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Securities and Exchange Commission
100 F St. NW
Washington, DC 20549-9303
Rule-comments@sec.gov

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Broker-Dealer Reports

Dear Securities and Exchange Commission:

Among other things, this proposal addresses the reports broker-dealers are required to provide to their customers (Rule 17a-5) and the Customer Protection Rule (15c3-3). In my first comment letter on this topic I expressed concerns over the inefficient and redundant processes proposed in the release. While the Commission is looking at these rules it should consider some of the shortcomings in the current implementation of these rules.

My comments in brief:

- The Rule 17a-5 disclosures that broker-dealers provide to customers should also provide contain income and cash flow statements, as well as two years of balance sheets. One balance sheet alone is not enough to fulfill the intent of Congress.

[1] I am also on the boards of directors of the EDGA and EDGX stock exchanges. My comments are strictly my own and don't necessarily represent those of Georgetown University, EDGX, EDGA, or anyone else for that matter.

- Rule 15c3-3 should be amended to reduce the unnecessary paperwork required for lending fully paid or excess margin securities.

**Financial statements to customers should also contain income and cash flow statements.**

Congress clearly intended that the customers of broker-dealers should have sufficient information to determine the financial condition of the firms with whom they do business. Section 17e(1)(B) of the '34 Act clearly gives the Commission the authority to require more than just a balance sheet:

> Every registered broker and dealer shall annually send to its customers its certified balance sheet and such other financial statements and information concerning its financial condition as the Commission, by rule, may prescribe pursuant to subsection (a) of this section.

As one who teaches financial statement analysis (among other things), I can attest that one would be hard pressed to find any reputable textbook on financial statement analysis that says "all you need is one balance sheet."

One balance sheet alone is insufficient to determine the financial condition of the firm. One balance sheet alone does not indicate whether a company is making or losing money. Clearly, a firm experiencing serious losses is in a different financial condition than one which is actually making money. It is thus essential to include an income statement as well. The cash flow statement is also essential because it contains valuable information regarding how the firm is financing its activities. Furthermore, it is the standard practice to present at least two periods of balance sheets instead of one.

Clearly, the Commission itself thinks that a balance sheet alone is insufficient for determining financial condition, as witnessed by the fact that broker-dealer firms are required to submit income statements to the Commission. Likewise, corporate issuers are required to disclose far more information in their reports to shareholders.

Broker-dealer firms have already collected the data, so the implementation cost would be minimal. The Congressional intent was quite clear: Customers should have sufficient information to determine the financial condition of the firms with whom they do business. As long as the Commission has opened up this rule, it should consider the inadequate nature of the current disclosures and require better disclosures to be provided to brokerage firm clients. Rule 17a-5 should be amended to require the disclosure of the income statement and cash flow statements as well as two years of balance sheets.

**Rule 15c3-3 should be amended to reduce the unnecessary paperwork required for lending fully paid shares.**

Rule 15c3-3, the Customer Protection Rule, provides safeguards regarding customer assets on deposit at a brokerage firm. In order for a brokerage firm to lend out a customer's fully paid or excess margin

securities, the firm has to jump through multiple hoops regarding customer notification and collateral. The practical effect of these overly burdensome requirements is to make it prohibitively costly for a firm to lend out fully paid or excess margin securities.

This process can and should be streamlined in such a way so that firms can lend such securities in a safe and efficient manner. Brokerage firms can already lend out non-fully paid shares in a safe and time-tested process that has resulted in few, if any, problems over the years. As long as the Commission is opening up Rule 15c3-3, it should consider streamlining the process. The additional protections afforded by the new rules make it possible to streamline the rules on lending out fully paid shares without any loss of investor protection.

As a retail customer, I have no objection to letting my brokerage firm lend out my fully-paid shares because I understand the importance of stock lending for the smooth functioning of our capital markets. The protections in place for the owners of non-fully paid shares have proven to be quite effective and are quite sufficient for fully-paid shares. (Of course, owners of fully paid shares must retain the right to prevent the lending of their shares without any penalty.)

If you have any questions, feel free to email me at angelj@georgetown.edu or call me at (202) 687-3765.

Respectfully submitted,

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