

**Securities Industry Association**

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July 2, 1997

Dr. Richard R. Lindsey
Director
Division of Market Regulation
U.S. Securities and Exchange Commission
450 Fifth Street, NW
Washington, DC 20549

Dear Dr. Lindsey:

In response to your letter of June 4, 1997 to Marc Lackritz, we have collected the following information on the estimated costs to member firms of converting firm systems to accommodate a decimal-based pricing system in the securities markets. As you know, to project the costs of such an undertaking with any significant degree of accuracy would take a considerable length of time. In order to provide the information to you quickly, we polled the members of our Operations Committee. The Operations Committee is composed of a diverse group of firms with large wirehouses, regional, and small firms represented. Depending on the age of their systems and the extent of their use of outside vendors, for many firms there will be no significant costs and for others, the costs will be high. For all firms, any demands on systems personnel will impact other critical projects such as the Year 2000 conversion.

Those firms that employ outside vendors for their processing needs will be impacted the least by a change to decimal pricing. Although some firms estimate few or no conversion costs, it is likely that costs incurred by the vendors for upgrading or testing existing systems will be passed along to the system users. We have not polled vendors and cannot predict what costs might be involved for them.

A number of firms indicated that their systems currently are coded to accept trades in decimals and for these firms the conversion costs will be minimal. Nevertheless, testing will be required in each product area and features that may have been de-activated may need to be re-activated. In some cases, minor enhancements or building on to existing systems may be required. In addition, the interfaces between the firms, the various marketplaces, and the clearance and settlement facilities will need to be coordinated and tested. Estimates provided by the firms range from \$100,000 to \$300,000.

Firms with core processing systems built in the mid-1980's and before will have higher conversion costs. For these firms, a large number of modules involving many lines of code will need to be modified and tested. In some cases, it will involve changes to systems that have recently been modified in connection with the Year 2000 conversion. Firms with aging systems

estimate costs that range from \$600,000 to \$2,500,000.

While the monetary costs will vary, all firms emphasized that currently their physical resources are committed to the Year 2000 conversion and other mandated initiatives such as the new order handling rules. Firms estimated that the conversion should take anywhere from three to twelve months, but the Commission should recognize that any time spent on this effort will divert systems personnel from these other initiatives. The SIA looks forward to working with the Commission as we convert to a decimal-based pricing system and we will be happy to assist in any way to ensure an appropriate implementation schedule.

I hope that this information is helpful. If you have any additional questions, please call Judith Poppalardo at 202-296-9410.

Sincerely,

Stuart J. Kaswell
Senior Vice President and General Counsel