

MEMO# 3071

September 6, 1991

SEC PROPOSAL TO ESTABLISH AN ACTIVITY-BASED LARGE TRADER REPORTING SYSTEM

September 6, 1991 TO: INVESTMENT ADVISER ASSOCIATE MEMBERS NO. 38-91 RE: SEC PROPOSAL TO ESTABLISH AN ACTIVITY-BASED LARGE TRADER REPORTING SYSTEM

The SEC has published for comment proposed Rule 13h-1 under the Securities Exchange Act, which would establish an activity-based large trader reporting system. The rule is being proposed pursuant to the provisions of the Market Reform Act of 1990 to provide the SEC with the information necessary for reconstructing trading activity in periods of market stress and for surveillance, enforcement, and other regulatory purposes. A copy of the SEC's release is attached. Set forth below is a brief description of the significant provisions of proposed Rule 13h-1.

Identification Requirements The proposed rule would require "large traders" to disclose their accounts and affiliations by filing proposed Form 13H with the SEC. The term "large trader" is defined under the proposed rule as every person who, for its own account or an account for which it exercises investment discretion, effects transactions in publicly traded securities in an aggregate amount equal to or in excess of the identifying activity level. The identifying activity level is defined under the rule as aggregate transactions during any 24 hour period that equal or exceed either 100,000 shares or fair market value of \$4,000,000, or any transactions that constitute program trading (as defined in paragraph (f)(5) of the proposed rule). Persons defined as large traders would be required to file proposed Form 13H, which would elicit minimal descriptive information such as (1) name, address and telephone number; (2) type of organization; (3) principal business or occupation; (4) regulatory status; (5) a description of each trading account maintained by the large trader; and (6) any affiliations or associations the large trader may have with other persons. Large traders would be required to file their initial Form 13H within 10 business days after first effecting transactions that reach the identifying activity level. Thereafter, large traders would be required to file Form 13H annually, within 45 business days after the calendar year-end. Upon filing Form 13H, the identified large trader would receive from the SEC a unique large trader identification number ("LTID"). A large trader also would be required to disclose to any broker-dealer, by or through which such large trader directly or indirectly effects transactions in publicly traded securities, that it is a large trader, its LTID, all accounts carried by such broker-dealer, and the LTIDs of all associated large traders that have discretion or control over the transactions effected for such accounts. The disclosures required under the rule that are outlined above would be afforded confidentiality pursuant to the terms of Section 13(h)(7) of the Exchange Act.

Broker-Dealer Requirements Broker-dealers that carry large trader accounts would be

required to maintain records of transactions for all identified large trader accounts. In addition, broker-dealers would be required to make large trader transaction reports ("13H Reports") to the SEC, or an SRO designated by the SEC, with respect to all transactions of persons for whom such broker-dealer must maintain records, that equal or exceed the reporting activity level effected directly or indirectly by or through such broker-dealer. The reporting activity level is defined under the proposed rule as all transactions in publicly traded securities that are equal to or greater than either 1,000 shares or fair market value of \$40,000. Broker-dealers would be required to transmit 13H Reports before the close of business on the day following receipt of a request for such information from the SEC or a designated SRO. Comment Period The comment period for proposed Rule 13h-1 expires on November 26, 1991. Please provide me with any comments you have on the proposed rule by October 28, 1991. Amy B.R. Lancellotta Assistant General Counsel Attachment

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