Dear Mr. Vatsa,

The Operations Managers Working Group of the Foreign Exchange Committee has reviewed the Securities Industry Association (SIA) Foreign Exchange Subcommittee T+1 White Paper and prepared comments for your review. In general, our readers concur with the key finding of the paper. However, it is difficult to assess the financial impact of various funding options the paper discusses without further data on the relative costs associated with each measure. The Working Group encourages the SIA to further study the relative costs associated with pre-funding, Tom Next (t/n) foreign exchange trades, and lending as the means of funding U.S. securities transactions.

In addition, Working Group members expressed concern regarding the 2005 deadline for establishing T+1 settlement for U.S. securities transactions. The Working Group acknowledges that adoption of straight-through processing (STP) among foreign exchange (FX) providers could lower the relative costs of funding U.S. securities trades on a T+1 basis. Although the use of electronic platforms and the implementation of continuous linked settlement (CLS) may improve the automation of the FX industry, the implementation of full STP by 2005 is nevertheless an aggressive objective, given the wide scope of FX industry participation. In addition, the Working Group concurs with the paper’s
assertion that automation alone may not be sufficient to fully mitigate the operational complexities of trading across different time zones.

Readers also recommended that detail be added to several sections of the paper:

**MARKET DATA AND COSTS**
~ The paper cites two measures of cross-border securities trades requiring FX trades. These data appear inconsistent. Further analysis of the data may be warranted, given the importance of cross-border trades in making the case for T+1 business practices.

~ The impact of T+1 settlement would be significantly greater if implemented in jurisdictions such as Canada and Japan. U.S. dollar-centered solutions to the issues raised by T+1 settlement may underestimate the complexities of global T+1 initiatives.

~ Readers expressed concern that T+1 would increase the reliance on custodians for FX trades, leading to higher costs for buy-side participants who will not be able to “shop” for prices for FX trades. This might be emphasized more fully.

**TOM NEXT MARKET AND LIQUIDITY**
~ The paper should clarify that t/n liquidity is significantly skewed toward the morning hours in the London marketplace, which may suggest that asset managers tapping t/n at other times may see higher prices.

~ Some readers suggested that the relative costs of t/n trades may be overstated given that most securities trades require G7 currency transactions where t/n liquidity is greatest. Readers agree, however, that liquidity becomes more problematic for non-G7 currencies. The SIA may wish to further investigate the relative costs of trading on a t/n basis.

~ Readers noted that using the t/n market is a better alternative to pre-funding or borrowing considering the “on-balance-sheet” treatment of borrowing and lending versus the “off-balance-sheet” nature of t/n trading. Using the t/n market may have a lower economic cost.

**SETTLEMENT**
~ Readers challenged the practicality of encouraging virtual matching utilities to provide matching/communication and settlement facilities for FX trades. They suggested that doing so is “not practical” and that “large institutions that offer FX trading and custodian services are committed to using CLS for their customers’ FX settlements.”
The paper suggests a future link between CLS and the Depository Trust Company for settlement of cross-border trades on a delivery-versus-payment basis. Some readers questioned the practicality and likelihood of such a link, and suggested that the paper include added detail on this issue. Readers also expressed concern that mixing trade and settlement of FX and securities may compromise regulatory requirements for different market participant classes. Can the same standards for settlement be established for all participant classes? This warrants further investigation.

**OPERATIONS**

Readers agreed that process and behavioral changes will be necessary to facilitate T+1. Readers emphasized that there are still a number of banks that produce and send confirmations as part of their overnight batch processing or rely on phone confirmations. Such banks should be mentioned specifically.

Readers noted that hours of operation would likely need to be extended to support worldwide T+1. Readers felt that the relative costs of extended operation should be emphasized.

The Foreign Exchange Committee applauds your efforts to explore T+1 settlement for U.S. securities transactions. Our readers found the paper informative and helpful. We look forward to reviewing a final draft of the white paper following its completion.

Regards,

*Mel Gunewardena*

Chairman

Operations Managers Working Group

Foreign Exchange Committee