

July 9, 2007

The International Association of Small Broker Dealers and Advisors
1620 Eye Street, NW, Suite 210 Washington, DC 20006
202-785-8940 ext. 108
pcheucavage@plexusconsulting.com
www.iasbda.com

The International Association of Small Broker-Dealers and Advisers, www.iasbda.com submits the following comments on the above referenced proposed guidance. It believes that in theory such guidance is always both welcome and useful but in practice is always especially challenging for small firms.:

- The best way to help small firms is to allow at least one exam cycle where the staff can review the firms' procedures and guide them in complying with this guidance, which would be consistent with recent statements that the NASD staff intends to help firms comply.
- Another way would be to better define the phrase risk based. Regulatory risk is often in the eyes and experience of the beholder. Large transactions with institutions are economically risky but smaller transactions with retail customers provide more regulatory risk. Since the majority of NASD firms are small firms dealing with retail customers, a more specific definition of how risk applies to electronic communications supervision would be useful. The guidance should explain which risk factors are to be analyzed in shaping a small firm's procedures..
- A third way of helping small firms would be for the staff to make public those firm procedures which have been reviewed and found worthy. Better yet would be examples of procedures in the past found to be wanting. Guidance is useful but accepted procedures are always more useful.
- Finally, the guidance might be more specific on the time frame for review and the outsourcing of such reviews. A small firm with limited supervisory and compliance resources might need more time for review and an outside limit of perhaps 45 days for such review would be a useful guideline. They might also be able to more efficiently review by outsourcing to experienced compliance personnel and the guidance might speak to outsourcing..

On a more general level we believe the regulators should move quickly to publish this guidance but also should monitor how it works especially for small firms. We see little evidence that small firms were involved in its development which is all the more reason to insure they are not disadvantaged by it. There is also an anomaly in this guidance if it drives firms to use oral communications in place of electronic communications because they cannot be reviewed. Most firms today discourage email communications with retail customers because they do not want a reviewable record and the logical response to this initiative is to further discourage such emails. It is possible therefore that a tiered requirement here, allowing firms with less than 15 employees to be held to a lesser review requirement in order to encourage a strong maintenance requirement should be considered. This would be not unlike the internal controls exception for small firms. Finally this may be a good opportunity for the regulators to explain the differences between tiered regulation and principles based regulation. We have seen references to both but believe there are significant differences especially for the small firms.

Peter J. Chepucavage
General Counsel
Plexus Consulting
202-785-8940 ext 108.

Donate to fallenheroesfund.org