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United States General Accounting Office
Washington, DC 20548

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December 14, 2000

The Honorable Phil Gramm
Chairman
The Honorable Paul S. Sarbanes
Ranking Minority Member
Committee on Banking, Housing, and Urban Affairs
United States Senate

The Honorable Thomas J. Bliley, Jr.
Chairman
The Honorable John D. Dingell
Ranking Minority Member
Committee on Commerce
House of Representatives

Subject: Securities and Exchange Commission: Disclosure of Order Execution and Routing Practices

Pursuant to section 801(a)(2)(A) of title 5, United States Code, this is our report on a major rule promulgated by the Securities and Exchange Commission (SEC), entitled "Disclosure of Order Execution and Routing Practices" (RIN: 3235-AH95). We received the rule on November 20, 2000. It was published in the Federal Register as a final rule on December 1, 2000. 65 Fed. Reg. 75414.

In this final rule, the SEC is adopting two rules to improve public disclosure of order execution and routing practices.

Under Rule 11Ac1-5, market centers that trade national market systems securities will be required to make available to the public monthly electronic reports that include uniform statistical measures of execution quality.

Under Rule 11Ac1-6, broker-dealers that route customer orders in equity and option securities will be required to make publicly available quarterly reports that, among other things, identify the venues to which customer orders are routed for execution.

Enclosed is our assessment of the SEC's compliance with the procedural steps required by section 801(a)(1)(B)(i) through (iv) of title 5 with respect to the rule. Our review indicates that the SEC complied with the applicable requirements.

If you have any questions about this report, please contact James W. Vickers, Assistant General Counsel, at (202) 512-8210. The official responsible for GAO evaluation work relating to the subject matter of the rule is Tom McCool, Managing Director, Financial Markets and Community Investments. Mr. McCool can be reached at (202) 512-8678.

Kathleen E. Wannisky
Managing Associate General Counsel

Enclosure

cc: The Honorable Jonathan G. Katz
The Secretary of the Securities
and Exchange Commission

ANALYSIS UNDER 5 U.S.C. § 801(a)(1)(B)(i)-(iv) OF A MAJOR RULE
ISSUED BY THE
SECURITIES AND EXCHANGE COMMISSION
ENTITLED
"DISCLOSURE OF ORDER EXECUTION
AND ROUTING PRACTICES"
(RIN: 3235-AH95)

(i) Cost-benefit analysis

The Securities and Exchange Commission considered the costs and benefits of the rule and its impact on efficiency, competition, and capital formation as required by the section 3(f) of the Exchange Act and section 23(a) of the Securities Exchange Act of 1934.

The SEC believes that the two rules will stimulate competition between broker-dealers and also between market centers.

Annual savings to investors who submit market orders in Nasdaq stocks could be \$110 million. The estimated annual cost of compliance with Rule 11Ac1-5 is approximately \$21.2 million and compliance with Rule 11Ac1-6 is expected to be \$13.4 million.

(ii) Agency actions relevant to the Regulatory Flexibility Act, 5 U.S.C. §§ 603-605, 607, and 609

The SEC prepared an Initial and a Final Regulatory Flexibility Analysis in connection with the proposed and final rules, respectively. The analyses comply with the requirements of the Act, including the size and number of small entities affected by the rule and the recordkeeping requirements. Also, there is a discussion of the reasons the SEC determined that the use of alternatives to minimize the impact of the rule on small entities was not appropriate.

(iii) Agency actions relevant to sections 202-205 of the Unfunded Mandates Reform Act of 1995, 2 U.S.C. §§ 1532-1535

As an independent regulatory agency, the SEC is not subject to title II of the Unfunded Mandates Reform Act of 1995.

(iv) Other relevant information or requirements under acts and executive orders

Administrative Procedure Act, 5 U.S.C. §§ 551 et seq.

The final rule was issued using the notice and comment procedures contained at 5 U.S.C. 553. On July 28, 2000, a Notice of Proposed Rulemaking was published in the Federal Register. 65 Fed. Reg. 48406. The comments received in response to the notice are discussed in the preamble to the final rule.

Paperwork Reduction Act, 44 U.S.C. §§ 3501-3520

The final rule contains information collections that were reviewed and approved by the Office of Management and Budget. The collections for Rule 11Ac1-5 were assigned control no. 3235-0542 and the collections for Rule 11Ac1-6 were assigned control no. 3235-0541.

Statutory authorization for the rule

The rule is promulgated under the authority of sections 3(b), 5, 6, 11A, 15, 17, 19, 23(a), and 36 of the Exchange Act, 15 U.S.C. 78c, 78e, 78f, 78k-1, 78o, 78q, 78s, 78w(a), and 78mm.

Executive Order No. 12866

As the rule is promulgated by an independent regulatory agency, it is not subject to the review requirements of the order.