



**Securities Industry Association**

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September 15, 2006

R. Corey Booth  
Director/Chief Information Officer  
Securities and Exchange Commission  
c/o Shirley Martinson  
6432 General Green Way  
Alexandria, VA 22312

Desk Officer for the Securities and Exchange Commission  
Office of Information and Regulatory Affairs  
Office of Management and Budget  
Room 10102  
New Executive Office Building  
Washington, DC 20503

Re: Rule 17a-25; SEC File No. 270-482; OMB Control No. 3235-0540

Dear Mr. Booth and Interested Parties:

As a result of recent regulatory initiatives designed to ensure the accuracy and timeliness of Electronic Blue Sheet ("EBS") submissions, a group within the Securities Industry Association ("SIA")<sup>1</sup> has been coordinating efforts to ensure that the industry is aware of and meets all regulatory requirements in this area. In connection with this, we have reviewed the Securities and Exchange Commission ("SEC") release soliciting comment on the collection of information pursuant to Securities Exchange Act Rule 17a-25 (17 CFR 240.17a-25).<sup>2</sup> Although firms have made necessary systems changes in order to validate the accuracy of their submissions, we nevertheless believe the release presents the opportunity to explore more efficient methods to meet the regulatory objectives that EBS serve.

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<sup>1</sup>The Securities Industry Association brings together the shared interests of more than 600 securities firms to accomplish common goals. SIA's primary mission is to build and maintain public trust and confidence in the securities markets. SIA members (including investment banks, broker-dealers, and mutual fund companies) are active in all U.S. and foreign markets and in all phases of corporate and public finance. According to the Bureau of Labor Statistics, the U.S. securities industry employs nearly 800,000 individuals, and its personnel manage the accounts of nearly 93-million investors directly and indirectly through corporate, thrift, and pension plans. In 2005, the industry generated an estimated \$322.4 billion in domestic revenue and an estimated \$474 billion in global revenues. (More information about SIA is available at: [www.sia.com](http://www.sia.com).)

<sup>2</sup> Securities and Exchange Commission, Proposed Collection; Comment Request; SEC File No. 270-482; OMB Control No. 3235-0540, 71 FR 40557 (July 17, 2006).

Specifically, we should consider whether regulators' need for data can be met utilizing existing processing flow streams within the industry. For example, during the development of the Trade Reporting and Compliance Engine ("TRACE") and after consultation with industry groups, it was determined that price reporting information could be extracted from trade processing submissions to National Securities Clearing Corporation. It proved much more efficient to develop a process using standardized data formats currently used in self-regulatory organization ("SRO") submissions. Likewise, existing processing streams could be used to review activity in particular securities. Audit trail requirements that have been adopted since the EBS system was established in 1988 provide much of the same information captured on EBS and could be used initially for trading reconstructions in examinations and investigations, supplemented by EBS where customer-specific information is required. This practice would minimize the number of EBS requests, the number of necessary data elements and, correspondingly, the burden on firms of responding to such requests. As discussed below, the time and resources devoted to responding to such requests is considerable and increases exponentially when requests from the SROs are considered.

## **I. Introduction**

Rule 17a-25 requires registered broker-dealers to electronically submit securities transaction information in a standardized format upon request by Commission staff. According to the release, the Commission uses the information for enforcement inquiries or investigations and trading reconstructions, as well as for inspections and examinations.

The Commission estimates that it sends approximately 27,000 EBS requests per year at an annual aggregate hour burden, which includes 1,400 broker-dealers supplying the contact information identified in Rule 17a-25(c), of 4,319 hours. In other words, the Commission estimates that each firm spends approximately three hours per year responding to EBS requests.<sup>3</sup> Admittedly, not all of the 1,400 broker-dealers required to submit contact information receive requests, but neither are the requests concentrated in a limited number of broker-dealers. Firms participating in drafting this response have documented the hourly burden associated with this collection of information and these figures demonstrate that the annual hourly burden far exceeds the Commission's estimate.

The impact, of course, varies depending on the size and complexity of the firm but firms uniformly report that costs associated with EBS requests are high, requiring systems development, ongoing maintenance, and the support of Operations, Information Technology and Compliance staff. Our purpose in commenting on this release is not to question the practical utility or need for the information, but rather, to inform the Commission of the substantial time and resources involved in collecting and transmitting the information, and to begin a dialogue with the Commission on ways to make the process less costly and more efficient.

## **II. Process**

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<sup>3</sup> Our comment addresses only SEC requests but we note that SROs can make as many, or more, requests in any given year.

The process of responding to EBS inquiries involves much more than running and submitting automated reports. In fact, collecting the numerous data elements in the EBS record layout involves complex data gathering from a variety of firm systems employed in the lifecycle of a transaction. In addition, firms must manage and validate the records in various databases. Indeed, regardless of how many requests a firm receives, or if they ever receive a request, firms must develop and maintain systems that are capable of integrating and producing this data in a timely manner.

Typically, a firm receives a request either via fax or e-mail. The CUSIP number is verified and the request is entered into a firm system for tracking. In many cases, due to systems architecture that is common in the industry, information must be retrieved from multiple systems within a firm and compiled into a single record for transmission to the regulator. Many firms also employ a labor-intensive pre-verification process that compares the data against SRO-derived reports to ensure the accuracy of the data in various fields, such as the buy/sell code.

The process is complicated by the growth of prime brokerage, with executions occurring away from a clearing firm and limited information flowing back to the clearing firm. Adding to the complexity is the use of trade compression, average price accounts, algorithmic orders, and smart order routing where some information resides in front end systems, other information resides in back end systems, and all must be accumulated and consolidated into a single submission.

Other complicating factors involve the form and source of data required in EBS submissions. For example, when a firm forwards an odd lot order to the New York Stock Exchange ("NYSE") via the Designated Order Turnaround ("DOT") system, there is no counterparty identified on the electronic execution notification received by the firm. The firm must use additional data sources on T+1 to extrapolate this data element and merge it with trade date data to create a complete record. Consequently, EBS requires ongoing controls in order to maintain the integrity of integrated data. The process of managing the data and conducting validation is as significant if not more so, than the retrieval, review and submission of the EBS data.

### **III. Resources**

Generally, the larger firms have at least one full-time analyst who is responsible for regulatory inquiries, a manager overseeing the function, a systems analyst providing support of the information technology applications, and a Compliance professional who reviews the submissions. Considerable technological and human resources are devoted to identifying the relevant records and conducting validation of the data as well. As new systems are rolled out or changes are made to existing systems, each must be assessed for its impact on EBS reporting. Where a systems change impacts EBS reporting, solutions must be implemented and tested. Finally, under the current six-year record retention requirement, the costs associated with maintaining the data do not decrease although requests for older data drop off over time.

One large firm reported that it received 4,800 EBS requests over the past year, of which 3,100 were from the SEC. Approximately 8,000 man hours were spent responding to these requests, which is almost double the annual aggregate hourly burden of 4,319 hours that the SEC has estimated for the *entire industry*. Another large firm has received 1,145 EBS requests this year from the SEC, out of a total of 1,660 received from all regulators. This firm estimates that it has spent 3,696 hours to date this year responding to EBS requests, demonstrating again the inaccuracy of the Commission's projected annual hourly burden. A third large firm, which has received 843 EBS requests to date in 2006 (644 were from the SEC), estimates that it spends 20 man hours per week on SEC EBS requests. Overall, firms providing information for this letter indicate that programmers, analysts, and legal and compliance personnel spend between eight and 112 hours per week on the EBS process. Going forward, firms expect to add another 50-100 hours annually conducting quarterly testing and validation. Although most of the requests are directed to clearing firms, introducing firms indicate that they receive requests and that those requests often require substantial research, as well.

At least one firm maintains a separate database for EBS data. The firm reports that one full-time technology professional is devoted to developing and maintaining the system, and establishing the data feeds. The cost of storing the data in a separate system is considerable. At an estimated cost of \$10,000 per 100 gigabytes of data per year, the firm spends approximately \$100,000 per year to store the data.<sup>4</sup>

#### **IV. Proposed Alternative**

As noted above, many of the EBS data elements are redundant of data elements currently captured in SRO trade reports and order audit trails. SIA previously has called for consideration of an industry utility for audit trail purposes<sup>5</sup> and we continue to believe that such a database could provide an efficient and effective method for regulators to monitor activity in individual markets and to conduct effective intermarket surveillance without the redundancies of numerous reporting obligations to the various SROs. We do not believe a central repository would be practical for EBS purposes because, in many cases, the Commission is seeking client-specific information.

We do believe, however, that order audit trail information, whether or not it is consolidated at a single entity, provides a comprehensive and reliable source of transaction information that could be used in the initial phases of an investigation or examination. For example, firms report that EBS data is often requested in connection with examination sweeps, where no particular clients are under review. EBS requests could be made in later stages of a review or investigation when client-specific information is required. Additionally, firms often get requests when they have no data to provide.<sup>6</sup> At a minimum, before making a request, the

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<sup>4</sup> Because this is a mission-critical system, the cost of a separate off-site recovery facility has been included in the estimate.

<sup>5</sup> Letter to Barbara Z. Sweeney, Office of the Corporate Secretary, NASD, from Stuart Bowers, Chairman, SIA Operations Committee, dated January 20, 2005.

<sup>6</sup> One firm reported that of 786 EBS requests from the SEC this year, 160 resulted in no trades to report.

SEC could request concentration reports from the exchanges showing firms with activity in the security under review, and could limit their requests accordingly. This more targeted approach would reduce the number of EBS requests and the related burden to firms of collecting and validating the information.

It also would be productive to explore whether overlapping data fields could be eliminated on the EBS record layout. For example, the account type is indicated on the order, which is captured in front-end systems and is recorded for order audit trail purposes. This same field is required on EBS but is not necessarily captured in the back-office systems where execution data resides. In fact, most of the data for EBS is captured in back-office systems that don't interact with order management, or front-end, systems where account type information is captured. Another example is the contra broker field. Again, the field is required on the EBS and must be retrieved from a different source and merged with data in a separate system.

## **V. Conclusion**

Firms have devoted significant resources to developing systems that enable them to respond timely to regulatory requests for information. Recently, firms have redoubled their efforts and have undertaken the necessary steps to remediate inaccuracies that were identified by regulators in connection with EBS reporting. We remain committed to providing the Commission with all information necessary for it to carry out its regulatory mission but we believe there are ways to minimize the costs to the industry without compromising the quality or utility of the information that the Commission receives. The SIA would be happy to discuss further with the Commission how the EBS process could be revised to the benefit of regulators and the industry.

Thank you for the opportunity to comment. If you would like to discuss our comments further, please contact the undersigned or Richard Bommer, Director of Operations, SIA, at 212.608.1500.

Sincerely,

Noland Cheng  
Chairman  
SIA Operations Committee

CC: Erik R. Sirri, Director, Division of Market Regulation, SEC  
Robert L.D. Colby, Deputy Director, Division of Market Regulation, SEC  
Michael Macchiaroli, Associate Director, Division of Market Regulation, SEC  
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