Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-1000
Attn.: Ms. Nancy M. Morris, Secretary

Via email (rule-comments@sec.gov)

Re: File Number S7-08-07 Amendments to Financial Responsibility Rules for Broker-Dealers

Ladies and Gentlemen:

Raymond James & Associates ("RJA") appreciates the opportunity to comment on the Securities and Exchange Commission's (the "Commission") proposed amendments to Rule 15c3-3 "Customer Protection – Reserves and Custody of Securities" (the "Proposal").

We believe the proposed limitations on the amount of cash that a broker-dealer can deposit in a special reserve bank account for the exclusive benefit of customers at any given unaffiliated bank in order to meet its reserve requirements, which arise from the Commission's concerns about concentration risk at a single institution, can be better addressed through other means. We also believe that the proposed conditions may result in additional costs or financial detriment to RJA and other broker-dealers that are not warranted in light of alternative means that exist to address the Commission's concerns. Further, we believe the proposed conditions could result in certain industry actions that may be contrary to other interests the Commission and the NYSE have sought to protect.

We understand that the Commission proposes to (1) exclude cash deposits at banks affiliated with the broker-dealer and (2) place limits on the amount of Rule 15c3-3 deposits a broker-dealer could maintain in a reserve account at an unaffiliated bank. Specifically, the Proposal requires a broker-dealer to exclude from the minimum reserve deposit any deposits with an unaffiliated bank that exceed 50% of the broker-dealer's excess net capital or 10% of the bank's equity capital. RJA supports and takes no issue with the proposed elimination of use of affiliated banks in this regard.

The Proposal appears to be meant to address concerns that a broker-dealer could experience a loss or may not be able to access cash if the bank at which the reserve account is maintained experiences financial difficulty and the reserve deposit is concentrated in cash at one bank. RJA does not argue that this is a legitimate concern and fully supports the need to safeguard customer assets, recognizing that a broker-dealer could be exposed to credit and operational risk when making a substantial deposit at any one bank. While the Commission's proposal appears to attempt to spread such risk across several institutions, the result may not necessarily minimize any potential credit and operational exposures. In fact, RJA's experience (as noted in a relatively recent examination by the NYSE) is that it may serve to exacerbate such risk.

Our bankers advise us that the limitations set forth in the Proposal are based upon the Commission Staff's advice provided to the NYSE in 1988. However, since that time, Congress has enacted significant legislation that requires the Federal bank supervisory agencies to adopt requirements that establish regulatory capital requirements for banks, including a system for assessing the capital adequacy of banks (which has been instituted and in effect for some time) and empowering the Federal Reserve to take supervisory action in the event a bank is deemed not to be adequately capitalized. Accordingly, it would seem that the concerns which gave rise to the Commission Staff's 1988 letter and those expressed in the Proposal have been significantly mitigated by regulations requiring prompt corrective action in the event a bank's capital position deteriorates. Given this, it would seem that the risk that broker-dealer deposits could be inaccessible because of an institution's financial difficulty can be sufficiently and appropriately managed and reduced by requiring a broker-dealer to perform due diligence on banks holding Rule 15c3-3 deposits. Under this model, broker-dealers would be required to ascertain or obtain, among other factors, that:

- the bank is either "well capitalized" or "adequately capitalized" as defined under regulations issued by the Federal bank supervisory agencies

- the credit rating of the bank as measured by Moody's, S & P, Fitch, etc.

- the contract between broker-dealers and banks holding Rule 15c3-3 deposits contain provisions that allow the broker-dealer to immediately withdraw all funds from the reserve account at any time

- a representation by the bank that it is at least adequately capitalized and will immediately inform the broker should its status deteriorate

- a copy of the bank's audited financials and independent auditor's assessment of the effectiveness of the bank's system of internal controls, 10-K, and 10-Q, and

- other pertinent filings with the Commission and/or the bank's supervising regulatory agencies, including the most recent report(s) of examination results performed by those agencies

Both broker-dealers and banks are regulated entities that are required to have policies and procedures requiring them to conduct their respective businesses in a manner consistent with safe and sound business practices. Prudent business practices require that a broker-dealer perform due diligence on any bank in which they will hold customer deposits, or for that matter do any other business.

This approach would be more congruent with the underlying principles and concepts under the Basel accords, and would affix US standards more in line with our global peers/competitors, as well as other industry regulatory agencies (e.g., the United Kingdom's FSA and the way they have approached the issue at hand).

Permitting broker-dealers to maintain deposits at one unaffiliated bank, when it is determined by the broker-dealer to be prudent to do so, provides the broker-dealer with a liquid and administratively efficient means to manage its Rule 15c3-3 deposits. RJA's experience is that it also allows the broker-dealer to obtain the most competitive return on its deposit without (in our considered opinion) sacrificing any safety and soundness considerations. Limiting Rule 15c3-3 deposits to 50% of a broker-dealer's excess net capital will require RJA to open numerous additional cash and/or securities accounts and devote ongoing operational resources to the management of such accounts. To the extent that RJA would elect to maintain all its Rule 15c3-3 deposits in cash we would need to devote resources to engage in ongoing due diligence on over 30 banks, reconcile account statements, maintain balances, send wires from various accounts, etc. The net effect is that RJA would be forced to transition from a liquid and flexible system where we can easily move deposits in accordance with the reserve requirement to a situation requiring additional resources, oversight, management and reconciliation in order to effectively manage cash in accounts at multiple institutions. Please be aware that this is exactly an examination issue taken by NYSE in a recent prior examination wherein RJA was cited for an issue with one of its various banks under our previous attempt to diversify banks holding our Rule 15c3-3 deposits; NYSE's subsequent counsel to us was to discontinue the practice.

RJA's experience has been that the only banks capable of correctly administering a Rule 15c3-3 account are the banks that "bank" our business, banks that know our business and understand the rules, regulations, and requirements, and most importantly, the ramifications to their customers of any failures in that administration. RJA's experience is that there are less than five banks currently possessing the requisite understanding and capabilities.

From an economic perspective, the RJA (and likely other broker-dealers) will not be able to leverage volume to obtain the best rate on its deposits, directly impeding its ability to grow capital through higher earnings.

Should RJA elect to use qualified securities and/or repurchase agreements ("repos") as opposed to cash to meet all or part of its reserve requirement, we would incur significant additional operational and transactional costs. While larger broker-dealers may be able to reallocate existing trading desk, operational, regulatory reporting and treasury functions to assist in ongoing maintenance activities, a firm of our size would be required to hire additional staff to manage and maintain a securities portfolio. Managing a pool of qualified securities involves a myriad of complex tasks such as monitoring income collection, redemption processing, marking the securities to market, collateral substitutions and collateral segregation, as well as other tasks. Securities pose their own specific operational risks such as failures to settle in a given market. The vagaries of the repo market make this alternative daunting at and around counterparty quarter end and year end balance sheet dates as they have the tendency to "clean up" their financials by limiting their repo activity at these times. As a result of all of these factors, RJA believes that the upfront and ongoing cost is *significantly* higher than the one-time fee of $2,630 the Commission estimates in the Proposal.

RJA's experience is that the NYSE and the Commission prefers for customer cash to remain under their regulatory jurisdiction versus alternatives such as bank sweep programs. A seemingly unwanted outcome of the enactment of the Proposal might be an expansion of broker-dealer programs to sweep customer cash outside of the broker-dealer to a bank or mutual fund, thereby reducing the overall customer reserve requirement and concomitantly the requirements of the Proposal.

While RJA supports the goal of the Proposal relating to effectively managing concentration risk, we believe that permitting broker-dealers to maintain Rule 15c3-3 deposits in cash at a bank under the provisions recommended in this letter provides a more flexible, cost-efficient management approach to Rule 15c3-3 deposits. RJA believes that the risks of having such deposits concentrated at a single bank in cash can be mitigated by requiring broker-dealers to: (1) perform ongoing due diligence on any bank holding its Rule 15c3-3 deposits; (2) requiring that any such bank be "well capitalized" or "adequately capitalized" (as defined under regulations of the Federal bank supervisory agencies) and having robust operational capabilities and controls; and (3) requiring certain changes to the contractual provisions between the broker-dealer and the bank.

Sincerely yours,

Richard B. Franz II
Senior Vice-President, Treasurer, and Chief Financial Officer