



**United States
General Accounting Office
Washington, D.C. 20548**

Office of the General Counsel

B-281762

January 5, 1999

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: Amendment to Rule Filing Requirements for Self-Regulatory Organizations Regarding New Derivative Securities Products

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 "Amendment to Rule Filing Requirements for Self-Regulatory Organizations Regarding New Derivative Securities Products" (RIN: 3235-AH39). We received the rule on December 10, 1998. It was published in the Federal Register as a final rule on December 22, 1998. 63 Fed. Reg. 70952.

The final rule is an amendment to Rule 19b-4 under the Securities Exchange Act of 1934 and permits a self-regulatory organization (SRO) to list and trade new derivative securities products pursuant to existing self-regulatory organization trading rules.

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 Vickers, Assistant General Counsel, at (202) 512-8210. The official responsible for GAO evaluation work relating to the Securities and Exchange Commission is Thomas McCool, Director, Financial Institutions and Markets Issues. Mr. McCool can be reached at (202) 512-8678.

Robert P. Murphy
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
"AMENDMENT TO RULE FILING REQUIREMENTS FOR
SELF-REGULATORY ORGANIZATIONS REGARDING
NEW DERIVATIVE SECURITIES PRODUCTS"
(RIN: 3235-AH39)

(i) Cost-benefit analysis

Although the SEC was not required to prepare a cost-benefit analysis of the rule, it did request commenters to provide analysis and data regarding the proposed rule. No comments concerning cost or benefits were received.

The SEC believes the rule will reduce the SROs' regulatory and compliance burdens and help them maintain their competitive balance with the overseas and OTC derivative markets.

The SEC states that since the new rule provides an alternative approach for SROs to list and trade new derivative securities products, it does not require SROs to incur any additional costs.

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

The Initial Regulatory Flexibility Analysis (IRFA) was incorporated in the Notice of Proposed Rulemaking. The IRFA provides the information required by sections 603(b)(1), (b)(2), (b)(3), and (b)(4). It describes the reasons for the proposed agency action; its objectives; the legal basis; and the reporting, recordkeeping, and other compliance requirements of the proposed rule.

The final rule incorporates the Final Regulatory Flexibility Analysis consistent with the requirements of 5 U.S.C. § 604. Because broker-dealers will have additional days to earn income through trading such new derivative securities products, the analysis finds that broker-dealer small entities will benefit substantially from the final rule.

(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 in 5 U.S.C. § 553.

On April 29, 1998, the SEC published a Notice of Proposed Rulemaking (NPRM) in the Federal Register. 63 Fed. Reg. 23584. The SEC received 10 comments in response to the NPRM and discusses the comments in the preamble to the final rule.

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

The final rule contains an information collection which is subject to review by the Office of Management and Budget (OMB) under the Paperwork Reduction Act. The collection has been approved by OMB and issued OMB control number 3235-0504.

Statutory authorization for the rule

The final rule is issued pursuant to 15 U.S.C. § 78a et seq., particularly sections 3(a)(27), 3(b), 19(b), 23(a), and 36(a) of the Exchange Act.

Executive Order No. 12866

As the rule is promulgated by an independent regulatory agency, it is not subject to the review requirements of Executive Order No. 12866.