Please note that the comments expressed herein are solely my personal views

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Chris Barnard

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- 17 CFR Part 240
- File No. S7-08-07
- Amendments to Financial Responsibility Rules for Broker-Dealers

Dear Sir.

Thank you for giving us the opportunity to comment on your proposed rule; reopening of comment period on Amendments to Financial Responsibility Rules for Broker-Dealers.

The SEC (Commission) is reopening the comment period for proposed amendments to its net capital, customer protection, books and records, and notification rules for broker-dealers under the Securities Exchange Act of 1934 (the Exchange Act), which was issued by the Commission on March 9 2007 (Exchange Act Release No. 55431, 72 FR 12862). The original comment period for the proposed amendments closed on May 18, 2007, and the Commission extended the public comment period until June 18, 2007. The Commission did not act on the rules at that time. The Commission is presently reconsidering the proposed rule amendments.

The Commission states in the proposed rule that: "Given economic events since the rule amendments were proposed, as well as regulatory developments, comments received on the proposed amendments, the continuing public interest in the proposed amendments and the passage of time, the Commission believes that it would be appropriate to facilitate additional public comments on the proposed rule amendments." I agree that it is appropriate to now reconsider the proposed rule, especially in the light of economic events and developments since 2007.

For example, you are proposing under § 240.15c3-3(a)(6)(ii) to expand the definition of "qualified securities" by including certain money market funds that only invest in securities issued by the United States or guaranteed by the United States as to interest and principal.

Money market funds have received a lot of bad press during the recent financial crisis,[1] but the proposed rule mitigates some of the obvious concerns here. For example: the money market fund could not be a company affiliated with the broker-dealer; the money market fund could not delay redemption beyond one day; and the money market fund must have an amount of net assets that is at least ten times the value of the fund's shares held by the broker-dealer in its customer reserve accounts. These are all very sensible and necessary risk mitigation measures. However, I would recommend that the rule should also require the money market fund to provide a stress testing of values in extreme conditions, to ensure that fee and other drags could not reduce the value of principal.

You also propose under § 240.17a-3(a)(23) that certain large broker-dealers must document any implemented internal risk management controls designed to assist in analyzing and managing the risks. This is fine in principle, however I would prefer that the rule should propose the minimum elements required to be documented, for example market risk, credit risk, liquidity risk and operational risk. I understand the rationale for not proposing this, but it looks like an omission, and passes this (potential) oversight rather vaguely to third parties.

Yours faithfully

C.R.B.

Chris Barnard

[1] See for example Wednesday catastrophe: breaking the buck, The Financial Times, 17/8/2008, available at: http://ftalphaville.ft.com/blog/2008/09/17/15992/wednesday-catastrophe-breaking-the-buck/