

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

THE CHAIRMAN

September 13, 1996

Mr. A.B. Krongard
Chairman and Chief Executive Officer
Alex. Brown & Sons Incorporated
135 East Baltimore Street
Baltimore, MD 21202

Dear Buzzy:

Thank you for your recent comments and suggestions. As you point out, technology has the potential to reduce costs, improve efficiency, and increase access to information. Changing technology also creates certain regulatory challenges. The two recent Commission interpretive releases you cited in your letter represent a substantial step toward addressing some of the issues raised by changing technology, and I am pleased that you regard our efforts as helpful. Nonetheless, as you point out, many questions remain unresolved, including the regulatory treatment of electronic mail.

As you know, in its May 9, 1996 interpretive release regarding electronic delivery, the Commission encouraged the self-regulatory organizations to adapt their supervisory review requirements governing communications between broker-dealers and customers in order to accommodate the use of electronic mail. I understand that the NYSE Board took favorable action on a rule in this area on September 5, 1996 and a proposed rule change will be forwarded to us shortly for consideration. In addition, I am encouraged by the efforts of the NASD to address broker-dealers' supervisory requirements with respect to electronic communications. In the Spring of this year, the NASD clarified its position in this area by distinguishing between bulletin boards and group electronic mail messages, which require the prior approval of a supervisor, and those individual electronic mail messages that pertain to solicitation or execution of securities transactions, which require review only after being sent.

Your letter also commented on information retention issues. Currently, broker-dealers must retain electronic mail messages to the same extent as they currently retain written communications. Firms may rely on the staff's no-action position that permits the use of optical storage technology to maintain books and records. In addition, broker-dealers may use any type of electronic storage media, including CD-ROM, to retain required records, provided that the conditions in the optical storage no-action letter are satisfied. The Commission intends to codify this position soon.

Prospectus delivery requirements are an important element of our continuing reexamination of the application of the securities laws to offerings. In order to expedite prospectus delivery under a T+3 clearance and settlement system, the Commission adopted Securities Act Rule 434, which permits incremental delivery of a prospectus, and made other rule revisions that allow additional flexibility in structuring the prospectus to expedite last-minute printing. In addition, in the 1995 interpretive release that you cited in your letter, the Commission issued guidance to assist market participants in using electronic media to provide information under the federal securities laws, including the delivery of prospectuses. Prospectus delivery also was discussed in the July 24, 1996 Report of the Advisory Committee on Capital Formation and Regulatory Processes. Moreover, in the concept release on Securities Act reform published contemporaneously with the Advisory Committee's Report, the Commission solicited public comment on a wide range of prospectus delivery issues. We will consider the comments you provided in your letter as part of this initiative.

Finally, one of the most important issues in the regulation of broker-dealers is the application of prudential capital standards. I appreciate your appeal for amendments to the Commission's current net capital requirements. The Commission, as you may be aware has already begun a substantial review of its net capital rule, including issues raised by the development of derivatives trading since the rule was first adopted. While there will likely be an opportunity for formal comment in the near future, we would appreciate any specific recommendations you might have.

We are working closely with the SROs and industry representatives to explore other uses of technology in the securities industry that will enhance the provision of information and services without sacrificing investor protection. Thoughtful comments such as yours go a long way in assisting these efforts. Thank you again for taking time to share your views with me. I look forward to working with you on these and other issues.

Sincerely,

Arthur Levitt