC and OMGEO will continually improve affirmation/confirmation rates. If industry utilities or firms wish to use financial incentives to improve performance, this can be accomplished without further regulation.

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?

As stated above, we believe benefits are a better incentive than regulations. However if regulations were introduced, FPL is flexible enough to respond to any requirements. However, we would like to include it into a planned release, which takes about a year from design to implementation.

8. Would same-day confirmation/affirmation affect cross-border trading? If so, how would it do so? Should any confirmation/affirmation rule apply to all types of non-exempt securities?

FPL has significant experience with cross border trading issues and notes that the issues here are complex. However, we strongly support any initiative to reduce the amount of time that trades take to confirm/affirm as we believe the manifest benefits of reduced risks and errors more than outweigh any contrary eventualities.

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?

No, the FPL perspective is that it doesn't matter where matching actually takes place, as long as a standard protocol (like FIX) is employed. A standard format will insulate firms from the actual matching engine, and can give firms the option of using industry matching utilities, service bureau functionality, or in-house services. Once messages between parties are standardized, migrations to other matching options are made easier. Once all parties are speaking the same language, end-users are insulated from changes. For example, the leading US matching service, Omgeo, accepts transactions in a FIX format.



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?

It is encouraging that the SEC recognizes reference data and standardized protocols as a significant issue but we believe that the industry must resolve this without regulation. FIX is an excellent example in that it is globally recognized as the only protocol for pre settlement trade processing. This was accomplished over a ten year period as a volunteer effort because buy side, sell side and execution points saw the benefits to their business. In the North American FIX Survey that was conducted last year, ninety-three percent of the buy-side stated that they are more likely to give orders to a broker that can receive them electronically rather than to one that cannot.

Reference data is not as nearly developed but we are ready to assist in whatever ways we can as we work to ensure more efficient trade processing.

Securities Settlement Cycles

Although we do not have a position on shortened settlement cycles, FIX protocol is enabled to support and provide compliance with those rules when we get there. FPL would suggest further cost benefit analysis as determined by the financial services community. Since financial instruments do in fact have varied settlement cycles the impact of a shortened settlement cycle will have varied degrees of impact. The industry should monitor affirmation/confirmation rates and when we move close to 100% on T then the settlement date requirement should be changed.

Summary

FPL looks forward to working with regulatory officials and securities processing professionals concerning the implementation of an automated process to confirm and affirm securities transactions in US securities markets. It avers special expertise in the messaging function in the equity, fixed income and derivatives marketplace.

We believe it is essential for asset managers, dealers, vendors (including electronic trading facilities) and custodians to be on the same page in order for progress to be made in this area. As noted above, this type of comprehensive approach is essential to developing workable risk management systems at the significant utilities and the leading global financial services firms. Moreover, such coordination will be beneficial to the attempts by the industry in 2005 to accomplish real time trade reporting and matching in connection with inter-dealer trades in municipal and corporate bonds.

FPL believes that the securities industry's top buy side and sell side trade groups under the leadership of the SIA should be responsible for achieving progress with respect to the issues surrounding STP.

We support the position adopted by the Bond Market Association (TBMA) and Asset Managers Forum (AMF) whereby these groups and their member firms pledge to develop best practices to assure industry-wide automated confirmations at the block level in bonds within a reasonable



period of time. FPL is prepared to offer a set of protocols (which would be consistent with our FIX 4.4 standards) that would help provide uniformity to this TBMA/AMF effort. Moreover, under FIX 4.4, firms can individually institute FIX sessions today to confirm securities trades and transmit allocations data on a real time basis. These processes can also be pre-tested pursuant to the FIX certification program.

Naturally, however, we would encourage the Commission to support the more comprehensive mechanisms that are being sponsored by the leading trade groups.

This is an important juncture in the securities industry as the volume of trading continues to increase and new fixed income and derivative products are introduced into the marketplace. We feel there is a need for near term progress, as discussed above, on the basic products currently being traded in order to establish confidence on the part of investment bankers and asset managers in their own collective ability to efficiently take on the much larger securities processing challenges that lie ahead in the remainder of this decade.

FPL is ready to assist in this important endeavor. If we can provide any additional information or support, please contact our Executive Director, Peter Randall, at peter.randall@fixprotocol.org or +44 [0] 778 654 3388 or the FPL Program Office at fpl@fixprotocol.org or 212-652-4469.

Sincerely,

Michael O'Connor
Chairman Global Steering Committee

Peter Randall
Executive Director