

The International Association of Small Broker Dealers and Advisors
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The International Association of Small Broker-Dealers and Advisers, www.iasbda.com, submits the following topics for discussion at the Roundtable.

WHO NEEDS OR BENEFITS FROM MUTUAL RECOGNITION

The significant amount of foreign stocks purchased by U.S. investors over the last 5 years suggests they are not having difficulty accessing these foreign markets. The large number of foreign firms that have registered as broker-dealers in the U.S. suggests that they are not having difficulty accessing the U.S. markets. The enormous amount of transactions that occur thru U.S. institutions initiating unsolicited transactions with foreign intermediaries suggests that they are not challenged. Foreign broker-dealers are allowed to deal directly with registered broker dealers. The question therefore would be who are the intended beneficiaries of mutual recognition. Small broker-dealers cannot afford to open offices in foreign countries. Logic suggests that the real purpose of this initiative is that there would be a quid pro quo for U.S. firms to enter foreign markets more easily in order to sell U.S. stocks to foreign citizens. We estimate however that of the 5100 registered bd's, this option is realistically available to less than 1% of those firms and most of them have already entered those foreign markets. It is probable that in the future the BRIC countries may be an opportunity for large U.S. firms under a mutual recognition arrangement, but we think those countries will have a long wait for their regulatory regimes to measure up. We also believe that this initiative is occurring at the height of the international market boom and there are clearly warnings prevalent that certain popular foreign equity markets are headed for a large correction.

USE OF RESOURCES AND FAIRNESS

Arguably therefore valuable staff time might be better allocated toward protecting U.S. investors rather than the expansion of markets for a limited number of large firms. We also caution that many foreign firms have made large investments in the U.S, over many years to become registered and that to allow others to now compete with them on an unregistered basis raises questions of fairness and future reliability on U.S. regulatory consistency. The same concerns apply to small bd's and advisers who have developed a specialty in

selling foreign securities to U.S. investors. Finally mutual recognition is not the same as submitting to U.S. jurisdiction. We doubt that these foreign firms, who have consciously avoided U.S. jurisdiction will voluntarily do so in order to allow aggrieved investors to seek remedies in U.S. courts or arbitration forums. We therefore suggest that before any changes are proposed, the Commission identify with specificity, who exactly the changes are intended to benefit and more importantly who they may disadvantage. In particular what foreign intermediaries who have chosen to avoid registration will now benefit from mutual recognition.

THE UNSOLICITED SOLUTION

We believe that a better approach would be to clarify some of the ambiguities in the current regime. Primary among these would be the unsolicited transaction exemption. We are unaware of any disciplinary cases in this area and believe it is a pretty large loophole for sophisticated investors to access foreign intermediaries. The Commission should determine how large it is and whether anyone is really being harmed by it. We doubt that institutions calling overseas markets outside U.S. trading hours and the inevitable continuing interaction/relationship is a bad thing and the Commission should acknowledge they have no control over it. The Commission should therefore acknowledge that mutual recognition for institutions already exists. In this regard however, anyone seeking a formal mutual recognition arrangement might disclose how much business has been done under this loophole.

FOREIGN SHORT SELLING

We believe that short selling and stock borrows overseas are also subject to a certain official benign neglect and the Commission should clarify certain aspects of this business. Primary among these are that you cannot borrow overseas in order to sell long in the U.S. Second the commission should clarify with more specificity when a short sale takes place outside the U.S. Finally the Commission should make clear under what conditions foreign sellers using the U.S. markets are subject to Reg. SHO.

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