

January 9, 1989

Mr. Theodore H. Focht

President and General Counsel

Securities Investor Protection Corporation

805 Fifteenth Street, N.W., Suite 800 Washington, D.C. 20005-2207

Dear Mr. Focht:

This is in response to your letter of September 21, 1988 in which the Securities Investor Protection Corporation ("SIPC") recommended that SIPC member broker-dealers that report \$ 500,000 or less in total revenues in their statement of income of their annual audited report ("annual audited statement of income") filed pursuant to Rule 17a-5(d) [17 C.F.R. § 240.17a-5(d)] under the Securities Exchange Act of 1934 be relieved of the responsibility of filing a supplemental report pursuant to Rule 17a-5(e)(4).

From your letter, and subsequent telephone conversations with the staff, we understand the pertinent facts to be as follows:

In the summer of 1988, the SIPC Board of Directors ("SIPC Board") provided for the reimposition, beginning January 1, 1989, of assessments based on its members' gross revenues from the securities business ("SIPC gross revenues"). In that connection, the SIPC Board directed that the members' reporting burden be simplified and reduced, wherever possible. Two steps that SIPC is taking in that direction are (1) SIPC's planned semi-annual assessment payment frequency and (2) clarification and simplification of the SIPC assessment forms.

You state that another simplification step would be the elimination of the Rule 17a-5(e)(4) supplemental report for SIPC members that incur an expense for that report that is disproportionate to the amount of their annual assessment. You further state that although SIPC has not collected data on the cost to members of the supplemental report, SIPC has reviewed the filing and payment data for members whose fiscal years ended in 1985 (the most recent full year for which assessments based on SIPC gross revenues, at 1/4 of 1 %, were collected).

You indicate that at the end of 1985, there were approximately 11,000 members, 3,000 of which were exempt from the audit requirement of Rule 17a-5. The remaining 8,000 were subject to the audit requirement.

SIPC states that if a waiver from filing the Rule 17a-5(e)(4) report were given to members reporting \$ 500,000 or less of total revenues on their annual audited statement of income,

the maximum SIPC assessment any of them would likely pay at 3/16 of 1 % would be \$ 937 .50. Based on 1985 data, SIPC estimates that such a waiver would relieve approximately 4,000 members from filing the Rule 17a-5(e)(4) supplemental report.

SIPC believes that SIPC can obtain independent attestation from the examining authority with respect to members that are relieved of the responsibility to file a Rule 17a-5(e)(4) supplemental report. SIPC believes that the attestation procedure would be the desirable alternative in these circumstances for the otherwise required supplemental report.

Based on the foregoing, the Division will not recommend any action to the Commission if a broker-dealer that is a member of SIPC and that reports \$ 500,000 or less in total revenues in its annual audited statement of income filed pursuant to Rule 17a-5(d) does not file the supplemental report required by Rule 17a-5(e)(4).

You should understand that the position expressed herein is a staff position with respect to enforcement only and does not purport to express any legal conclusion on this matter. The Division's position is necessarily confined to the facts as represented herein. Any material change in these conditions must be brought to the Division's attention immediately.

Sincerely,

Michael A. Macchiaroli

Assistant Director

September 21, 1988

Mr. Michael A. Macchiaroli

Assistant Director

Division of Market Regulation

U.S. Securities & Exchange Commission

450 5th Street, N.W. Washington, D.C. 20549

Dear Mr. Macchiaroli:

In connection with the bylaw amendments concerning member assessments adopted by our Board of Directors at its regular meeting held June 15, 1988, the Board directed that the attendant member reporting burden be simplified and reduced, wherever possible. Two steps which we are taking in that direction are (1) our planned semi-annual assessment payment frequency and (2) clarification and simplification of the SIPC assessment forms.

Another important step in an overall plan at simplification would be a substantial reduction in the number of SEC Rule 17a-5(e)(4), supplemental accountants report, filings required. We believe that steps should be taken to eliminate the requirement of such reports for SIPC members that incur an expense of that report that is disproportionate to the amount of their annual assessment. Although SIPC has not collected data indicative of the cost to members of the supplemental report, we are able to provide you with pertinent assessment form filing and payment data for members whose fiscal years ended in 1985 (the most recent full year for which assessments based on "gross revenues from the securities business, at 114th of 1%, were collected):

Assessments paid	Number of Members
None	1,320
\$.01 - \$ 150.00	4,934
\$ 150.01 - \$ 250.00	675
\$ 250.01 - 500.00	1,002
\$ 500.01 - \$ 1,000.00	929
\$ 1,000.01 - \$10,000.00	1,634
\$ 10,000.01 - \$100,000.00	431
Over \$ 100,000.00	69

At the end of 1985 there were approximately 11,000 members, nearly 1,000 of which were subjects of uncured SIP A Section 78jij(a) notices. We estimate that about 3,000 of the members qualify for the exemption provision of the audit requirement of Rule 17a-5.

The 6,611 members who made assessment payments of up to \$ 500. had reported gross revenues from the securities business ("SIPC Gross Revenues") that ranged up to \$ 200,000. The 929 members who paid from \$ 500. To \$ 1,000. reported "SIPC Gross Revenues" up to \$ 400,000.

If an exemption from filing the Rule 17a-5(e)(4) report, was given to members reporting \$ 500,000 or less of total revenues in their Rule 17a-5 annual audited report, the maximum assessment any of them will likely have paid, at 3/16ths of 1%, will be \$ 937 .50. The number of members so exempted would approximate 4,000, about 1/2 of the Rule 17a-5(e)(4) reports that would otherwise be required.

The Board believes that SIPC can obtain examining authority attestations with respect to members who are subject to the audit requirement but would not be required to file a Rule 1

7a-5(e)(4) report because the total revenues they reported in their annual audited report do not exceed a stated amount. The attestations would be based upon examining authority review of annual audited report data to determine those members reporting total revenues up to that stated amount. We believe that the attestation procedure would be the desirable alternative, in these circumstances, for the otherwise-required accountants reports.

Please let me know if we can provide any additional information in support of this request.

Very truly yours,

Theodore H. Focht

President and General Counsel

Text converted by optical character recognition (OCR) of scanned document.
May not accurately reflect original document.