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September 5, 2013

The Honorable Tim Johnson
Chairman
The Honorable Michael D. Crapo
Ranking Member
Committee on Banking, Housing, and Urban Affairs
United States Senate

The Honorable Jeb Hensarling
Chairman
The Honorable Maxine Waters
Ranking Member
Committee on Financial Services
House of Representatives

Subject: *Securities and Exchange Commission: Financial Responsibility Rules for Broker-Dealers*

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 (Commission) entitled "Financial Responsibility Rules for Broker-Dealers" (RIN: 3235-AJ85). We received the rule on July 31, 2013. It was published in the *Federal Register* as a final rule on August 21, 2013, with an effective date of October 21, 2013. 78 Fed. Reg. 51,824.

The final rule amends the rules to the net capital, customer protection, books and records, and notification rules for broker-dealers promulgated under the Securities Exchange Act of 1934 (Exchange Act). These amendments are designed to address several areas of concern regarding the financial responsibility requirements for broker-dealers. The amendments also update certain financial responsibility requirements and make certain technical amendments.

Enclosed is our assessment of the Commission'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 of the procedural steps taken indicates that the Commission complied with the applicable requirements.

If you have any questions about this report or wish to contact GAO officials responsible for the evaluation work relating to the subject matter of the rule, please contact Shirley A. Jones, Assistant General Counsel, at (202) 512-8156.

signed

Robert J. Cramer
Managing Associate General Counsel

Enclosure

cc: Elizabeth M. Murphy
Secretary
Securities and Exchange Commission

REPORT UNDER 5 U.S.C. § 801(a)(2)(A) ON A MAJOR RULE
ISSUED BY THE
SECURITIES AND EXCHANGE COMMISSION
ENTITLED
"FINANCIAL RESPONSIBILITY RULES FOR BROKER-DEALERS"
(RIN: 3235-AJ85)

(i) Cost-benefit analysis

The Commission notes that it is sensitive to the costs and benefits of its rules. When engaging in rulemaking that requires the Commission to consider or determine whether an action is necessary or appropriate in the public interest, section 3(f) of the Exchange Act requires that the Commission consider, in addition to the protection of investors, whether the action will promote efficiency, competition, and capital formation. In addition, section 23(a)(2) of the Exchange Act requires the Commission to consider the effects on competition of any rules the Commission adopts under the Exchange Act, and prohibits the Commission from adopting any rule that would impose a burden on competition not necessary or appropriate in furtherance of the purposes of the Exchange Act. In the proposing release, the Commission solicited comment on the costs and benefits of the proposed amendments including whether these costs and benefits were accurate.

In adopting the rule amendments, the Commission notes that it has been mindful of the associated costs and benefits. The discussion focuses on the Commission's reasons for adopting these amendments, the affected parties, the costs and benefits of the amendments compared to a baseline, and alternative courses of action. The Commission's discussion of the costs of the rule amendments includes a discussion of certain implementation burdens and related costs, which may include assessment costs, personnel costs, and other costs (e.g., technology costs). The Commission states that the cost estimates and related data derived from FOCUS Reports discussed in the proposing release have also been updated in this final release to reflect more recently available data. The Commission believes that many of the benefits and costs discussed are difficult to quantify, in particular when discussing enhancements in investor protection. For example, the Commission notes that it is unknown how much the amendments to the financial responsibility rules will result in enhanced compliance with those rules. Therefore, much of the Commission's discussion is qualitative in nature but, where possible, the Commission attempted to quantify the costs. However, according to the Commission, the inability to quantify these costs and benefits does not mean that the costs and benefits of these rule amendments are any less significant.

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

The Commission states that an Initial Regulatory Flexibility Analysis was included in the proposing release and a Final Regulatory Flexibility Analysis has been prepared in accordance with the provisions of the RFA.

(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 Commission is not subject to the Act.

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

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

On March 9, 2007, the Commission published a proposing release entitled, "Amendments to Financial Responsibility Rules for Broker-Dealers." 72 Fed. Reg. 12,862. The Commission re-opened the public comment period on May 3, 2012. The Commission received a total of 97 comment letters on the proposed amendments. According to the Commission, 60 comment letters were received prior to the re-opening of the comment period, and 37 were received after it. The Commission carefully considered all of the comment letters, and modified the amendments in certain respects in light of the comments received. In addition, the Commission has determined to defer consideration of action at this time with respect to certain of the proposed amendments.

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

Certain provisions of the amendments contain collection of information requirements within the meaning of the PRA. The Commission published a notice requesting comment on the collection of information requirements in the proposing release and submitted the amendments to the Office of Management and Budget (OMB) for review in accordance with the PRA. The amended rules--Rule 15c3-1, Rule 15c3-3, Rule 17a-3, Rule 17a-4, and Rule 17a-11--contain currently approved collections of information under, respectively, OMB control numbers 3235-0200, 3235-0078, 3235-0033, 3235-0279, and 3235-0085.

Statutory authorization for the rule

The Commission is adopting amendments to Rules 15c3-1, 15c3-3, 17a-3, 17a-4, and 17a-11 under the Exchange Act pursuant to the authority conferred by the Exchange Act, including sections 15, 17, 23(a), and 36.

Executive Order No. 12,866 (Regulatory Planning and Review)

As an independent regulatory agency, the Commission is not subject to the Order.

Executive Order No. 13,132 (Federalism)

As an independent regulatory agency, the Commission is not subject to the Order.