Securities Industry Association

120 Broadway - 35 Fl. • New York, NY 10271-0080 • (212) 608-1500, Fax (212) 968-0703 • www.sia.com, info@sia.com

September 22, 2004

Jonathan G. Katz
Secretary
U.S. Securities and Exchange Commission
450 Fifth Street, NW
Washington, D.C. 20549

Re: File No. S7-25-99;
Release No. IA-2278, Certain Broker-Dealers Deemed Not To Be Investment Advisers

Dear Mr. Katz:

The Securities Industry Association[1] ("SIA") welcomes the opportunity to further comment on the above-referenced proposal,[2] and favors the Commission's stated intention to reach a final decision on the proposal by year-end. SIA strongly supports the commission's broker-dealer compensation rule proposal. This proposal enhances public trust and confidence by providing investors with the ability to choose from payment alternatives with a broker that best address their particular needs. This flexibility benefits

[1] The Securities Industry Association, established in 1972 through the merger of the Association of Stock Exchange Firms and the Investment Banker's Association, brings together the shared interests of nearly 600 securities firms to accomplish common goals. SIA member-firms (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 790,600 individuals. Industry personnel manage the accounts of nearly 93-million investors directly and indirectly through corporate, thrift, and pension plans. In 2003, the industry generated $213 billion in domestic revenue and an estimated $283 billion in global revenues. (More information about SIA is available on its home page: www.sia.com.)

[2] SIA filed a comment letter strongly supporting the proposal when it was originally published for comment (Letter to Jonathan G. Katz from Jean Margo Reid, Chair, SIA Investment Adviser Committee, January 13, 2000) and made supplemental submissions on January 31 and September 13, 2002, respectively, to SEC Chairman Pitt and Commissioner Glassman, responding to efforts on the part of the Financial Planners Association ("FPA") to prevent final adoption of the rule. SIA is aware that opponents of the Commission's rule proposal have generated hundreds of form letters in opposition to the proposal. Given the fact that over 700,000 individuals are employed by member firms, SIA could have generated a far larger form letter campaign. However, it was determined that SIA efforts would be better directed at focusing on the merits of the pending proposal.

investors, while avoiding the imposition of duplicative and unnecessary regulation on the already highly regulated broker-dealer industry.

Furthermore, The Financial Planners Association ("FPA"), and other groups seeking competitive advantages, have sought to portray the Commission's proposal as somehow carving out an exemption for broker-dealers to enable them to provide advisory services without being subject to the Investment Advisers Act of 1940 ("Advisers Act"). The proposal does nothing of the sort, and in no way modifies the incidental advice requirement which has been part of the Advisers Act since its inception. Broker-dealers have always been permitted to offer investment advice and recommendations to investors in conjunction with the brokerage services they offer. The fact that the regulatory regime applicable to broker-dealers, as discussed below, encompasses extensive suitability, "know your customer" and disclosure requirements, reflects that regulators have long understood that such incidental advice should be available to investors, subject to appropriate safeguards.

At the outset, it should be clearly understood that, while the FPA purports to cloak itself in the mantle of investor protection afforded by the Advisers Act, the Commission's proposal has little, if anything, to do with broker-dealers registering as investment advisers. Virtually all SIA member firms, who account for well over 90% of all investment adviser activity, are dually registered as broker-dealers and investment advisers and offer investors a wide variety of both brokerage and advisory services. These firms treat each type of activity in accordance with the regulatory framework to which it is subject. In fact, while the $225 billion in assets held in fee-based brokerage accounts as of the end of 2003[3] evidences the extent to which public investors have embraced this compensation arrangement, nearly another $750 billion in assets were held in discretionary managed accounts at broker-dealers and are administered in accordance with the requirements of the Advisers Act. Thus, more than three-quarters of all fee-based accounts maintained at broker-dealers are already treated as advisory accounts and that ratio has remained fairly constant over a period of years. This belies the claim made by the FPA that the brokerage industry is using the rule proposal, and its imbedded no-action position, as a means of migrating managed accounts away from the application of the Advisers Act.

BACKGROUND

In May, 1994 at the request of then SEC Chairman Levitt, and in response to concerns about actual and potential conflicts of interest in the retail brokerage industry, a broad based Committee on Compensation Practices was formed, chaired by Daniel Tully, then Chairman and CEO of Merrill Lynch & Co., Inc. ("Tully Committee"). The Tully Committee had three mandates:

1. Review of industry compensation practices for RR's and managers;

2. Identification of actual and potential conflicts; and

[3] See Cerulli Edge, Managed Accounts Edition, First Quarter 2004, p.12.

3. Identification of the "best practices" used in the industry to eliminate, reduce, or mitigate such conflicts.

Over the ensuing year, the Tully Committee conducted extensive panel discussions, interviews and field research, which included input from a broad array of industry and non-industry participants. Industry participants included numerous broker-dealers as well as the NASD, NYSE and SIA. Non-industry participants, among others, included, AARP, the Consumer Federation of America, the Office of the Public Advocate of New York City, NASAA, and the New York City Department of Consumer Affairs.

The Tully Committee issued its final report ("Tully Report") in April, 1995, and among the best practices it identified, was compensating RR's based on client assets, regardless of transaction activity. In discussing this best practice, the report states that

"…basing a portion of RR compensation on client assets in an account is seen as one way to reduce the temptation for income-seeking RR's to create trading activity in an account…"[4].

The Tully Report also observed that in many cases the best advice an RR can give a client at a point in time is to "do nothing." The report also noted that under a commission arrangement an RR would not receive any compensation for providing such advice, thereby putting pressure on the RR to have the customer "do something." Clearly, the Tully Report saw fee-based brokerage as a best practice to better align the interests of RR's and clients.

The Tully Report was well received by both the industry and regulators, and it was a major impetus for broker-dealers to re-evaluate compensation practices. Fee-based accounts were given a further endorsement in an SIA best practices release issued in November, 1996.[5] However, as the use of fee-based brokerage accounts became more widespread, concerns arose among broker-dealers that such compensation could be viewed as "special compensation" thereby invoking the Advisers Act. Confusion on this issue discouraged some firms from adding such an offering and generally created an aura of uncertainty that needed resolution. The importance of eliminating this uncertainty was recognized by the SEC, and in November, 1999 it issued proposed rule 202(a)(11)-1 under the Advisers Act. The proposed rule, in effect, states that the form of compensation received by a broker shall not, in and of itself, be determinative of whether an account is advisory or brokerage in nature. In the proposing release the SEC underscored the importance of the proposal by stating that:

> "These fee-based programs benefit customers by better aligning their interests with those of their broker-dealers, and thus are responsive to the best practices suggested by the Tully Committee.[6]

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[4] Report of the Tully Committee, p.12-13.
[5] SIA "Best Practices: A Guide for the Securities Industry, November, 1996, p.19.
[6] Release IA-1845, p.4.

DISCUSSION

SIA strongly believes that the SEC proposal serves the best interests of public investors. Critics have attempted to obfuscate the rationale for the rule proposal. It flows directly from the very sound findings of the Tully Report, which are clearly designed to ameliorate potential conflicts of interest by better aligning the interests of clients and brokers. The proposal affirms that the manner in which a broker is compensated should not be determinative of whether an account relationship is brokerage or advisory in nature. The proposed rule is clearly limited to those situations where the other components of an advisory relationship do not exist. Thus, the proposal excludes fee-based accounts where broker discretion exists. Further, the rule proposal requires disclosure that the client has entered into a brokerage relationship (As discussed below, SIA supports even stronger disclosure on this point than that provided for in the rule proposal).

SIA believes that fee-based brokerage accounts offer a relatively new, and many would say, desirable choice to clients as to how to pay for brokerage services. The adoption of this rule proposal would provide a solid basis for this type of account offering. Of course, fee-based brokerage accounts may not be appropriate for everyone. Clients may determine for a variety of reasons that they prefer traditional commissions for each transaction. If so, they can pay for transactions on that basis. However, if they decide for equally valid reasons that they prefer a fee-based arrangement, that choice should also be available.

SIA believes that the proposed rule, with its embedded safeguards, permits firms to offer an important pricing alternative to clients. Therefore the rule should be adopted so that clients can select and benefit from that pricing alternative.

REGULATORY OVERSIGHT OF BROKER-DEALERS AND INVESTMENT ADVISERS

Fee-based brokerage accounts are already subject to an extensive broker-dealer regulatory framework, and there is no reason to superimpose Advisers Act requirements on top of existing protections. The Commission and its staff have recognized that investment advisers are fiduciaries who must seek to avoid and/or fully disclose conflicts of interest with their clients. In large measure, this duty flows from the fact that advisory accounts are overwhelmingly discretionary in nature, whereas fee-based brokerage accounts are not. In fact, the proposed rule specifically excludes fee-based discretionary accounts. While broker-dealers are not fiduciaries, they are nonetheless required to deal fairly with customers and must disclose certain conflicts of interest. One critical element of a broker-dealer’s obligation to deal fairly with its customers requires a broker-dealer to have a reasonable basis for believing that its securities recommendations are suitable and appropriate for the customer in light of the customer’s financial needs, objectives and circumstances. In addition, broker-dealers are required on a transaction-by-transaction basis to disclose certain information relating to potential conflicts in making such recommendations. Another important element of a broker-dealer’s obligation to

deal fairly with customers is its obligation to obtain best execution and to report to the customer on its executions, both in the confirmation and through order routing and execution disclosure provided under Securities Exchange Act of 1934 Rules 11Ac1-1 through 11Ac1-6.

SIA strongly disagrees with the suggestion that investor protection will somehow be eroded if the proposed rule is adopted. Nothing could be further from the truth. FPA and other commentators totally ignore the full panoply of rules and regulations to which broker-dealers are subject under the provisions of the Exchange Act, as well as pursuant to extensive self-regulatory organization ("SRO") requirements governing broker-dealer activities. For example, the Exchange Act requires disclosure under Rule 10b-10 of extensive information regarding various matters, including potential conflicts of interest, and Rule 15c3 contains extensive customer duties, suitability, net capital and fidelity bonding requirements. We note that independent investment advisers and financial planners are neither subject to bonding or net capital requirements, nor to a comparable self-regulatory regime, which includes frequent regulatory examinations by multiple regulators, and required reporting of customer complaints.

The standards applicable to any account relationship between a financial services provider and an investor, whether they be characterized as a fiduciary duty, a suitability determination, or know your customer obligation, all have one common thread--they require that the interests of investors always come first. Standards however, are not self-effectuating. Their successful application is dependent on the product and compliance training of the people who provide the investment services, and the scope of the regulatory oversight of the activity. As noted above, and as reflected in the regulatory oversight chart attached to this letter, there can be little doubt that broker-dealer training and regulatory oversight is extremely comprehensive and certainly compares favorably with that to which investment advisory activities are subject.

SPECIFIC REQUESTS FOR COMMENT

In the current release, the Commission seeks input on a number of subjects. Certain of these subjects have been addressed above, such as the ability of fee-based accounts to more closely align the interests of investors and brokerage firms. With regard to other matters, we believe the recommendations made in the Tully Report are as timely today as they were when made nearly a decade ago. As is pointed out in the Tully Report, sometimes the best advice to a client is to "do nothing". SIA strongly believes that many clients in fee-based accounts are better off today because they were dissuaded by their brokers from selling positions in which substantial unrealized losses had occurred after the sharp market declines that occurred between 2000 and 2002. Thus, fee-based accounts can create an environment in which "buy and hold" behavior flourishes to the benefit of investors.

The Commission also asks what practical impact non-adoption of the rule proposal would have on broker-dealers. Much more important, however, is the negative impact non-adoption would have on investors by inhibiting the availability of fee-based brokerage accounts. Such accounts enable brokers to provide investors with more choice and to compete on a level playing field with commercial banks when providing custody, securities settlement, reporting and similar services. Many of our members have relied on the proposed rule and the staff's related "no action" position to offer investors expanded choice and transparency in how to pay for brokerage

services. Non-adoption of the rule proposal would deny investors the benefits of choice and transparency. In particular, the adopting release should confirm that any form of compensation arrangement is covered under the rule, provided that the advice is non-discretionary and solely incidental to brokerage. Ultimately, the important consideration is what impact non-adoption would have on clients. We have already noted the contribution which fee-based arrangements have made to preserving the value of many accounts during the last market break. Fee-based programs also enable investors to better control their investment costs because they make overall fees more transparent. We note that investors are free to, and many do, assign different portions or accounts within their investment portfolio to different fee arrangement programs dependent on what they deem to be to their best economic advantage. Investors should not be denied these choices.

With respect to the manner in which fee-based brokerage accounts are represented, SIA obviously agrees that investors should clearly be informed that they are not receiving investment advisory services. In our initial comment letter we stated that we did not believe it was sufficient to merely state that an account is a brokerage account, and the disclosure should be expanded to specifically state that it is not an advisory account. At the same time, it is important to note that many dually registered broker-dealer/investment advisers offer a broad array of brokerage, advisory and other services, all of which may be referenced in a single advertisement. This should be taken into account in any final rulemaking to assure that any disclosure requirements do not inhibit the use of such advertising, or unintentionally confuse investors. A final rule should include disclosure enhancements to address the concerns of independent advisers. To this end, SIA recommends that the Commission adopt one or more the following alternative disclosure requirements.

(a) The firm is acting as a broker-dealer and not as an investment adviser.
(b) The non-discretionary investment advice provided is part of a brokerage service.
(c) The account is a brokerage account and not an investment advisory account governed by the Investment Advisers Act of 1940.

Because dual registrant firms may act as both broker-dealer and investment adviser, depending on the activity, it is important for the Commission to continue to acknowledge that a dual registrant can have both a brokerage and an investment advisory relationship with the same client. For example, when a registered representative recommends a money manager for a wrap account, he or she is acting in an advisory capacity and must provide the disclosure brochure and meet the other requirements under the Advisers Act. That same client may have other accounts at the broker-dealer for which he or she is receiving advice in conformity with the proposed rule.

While not specifically addressed in either the 1999 rule proposal or the most current release, the issue of reverse churning has received some recent regulatory and media focus. The assumption that some regulators and reporters have made is that fee-based accounts, by their very nature, disadvantage customers that do not engage in an active trading strategy since the fee is intended to compensate the broker for transaction-based compensation. We believe that this view is misguided. In our view, a fee-based structure could be appropriate for a customer who is not engaged in active trading. For example, a less active trading customer may elect fee-based brokerage services because of the certainty and consistency of pricing in a fee-based program,

the alignment of interests of the broker with the client, and the fact that certain services, such as on-line trading, may only be available in a fee-based program. In addition, fee-based pricing can be appropriately used by more static accounts to pay for custodial, account servicing (e.g., wires, coupon clipping, f-x conversions, physical to book entry conversions etc.) and reporting services provided by the broker-dealer. Pricing in this manner is the same as that typically provided by bank custodians, which under bank regulatory regimes would not give rise to any suggestion that the relationship should be viewed as advisory. We do not think that it is appropriate to consider an account to be advisory simply because the compensation to the brokerage firm is fee-based.

We believe that the concern raised by the regulators in respect of reverse churning is a sales practices issue and not a reason to inhibit the use of fee-based compensation for brokerage accounts. While both transaction and fee-based compensation arrangements have a potential for abuse if used inappropriately, such possibility should not deter final adoption of the rule, given the very positive contribution fee-based brokerage accounts make to ameliorating conflicts of interest. In our view, the best way to prevent harm is not to limit the choices available to the client, but to ensure that financial services firms have robust compliance-training and oversight programs as well as provide full disclosure about the terms of each compensation arrangement offered. The issue of whether a commission or fee-based arrangement is more suitable for a given investor should have no bearing on whether an investment advisory or brokerage relationship exists.

CONCLUSION

The rationale for adopting Advisers Act rule 202(a)(11)-1 is even more compelling today than when it was first proposed nearly five years ago. The more than $200 billion of investor assets held in fee-based brokerage accounts is testimony to its broad acceptance by the investing public. Clearly, the role that fee-based brokerage accounts play in helping align the interests of brokers and their clients supports the conclusion that this rule proposal will only serve to enhance, not diminish, investor protection and choice. Proposed rule 202(a)(11)-1 should be adopted.

We thank you for the opportunity to comment on this significant rule proposal. Any questions regarding this letter or attachment may be directed either to me at (202) 216-2000 or Michael Udoff at (212) 618-0509.

Sincerely,

Ira D. Hammerman
General Counsel

cc: Chairman William H. Donaldson
Commissioner Paul Atkins
Commissioner Cynthia Glassman
Commissioner Harvey Goldschmid

Commissioner Roel Campos
Paul F. Roye, Esq.
Annette Nazareth, Esq.
Robert E. Plaze, Esq.
Nancy M. Morris, Esq.
Robert L. Tuleya, Esq.

REGULATORY OVERSIGHT OF BROKER-DEALERS

<table>
<tr><th>CATEGORY</th><th>BROKER-DEALERS:
PROTECTION OFFERED</th></tr>
<tr><td>REGULATORY PHILOSOPHY</td><td>Both SEC and self-regulatory organization (SRO) rules impose anti-fraud and suitability obligations on broker-dealers that are specific and detailed. For example, the NASD requires that a broker-dealer recommending a securities purchase to a customer satisfy two separate suitability obligations:

• Reasonable Basis Suitability - the broker-dealer must believe that the recommended security is suitable for any investor. To satisfy this obligation, broker-dealers must conduct due diligence any security that they recommend to potential investors; and
• Customer-Specific Suitability - the broker-dealer must believe that its recommendation to invest in the security is suitable for that particular investor. To reach this determination, a broker-dealer must, in accordance with NASD Rule 2310, examine the investor’s financial status, tax status and investment objectives, as well as any other pertinent information.

In addition, NYSE’s “Know Your Customer Rule” requires members to use due diligence to learn the essential facts relative to every customer, every order, every cash or margin account accepted or carried by the member, and every person holding a power of attorney over any account.

Other obligations include the business conduct rules specified in NASD Conduct Rule 2000 et seq. and the broker-dealer responsibilities listed in NASD Conduct Rule 3000 et seq.</td></tr>
<tr><td>SUPERVISION OF REGISTERED REPRESENTATIVES</td><td>NASD Conduct Rule 3010(a)(5) requires that registered securities representatives be supervised by a principal of the broker-dealer who is also registered with the NASD. Both representatives and principals must pass examinations administered by the NASD in order to work for a broker-dealer, thus ensuring that customers are served by knowledgeable employees.</td></tr>
<tr><td>CONTINUING EDUCATION REQUIREMENTS</td><td>NASD Conduct Rule 1120 sets forth the continuing education requirements for registered persons.

• Firm Element - requires each member firm to annually develop and implement a written plan for training its registered persons based on an assessment of its own specific training needs.
• Regulatory Element - a computer-based education program administered by NASD to help ensure that registered persons are kept up-to-date on regulatory, compliance, and sales practice matters in the industry.

Each registered person is required to complete the Regulatory Element initially within 120 days after the person’s second registration anniversary date and, thereafter, within 120 days after every third registration anniversary date.</td></tr>
<tr><td>REQUIRED CUSTOMER DISCLOSURES</td><td>Rule 10b-10 requires broker-dealers to disclose specific information to their customers about securities transactions at or before the completion of every securities transaction, including conflict of interest disclosures:

a. the identity of the security</td></tr>
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<tr><th>CATEGORY</th><th>BROKER-DEALERS:
PROTECTION OFFERED</th></tr>
<tr><td></td><td>b. the number of shares purchased or sold;
c. the price at which the transaction was effected;
d. whether the broker-dealer is acting as agent for the customer, as agent for some other person, as agent for both such customer and some other person, or as principal for its own account;
e. if the broker-dealer acts as the customer's agent, the amount of the remuneration it receives from the customer;
f. for agency transactions in which the broker-dealer also participates in the distribution of the securities, it must disclose the source and amount of remuneration that it receives from third parties; and
g. if the broker or dealer acts as principal, whether it is a market maker in the security.

NASD Rule 2230 also requires that a confirmation disclose, among other things:

• the capacity in which the member is acting; and
• the source and amount of any commission or other remuneration received or to be received by such member in connection with the transaction.

NASD Rule 2340 requires general members to send, at least quarterly, an account statement describing any securities positions, money balances, or account activity to each customer whose account had a security position, money balance, or account activity during the period since the last such statement was sent to the customer.

SEC Rule 11Ac requires broker-dealers at the inception of a relationship, and annually thereafter, to disclose its payment for order flow policies.
Other periodic disclosures under various SRO rules include, but are not limited to:
• annual margin disclosure
• mandatory updating of customer profile information (investment objectives; financial circumstances)
• 30 day notice of change in margin rates</td></tr>
<tr><td>INVESTOR EDUCATION AND PROTECTION</td><td>NASD Conduct Rule 2280 requires members to provide each year in writing the following information to customers:

a. NASD Regulation Public Disclosure Program Hotline Number;
b. NASD Regulation Web Site Address; and
c. A statement as to the availability to the customer of an investor brochure that includes information describing the Public Disclosure Program.

This investor education program ensures that customers are encouraged to inform themselves about their brokerage firm and the regulations governing its behavior.

Additionally, broker dealers are required to provide risk disclosure documents in connection with specific products and transactions, including but not limited to, listed options, penny stocks and all new issues of securities.</td></tr>
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CATEGORY	BROKER-DEALERS: PROTECTION OFFERED
ANNUAL COMPLIANCE MEETING	NASD Conduct Rule 3010(a)(7) requires each registered representative to attend a firm compliance meeting no less frequently than annually.
PROTECTION OF CUSTOMER FUNDS AND SECURITIES	The Securities Investor Protection Corporation ("SIPC") offers protection for customer funds and securities in the event that a registered broker-dealer goes bankrupt. Rule 15c3-3 governs a broker-dealer's acceptance, custody and use of a customer's securities. Rule 15c3-3 is intended to ensure that a broker-dealer in possession of customers' funds either deployed those funds "in safe areas of the broker-dealer's business related to servicing its customers" or, if not deployed in such areas, deposited the funds in a reserve bank account to prevent commingling of customer and firm funds. Rule 15c3-3 seeks to inhibit a broker-dealer's use of customer assets in its business by prohibiting the use of those assets except for designated purposes. The Rule also aims to protect customers involved in a broker-dealer liquidation. If a broker-dealer holding customer property fails, Rule 15c3-3 seeks to ensure that the firm has sufficient reserves and possesses sufficient securities so that customers promptly receive their property and there is no need to use the SIPC fund. NASD Conduct Rule 3020 requires members to maintain fidelity bonds to insure against certain losses and the potential effect of such losses on firm capital. The Rule applies to all members with employees who are required to join SIPC and who are not covered by the fidelity bond requirements of a national securities exchange. New York Stock Exchange Rule 319 imposes similar requirements upon members of the New York Stock Exchange. Rule 17a-5 requires broker-dealers to provide a full balance sheet to customers, whose cash and securities they custody, on a semi-annual basis, which must include a disclosure of the amount of their net capital and the amount required to be held.
STATUTORY DISQUALIFICATION	a. Under § 3(a)(39) of the Securities Exchange Act of 1934 ("Exchange Act"), broker-dealers and employees who have committed serious misconduct, such as securities or commodities-related misconduct, crimes described in Section 15(b)(4) of the Exchange Act, which involve fraud, or misappropriation of funds, or any felony conviction, are statutorily barred from the securities business. b. Under Article III, Section 3(b) of NASD's By-Laws, a "statutorily disqualified" employee cannot become or remain associated with an NASD member unless the disqualified person's member firm applies for relief from the statutory disqualification under Article III, Section 3(d) of the By-Laws. c. NASD Conduct Rule 3010 requires each member to establish, maintain, and enforce written procedures to supervise the activities of its registered representatives and associated persons. A member who seeks to employ a statutorily disqualified person must implement a special supervisory plan.
PUBLIC AVAILABILITY OF DISCIPLINARY	NASD collects, compiles, organizes, indexes, digitally converts and maintains regulatory information from registered persons, member firms, government agencies and other sources and maintains information in the proprietary Central

CATEGORY	BROKER-DEALERS: PROTECTION OFFERED
INFORMATION ABOUT REPRESENTATIVES	Registration Depository ("CRD®") database. NASD publicly releases information regarding registered securities representatives, including disciplinary information on the NASD's website through the BrokerCheck system, allowing customers to easily access up-to-date information. Information collected by the NASD is compiled and monitored by the NASD, which adds an extra level of protection for customers against fraudulent disclosures.
OVERSIGHT OF BROKER-DEALERS AND REGISTERED REPRESENTATIVES	Broker-dealers are subject to the oversight of the NASD (and/or the New York Stock Exchange) in addition to the SEC (principally under the Exchange Act), which offers several benefits, including: a. The opportunity for the NASD to marshal resources unavailable to the SEC. b. The NASD is subject to fewer personnel, contracting and procedural requirements than the SEC; c. Standards of ethical behavior established by the NASD that are higher than those set by the SEC (*e.g.*, NASD and other SRO members are required to observe high standards of commercial honor and just and equitable principles of trade in the conduct of their business). d. The opportunity for industry leaders to participate in the regulatory process through the NASD and thus acquire a greater sense of their stake in the process; and e. A staff of 2200 at the NASD dedicated to monitoring brokerage firms only.
POLICIES AND PROCEDURES	NASD Conduct Rule 3010(b) requires broker-dealers to establish and maintain written procedures that are reasonably designed to achieve compliance with applicable securities laws and regulations, and the applicable rules of the NASD.
EXAMINATION OVERSIGHT	Both the NASD and SEC inspect broker-dealers on an annual basis. In addition, other SROs will inspect their member broker-dealers.