

**Securities Industry Association**

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June 1, 1998

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

**Re: Securities Exchange Act Release Nos. 34-39830; 34-39831;
34-39832; and 34-39829**

Dear Mr. Katz:

The Operations Committee ("Committee") of the Securities Industry Association ("SIA")¹ appreciates the opportunity to provide comments to the Securities and Exchange Commission ("SEC" or "Commission") regarding proposals by the New York Stock Exchange ("NYSE"), the National Association of Securities Dealers ("NASD"), and the Municipal Securities Rulemaking Board ("MSRB") that would allow new entrants into the business of processing confirmations and affirmations for institutional trades. The Committee also is pleased to comment on the related interpretive release in which the Commission finds that matching of confirmations and affirmations is a clearing agency function that requires registration under Section 17A of the Securities Exchange Act of 1934 ("Exchange Act").²

As you know, for many years the Committee has been involved in the important debate regarding the process by which commercial vendors could process institutional trade confirmations and affirmations. The issue dates back to 1993 when Thomson Financial Services ("Thomson"), a major provider of information products and services, urged the Commission to eliminate the requirement in self-regulatory organization ("SRO") rules that confirmations and affirmations be processed through the facilities of an SEC-registered clearing agency.³ Since that time, the Committee, through its Rule 387 Subcommittee, has been working diligently with representatives from Thomson and the Depository Trust Company to address the competitive issues raised by Thomson's request, and to ensure safety and soundness in the area of post-trade information processing. As a result of those efforts, Thomson and the Committee have agreed on a specific set of qualifications for service providers that intermediate between broker-dealers and their customers in the institutional trade comparison process.

The proposed SRO rule changes generally codify that agreement. The rule changes will permit the confirmation/affirmation process for comparing institutional trades to be performed by "qualified vendors" in addition to registered clearing agencies.⁴ Under the proposed rules, a qualified vendor would have to comply with certain requirements that include, among other things, certification by the vendor that it will maintain monitoring and contingency procedures, submission of an annual audit report to the Commission, and notification to the Commission of any significant system changes.

The Committee believes that the proposed criteria should address any regulatory concerns that the Commission may have in allowing new entrants into the clearance and settlement system while exposing the process to the innovation and cost-cutting that competition can produce. Accordingly, the Committee supports the proposed SRO rule changes.

With respect to the Commission's request for comment on the possible approaches for providing relief from full clearing agency regulation for qualified vendors, the Committee expresses no opinion regarding which of the two choices the Commission presents would be preferable. As you know, previously we urged the Commission not to require clearing agency registration for providers of institutional trade comparison services.⁵ We believe that the proposed standards strike the appropriate balance between safety and soundness and the promotion of competition, and we continue to believe that "matching" is not a function that should bring a qualified vendor within the definition of a clearing agency under Section 17A of the Exchange Act. Nevertheless, we respectfully defer to the Commission's determination. The Committee requests, however, that the Commission act promptly on any application for clearing agency registration (or exemption request) so that the industry can move forward to obtain further risk reduction and efficiency in post-trade processing.

The SIA thanks the Commission for the opportunity to comment on these important releases. We would also like to take the opportunity to thank Division of Market Regulation staff for their efforts in bringing this matter to closure. If the Committee can provide additional information, or if you would like to discuss our views further, please contact Joseph Anastasio, Chairman of the Rule 387 Subcommittee, at 212-648-3568, or [Tom Monahan](#), SIA Director of Operations, at 212-608-1500, or Judith Poppalardo, SIA Associate General Counsel, at 202-296-9410.

Sincerely,

Ronald J. Kessler
Chairman
Operations Committee

cc: The Honorable Arthur Levitt, Chairman, SEC
The Honorable Norman S. Johnson, Commissioner
The Honorable Isaac Hunt, Jr., Commissioner
The Honorable Laura S. Unger, Commissioner
The Honorable Paul Carey, Commissioner
Dr. Richard R. Lindsey, Director, Division of Market Regulation

Footnotes:

¹ The Securities Industry Association ("SIA") brings together the shared interests of nearly 800 securities firms, employing more than 380,000 individuals, to accomplish common goals. SIA members including investment banks, broker-dealers, and mutual fund companies--are active in all markets and in all phases of corporate and public finance. The U.S. securities industry manages the accounts of more than 50 million investors directly and tens of millions of investors indirectly through corporate, thrift, and pension plans, and accounts for \$270 billion of revenues in the U.S. economy. This and other recent SIA comment letters can be found on SIA's Internet home page, <http://www.sia.com>.

² 15 U.S.C. 78c (a) (23).

³ See Letter from Keith B. Jarrett, Thomson Financial Services, to Jonathan G. Katz, U.S. Securities and Exchange Commission, dated June 28, 1993.

⁴ Under current SRO rules, the facilities of a registered clearing agency must be used for this function. See NYSE Rule 387, NASD Rule 11860, and MSRB Rule G-15(d)(ii).

⁵ See Letter from Joseph Anastasio, SIA Operations Committee, to Richard R. Lindsey, U.S. Securities and Exchange Commission, dated November 20, 1997.¹¹¹