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April 17, 1998

Mr. Michael Macchiaroli  
Associate Director  
Division of Market Regulation  
U.S. Securities and Exchange Commission  
450 5<sup>th</sup> Street, NW  
Washington, DC 20549

Re: *Proposed Changes to Exchange Act Rules 17a-3 and 17a-4*

Dear Mr. Macchiaroli:

I am writing this letter in response to the letter you recently received dated April 6, 1998 from representatives of the Securities Industry Association, The Bond Market Association, the American Bankers Association and the ABA Securities Association. I would like to correct several misconceptions that were conveyed in that letter.

Most importantly, and as you know, the proposal does not present a whole new "complicated" regulatory scheme for books and records requirements. Rather, it codifies the existing industry practice of generally maintaining on the premises of any location where retail investor services are being provided those books and records necessary to serve investor needs. State books and records requirements, prior to the National Securities Markets Improvement Act ("NSMIA"), required generally the maintenance of those same books and records, the records be open for inspection, and the records be accessible from each location where the broker dealer holds itself out to the public. The draft proposal speaks to the maintenance of existing records and does not recommend the creation of any new or additional records. Therefore, no additional costs for compliance with the new requirements would be incurred. In fact, because the anticipated requirements have been drafted to accommodate technology changes, the new requirements may be less burdensome.

As you may recall, the states were scheduled to adopt a uniform books and records proposal at NASAA's fall conference in October of 1995. The proposal would have revised state books and records

requirements to make them more uniform and, more critically, to codify standards necessary for states to conduct their examinations of branches and agents doing business with their residents. Upon the urging of Chairman Levitt, the states postponed consideration of the proposal and instead began working with the SEC to revise its books and records requirements to incorporate state examination needs. The state securities regulators are recognized as the principal regulatory authority that conducts branch office examinations. Subsequently, NSMIA required uniform books and records requirements at the federal and state levels. NASAA representatives worked closely with SEC staff on the revisions to update the federal requirements and are anxiously awaiting the republication of the proposed rules.

A statement was included in the April 6<sup>th</sup> letter that only a limited number of states have implemented the two-person standard for the definition of a "local" office. The statement incorrectly implies that all other states choose not to implement such a standard. As the events outlined above clearly indicate, at first, many states waited for the proposal of a uniform NASAA model rule they could adopt. Then, with the passage NSMIA, the states had to wait again. In fact, the states are currently handicapped in their examination processes due to the lack of a final proposal.

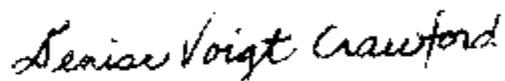
The states need both ready access to, and jurisdiction over, books and records of firms to properly evaluate compliance by firms with regulatory requirements established for investor protection. Any proposal recommending the maintenance of books and records of any firm at an OSJ location outside of the state where such firm has locations would be totally unacceptable. For large states, the location of records hundreds of miles away from the firm location and any state office location, even if within the state borders, would also impose costly burdens that hamper investor protection efforts. For state securities regulators to be effective and efficient at their jobs, they must not be required to regulate under such handicapped scenarios that their resources are challenged beyond reasonable expectations and their efforts become inconsequential. Finally, it should be noted the NASAA Board of Directors has been continuously informed about the direction of the ongoing proposed revisions to the proposal and have given its full support to the NASAA representatives regarding the position taken. At this time, I do not wish to address any other issues raised by the April 6<sup>th</sup> letter at this time. NASAA will be commenting on the details of the proposal when it is published.

The states' willingness to compromise on some of its earlier positions regarding books and records requirements has demonstrated their efforts to balance the diverse compliance capacities of the industry with investor protection issues. As a result, no records were required other than those a prudent broker dealer would already have on premises to carry out their supervisory responsibilities. NASAA

would encourage the SEC to proceed carefully not to create any incentives for less scrupulous firms to structure their retail locations to avoid having to comply with any local books and records requirements and thus avoiding early detection of problems by state regulators. It is important to recognize that states conduct primarily sales practice examinations as contrasted to net capital examinations.

In closing, I would like to thank you personally, Mr. Macchiaroli, for the cooperation you and your staff have shown to the states working on this issue. This matter is of great significance to the NASAA membership individually and collectively. We recognize the process has been long, tedious and contentious at times, but your demonstrated commitment to this matter is very much appreciated. We urge you to bring the proposal to the attention of the Commission at this time and allow the public comment process to begin in an effort to bring forth the adoption of the proposal as soon as possible.

Sincerely,



Denise Voigt Crawford  
NASAA President

cc: The Honorable Arthur Levitt, U.S. Securities and Exchange Commission  
The Honorable Paul R. Carey, U.S. Securities and Exchange Commission  
The Honorable Isaac C. Hunt, Jr., U.S. Securities and Exchange Commission  
The Honorable Norman S. Johnson, U.S. Securities and Exchange Commission  
The Honorable Laura S. Unger, U.S. Securities and Exchange Commission  
Mr. George P. Miller, The Bond Market Association  
Ms. Judith Poppalardo, Securities Industry Association  
Ms. Sarah A. Miller, American Bankers Association and ABA Securities Association