



B-284295

December 22, 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: Adoption of Amendments to the
Intermarket Trading System Plan to Expand the ITS/Computer Assisted
Execution System Linkage to All Listed Securities

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 "Adoption of Amendments to the Intermarket Trading System Plan to Expand the ITS/Computer Assisted Execution System Linkage to All Listed Securities" (RIN: 3235-AH49). We received the rule on December 9, 1999. It was published in the Federal Register as a final rule on December 16, 1999. 64 Fed. Reg. 70297.

The final rule amends the plan governing the operation of the Intermarket Trading System (ITS). The rule expands the ITS/Computer Assisted Execution System linkage to all listed securities, including non-Rule 19c-3 securities.

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 Thomas McCool,

Director, Financial Institutions and Markets Issues. Mr. McCool can be reached at (202) 512-8678.

Sincerely yours,

**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
"ADOPTION OF AMENDMENTS TO THE INTERMARKET
TRADING SYSTEM PLAN TO EXPAND THE ITS/COMPUTER ASSISTED
EXECUTION SYSTEM LINKAGE TO ALL LISTED SECURITIES"
(RIN: 3235-AH49)

(i) Cost-benefit analysis

Although the SEC is not required to prepare a formal cost-benefit analysis, it is required, under section 3(f) of the Exchange Act, to consider whether an action is necessary or in the public interest and whether such action will promote efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

The SEC believes that any possible increase in costs to the market participants are justified by the overall benefits of the rule including increased liquidity, increased competition, and a better chance for best execution of customer orders.

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

The Initial Regulatory Flexibility Analysis was incorporated in the Notice of Proposed Rulemaking and a summary of the Final Regulatory Flexibility Analysis (FRFA) is included in the preamble to the final rule.

Both analyses provide the information required by the Act and include the reasons for the agency actions, its objectives, legal basis, and the reporting and recordkeeping requirements. The FRFA discusses the impact on the approximately 5,000 "small entity" broker-dealers, which will be indirect and positive.

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

The SEC, as an independent regulatory agency, 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 July 30, 1998, the SEC published in the Federal Register a Notice of

Proposed Rulemaking (Proposing Release). 63 Fed. Reg. 40748. In response, the SEC received 15 comment letters, which are summarized and responded to in the preamble to the final rule.

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

The final rule does not contain any information collections that are subject to review by the Office of Management and Budget under the Paperwork Reduction Act.

Statutory authorization for the rule

The final rule is issued under the authority of section 11A(a)(3)(B) of the Exchange Act, 15 U.S.C. 78k-1(a)(3)(B).

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.