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VIA ELECTRONIC MAIL AND FEDERAL EXPRESS

March 31, 1997

Mr. Jonathan Katz
Secretary
Securities and Exchange Commission
450 Fifth Street, N.W.
Mail Stop 6-9
Washington, D.C. 20549

Re: Supplemental Comment Letter: File Number S7-27-96 (Books and Records Requirements for Broker-Dealers)

Dear Mr. Katz:

PSA The Bond Market Trade Association ("PSA")¹ welcomes the opportunity to provide the following supplemental comments in response to the Securities and Exchange Commission's proposed amendments to Rules 17a-3 and 17a-4 under the Securities Exchange Act of 1934, the books and records requirements for broker-dealers.²

In December 1996, PSA submitted a detailed letter to the SEC setting forth general and specific reasons for opposing the adoption of these proposed rules.³ Although it is not our present purpose to repeat the arguments made in that earlier letter, in summary, PSA strongly opposed the proposed rules on the basis that they would, among other things:

- Impose excessive and unwarranted costs on broker-dealers, and ultimately, on investors;
- Under the guise of procedural rules, impose new substantive books and records requirements with insufficient demonstration of their need, and inadequate analysis of their impact and burden;
- Effect a radical and counterproductive shift in the SEC's historical oversight of books and records regulation, by adopting an inflexible, micro-managerial approach to the compliance function, and creating disincentives to effective self-regulation.

In the three months since the submission of PSA's letter, we have benefited from the opportunity to review and consider many of the other comment letters that have been provided to the SEC in this matter. We have also had the benefit of continuing discussions with our members concerning the merits of the Commission's proposals. After reviewing this correspondence, and after extensive interaction with our members, PSA remains firmly committed in its opposition to the proposed rules in their present form. We again urge the SEC to withdraw these proposals and (a) undertake a thorough re-evaluation of specific books and records reforms that may be necessary or desirable, in

light of concerns identified by state securities regulators, and (b) conduct a realistic assessment of the costs and burdens of such reforms, in comparison with their prospective investor protection benefits.

PSA agrees that state regulators should be afforded reasonable access to books and records maintained by broker-dealers, and should not be hindered or delayed in their pursuit of this information for legitimate oversight or enforcement purposes. We also agree that at a substantive level, information prescribed to be retained by broker-dealers should enable regulators to make informed and objective determinations about compliance, or non-compliance, with relevant securities laws and regulations. We understand these concerns, and would be prepared to support reasonable books and records reform that meets these objectives.

However, we again wish to emphasize that books and records requirements must be counterbalanced against the burdens they would impose on broker-dealers and the attendant, increased costs of capital formation. After much further discussion and deliberation, we remain unpersuaded that the actual costs and burdens of compliance with these proposed rules, in their present form, are related to any reasonable degree to their benefits.

PSA remains willing to work constructively with the SEC and NASAA to develop and adopt workable reforms that respond to regulators' legitimate need for timely and reasonable access to broker-dealer books and records.

Sincerely,

Paul Saltzman
Senior Vice President
and General Counsel

cc: The Honorable Arthur Levitt, Chairman,
Securities and Exchange Commission

The Honorable Steven M.H. Wallman, Commissioner,
Securities and Exchange Commission

The Honorable Norman S. Johnson, Commissioner,
Securities and Exchange Commission

The Honorable Isaac Hunt, Jr., Commissioner,
Securities and Exchange Commission

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1 PSA represents approximately 220 securities firms and banks that underwrite, trade and sell debt securities, both domestically and internationally. PSA's member firms account for in excess of 95% of all primary issuance and secondary trading activity in the domestic debt capital markets. More information about PSA can be obtained from our website at www.psa.com.

2 SEC Release No. 34-37850 (October 28, 1996).

3 See PSA letter dated December 27, 1996 to Mr. Jonathan Katz re: File Number S7-27-96: Books and Records Requirements for Broker-Dealers.