



April 21, 2011

Mr. Robert Cook
Director
Division of Trading and Markets
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090

Re: Rule 15c3-5 under the Exchange Act; Risk Management Controls
for Brokers or Dealers with Market Access

Dear Mr. Cook:

The Securities Industry and Financial Markets Association (“SIFMA”)¹ requests that the Securities and Exchange Commission (the “SEC” or “Commission”) revise the effective date of Rule 15c3-5 (the “Rule”) under the Securities Exchange Act of 1934 (“Exchange Act”) to provide for a phased implementation of the Rule, as it has for other rules with similar system implications. Rule 15c3-5 will require broker-dealers that access or provide access to trade directly on an exchange or an alternative trading system (“ATS”) to implement risk management controls and supervisory procedures reasonably designed to manage the financial, regulatory, and other risks of this business activity. SIFMA member firms support the use of such reasonable risk management controls and supervisory procedures to ensure that the U.S. markets and investors are not subject to any undue risks because of the provision of market access to others. Indeed, many firms already have in place certain market access controls and procedures, and are now building upon those as appropriate to meet the requirements of Rule 15c3-5.

The Rule’s new pre-trade credit and capital financial risk management controls, however, require extensive system changes and new processes on the part of member

¹ The Securities Industry and Financial Markets Association (“SIFMA”) brings together the shared interests of hundreds of securities firms, banks and asset managers. SIFMA’s mission is to support a strong financial industry, investor opportunity, capital formation, job creation and economic growth, while building trust and confidence in the financial markets. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (“GFMA”). For more information, visit www.sifma.org.

firms. These controls must be appropriately designed and tested to account for a variety of market conditions and trading scenarios in order to avoid the potential for disruption to investors. Despite their best efforts to meet the Rule's July 14, 2011 effective date, member firms believe that implementation of these pre-trade financial controls would greatly benefit from an extension of the compliance date until November 30, 2011.

In addition, member firms believe that delaying until November 30, 2011 the compliance date for all other aspects of the Rule with respect to fixed income securities also would benefit the markets and investors. Fixed income trading platforms, internal systems and processes are quite different from those in the equity markets and have unique issues that must be thoroughly explored and addressed.

I. Request for Phased Implementation of Rule 15c3-5

Absent relief from the SEC, broker-dealers with market access would be expected to implement by July 14, 2011 all of the risk management controls and supervisory procedures reasonably designed to manage the financial and regulatory risks of market access. SIFMA respectfully requests that compliance with Rule 15c3-5 be implemented in two phases:

- a. First Phase – Compliance Date: July 14, 2011: For equity and any other non-fixed income securities subject to the Rule (referred to hereafter as “equity securities”), broker-dealers who access or provide access to trade directly on an exchange or ATS must comply by July 14, 2011 with all aspects of the Rule other than 15c3-5(c)(1)(i).
- b. Second Phase – Compliance Date: November 30, 2011: To provide for this second phase, the Commission would need to grant a 4 ½ month extension for compliance in each case.
 - 1) For equity securities, broker-dealers would be required to implement by November 30, 2011 the pre-trade credit and capital financial risk management controls and supervisory procedures required for compliance with Rule 15c3-5(c)(1)(i).
 - 2) For fixed income securities subject to this Rule, broker-dealers who access or provide access to trade directly on an exchange or ATS must comply by November 30, 2011 with all aspects of the Rule.

II. Rationale for Phased Implementation Re: Pre-Trade Financial Controls

For the reasons noted below, SIFMA believes a phased implementation of the Rule that would temporarily defer compliance with the pre-trade credit and capital financial risk management controls in Rule 15c3-5(c)(1)(i) until November 30, 2011 is essential to allow SIFMA members and others sufficient time to implement effective policies and procedures and to complete the system changes necessary to comply with the requirements of the Rule.

- a. Development of New Controls Required. The type of pre-trade credit and capital limits for exchange or ATS-trading called for by the Rule are not currently in place at broker-dealers (unlike other requirements in Rule 15c3-5 that have been in place at broker-dealers, particularly those providing access with regard to equity securities). In light of the Rule's mandate for a broker-dealer to implement pre-trade financial controls that are reasonable for their particular firm, firms must perform a comprehensive analysis of what would be deemed reasonable controls for their firm.² Developing reasonable policies and procedures and programming systems for these new controls is a substantial, time-intensive process, often involving cross-functional teams that may include the front office, legal, compliance, credit and operations departments.
- b. New Controls Need to Be Thoughtful and Precise. Addressing client credit issues takes considerable care on the part of broker-dealers. For example, a client trading limit that is applied inflexibly could prevent a client from reducing its risk through hedging transactions. SIFMA firms would benefit from additional time to ensure a thoughtful and precise design of these new pre-trade credit and capital controls.³
- c. Complexity of Technological Infrastructure. Additional time to implement the pre-trade credit and capital controls is needed due to the complexity of broker-dealers' systems.⁴ Further, the new controls that must be developed are

² For example, many firms historically have not viewed RVP/DVP trading as involving a "credit event," and have allowed the normal course of the settlement cycle to address the risks associated with the timely settlement of exchange/ATS trades.

³ For example, certain firms may categorize clients into pre-set credit tiers. In determining the credit tier, a variety of factors would be considered including but not limited to institution type, trading strategy, assets under management, market risk associated with the possible need to buy-in a client, length of client relationship with the firm, and regulatory history.

⁴ For example, while some firms may plan to systematically aggregate data across desks or businesses by client in real-time, other firms may plan to allocate credit across desks/businesses and each desk/business would then independently track exposure to the limit allocated to that desk/business.

themselves necessarily complex, and may include technological changes needed to enforce the limit in real-time for multiple systems and to establish processes for setting, tracking and following up on limit warnings, limit changes and order rejections.

III. Rationale for Phased Implementation Re: Fixed Income Securities

SIFMA member firms believe that, for fixed income securities, a delay in the compliance date until November 30, 2011 for all aspects of the Rule, not just regarding Rule 15c3-5(c)(1)(i), would be beneficial to the markets and investors. Broker-dealers need additional time to fully analyze and implement the controls and supervisory procedures called for by the Rule with regard to fixed income securities. This process is more extensive and complex than with equity securities for several reasons, including the following:

- a. Type of Pre-Trade Controls in Rule New to Fixed Income Securities: Broker-dealers providing access with regard to fixed income securities have generally not been subject to the type of pre-trade controls required by the Rule. Therefore, a broker-dealer's analysis of what is reasonable and the related technology build is necessarily more extensive than with equity securities, which have historically been subject to market access controls.
- b. Different Trading Processes Need to be Taken into Account: The trading platforms on which fixed income securities trade are quite different than those for equities. Broker-dealers therefore need additional time to determine how to take these differences into account in implementing reasonable controls for fixed income securities (e.g., for implementation of fat finger pre-order checks).
- c. Fixed Income Platforms Vary in Practices: Broker-dealers also need to analyze what the various fixed income trading platforms are implementing in regard to this Rule, and adjust their efforts accordingly.

IV. Additional Rationale for Phased Implementation

Broker-dealer information technology teams and systems are under severe development demands. The technology personnel responsible for implementation of the Rule 15c3-5 controls have spent the previous months implementing Rule 201 of Regulation SHO, and implementing the expansion of OATS, FINRA Rule 5131, and the extension of LOD to over-the-counter equity securities. Further, they will be required to work on the Limit Up/Limit Down Rule (upon approval by the Commission) and FINRA Rule 5320 (upon announcement of the compliance date). These competing demands upon the technology personnel at broker-dealers lend an additional reason for granting the above request for a phased implementation of this Rule.

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SIFMA member firms believe that a phased implementation of this Rule as requested above would ensure that broker-dealers implement appropriate, reasonable and effective controls and procedures, and thus better serve the markets and investors. If you have any questions regarding this request or otherwise wish to discuss it further with us, please do not hesitate to contact us at 202.962.7300 or 212.313.1200. Thank you for your consideration of this request.

Sincerely yours,

/s/ Sean Davy

Sean Davy
Managing Director
SIFMA

/s/ Tom Price

Tom Price
Managing Director
SIFMA

/s/ Ann Vlcek

Ann Vlcek
Managing Director and Associate
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