

MEMO# 3943

July 21, 1992

SEC ADOPTS TEMPORARY BROKER-DEALER RISK ASSESSMENT RULES

July 21, 1992 TO: SEC RULES MEMBERS NO. 31-92 UNIT INVESTMENT TRUST MEMBERS NO. 43-92 COMPLIANCE COMMITTEE NO. 9-92 RE: SEC ADOPTS TEMPORARY BROKER-DEALER RISK ASSESSMENT RULES _____ The Securities and Exchange Commission has adopted temporary rules to implement the broker-dealer risk assessment provisions of the Market Reform Act of 1990. Rule 17h-1T requires broker-dealers to maintain and preserve certain information regarding the financial and securities activities of associated persons that are reasonably likely to have a material impact on the financial or operational condition of the broker-dealer. Rule 17h-2T requires the filing of quarterly reports with the Commission summarizing the information required to be maintained pursuant to Rule 17h-1T. Consistent with an Institute recommendation to the Division of Market Regulation at the time the Market Reform Act was enacted, certain limited purpose mutual fund and unit investment trust broker-dealers are exempted from the rules. Specifically, as adopted the rules contain an exemption for broker-dealers that are exempt from the "customer protection rule" (Rule 15c3-3 under the Securities Exchange Act of 1934), pursuant to paragraph (k)(1) or (k)(2) thereof. (Paragraph (k)(1) exempts, among other things, broker-dealers whose activities are limited to the purchase, sale and redemption of redeemable securities of registered investment companies.) The rules further exempt broker-dealers that do not carry customer accounts and that maintain capital of less than \$20 million, and broker-dealers that maintain capital of less than \$250,000, regardless of whether they carry customer accounts. Excerpts from the adopting release concerning exemptions from the rules are attached. The rules will become effective in stages beginning on September 30, 1992 with certain information gathering requirements. Reports on this information must be filed with the Commission by October 31, 1992 and the rules will be fully effective on December 31, 1992. Frances M. Stadler Assistant Counsel Attachment