



CITRIN COOPERMAN

Attest & Assurance | Tax Compliance & Research | Specialty & Consulting

August 25, 2011

Ms. Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090

Re: Broker-dealer reports
SEC Release: 34-64676

File Number: S7-23-11

Dear Ms. Murphy:

We at Citrin Cooperman & Company, LLP, appreciate the opportunity to comment on the Commission's proposal to amend the broker-dealer financial reporting rule under the Securities Exchange Act of 1934 (the "Exchange Act").

The Proposal would amend the Securities Exchange Act of 1934, Rule 17a-5, to update the reporting requirements of broker-dealer. Many of these requirements have been in place since 1975.

The amendments include:

1. "Annual Reporting Amendments" which relate to the requirement that a broker-dealer file annual financial reports with the Commission including audited financial statements and supporting schedules that the broker-dealer is currently required to file; and a Compliance Report or an Exemption Report, both new.
2. "Access to Audit Documentation Amendments" that would require broker-dealers that either clear transactions or carry customer accounts to provide the Commission and DEAs with access to independent public accountants findings with respect to annual audits of broker-dealers and
3. "Form Custody Amendments" which would enhance the ability of the Commission and DEAs to oversee broker-dealers' custody practices.

In general, we support the Commission's efforts to update this rule to reflect the current business environment.

Our comments

A. Annual Reporting Amendments

Under the proposal, the Commission will require each carrying broker-dealer to engage an independent public accountant to examine the assertions by the broker-dealer in the Compliance Report. This Compliance Examination and Examination Report would replace the existing requirements that results in the independent public accountant issuing a report based on a Study.

The Commission is proposing to make these Annual Reporting Amendments effective for annual reports filed with the Commission of fiscal years ending on or after December 15, 2011.

The Commission preliminarily intends to implement a transition period for carrying broker-dealers required to file Compliance Reports with the Commission with fiscal years ending on or after December 15, 2011, but before September 15, 2012. During this transition period, a carrying broker-dealer's assertion in its Compliance Report as to whether internal control over compliance with the Financial Responsibility Rules has been effective would be a point-in-time assertion as of the date of the Compliance Report, rather than covering the broker-dealer's entire fiscal year. The Commission believes that the compliance date and transition period set forth above will provide adequate time for broker-dealers to prepare the additional required reports and for independent public accountants to plan and perform the Compliance Examination procedures.

We believe that smaller broker-dealers may find the timing of the transition clause to be an underline burden. Also to facilitate the transition that must be made by management of these businesses, we believe that the Commission should consider providing examples of best practices.

A compliance examination would be more rigorous than has been experienced by smaller broker-dealers during the course of annual audits in the past. In order to fully appreciate the ramifications of an auditors' findings that are addressed in an independent audit report on compliance procedures, examples of best practices and of deficiencies should be provided, with the cooperation of the Expert Panel - Stockbrokerage and Investment Banking of the American Institute of Certified Public Accountants. Best practices examples should reflect relevant examples of broker-dealers of all sizes and be as comprehensive as possible. The publication and the SEC staff responses to question about the "Custody Rule" is an example of such an effort. These published best practices examples will be important for broker-dealers who need to evaluate whether to adopt corrective actions or to consider serving customers as an introducing broker, rather than as a carrying broker.

We also feel that the Commission should provide more time to make the transition. Considering the given time frame of submitting comments to the Commission by August 26, 2011, and the time required by the Commission to consider the comments received and issue a final report, we do not believe smaller organizations will have sufficient time to adopt corrective practices or to make changes to their business in time for auditors to deliver examination reports by February 29, 2012.

Some brokers may have to strengthen their staffing. Others businesses may choose to discontinue serving their customers as carrying brokers. Instead, they may choose to serve their customers as introducing brokers. Making these changes cannot be done quickly. We believe that the effective date for the Annual Reporting Requirements should be for fiscal years ending one year after the publication of the final rule (along with examples of best practices). We believe that there are a number of small broker-dealers should consider whether their business structure should be changed in order to successfully prepare for the audit of internal control under the revised 17a-5.

B. Compliance Examination and Examination Report

The Commission also seeks comment on whether:

- a. the Compliance Examination should also cover the broker-dealer's statement in the Compliance Report as to whether the broker-dealer has established and maintained a system of internal control to provide reasonable assurance that any instances of material non-compliance with the Financial Responsibility Rules will be prevented or detected on a timely basis and
- b. the independent public accountant should provide an opinion with regard to the process used by the broker-dealer to arrive at its assertions.

We believe the Compliance Examination should cover the broker-dealer's statement as described in a. above, since such coverage is the basis for issuing such an Examination Report. However, we believe that rendering an opinion on the process used (b. above) would not necessarily add to the usefulness of the Examination Report.

Exemption Report:

The new report would require, where applicable, a statement by the broker-dealer explaining that it is exempt from the provision of Rule 15c3-3. This report is to replace the Study of internal controls that is now performed by the independent public accountant pursuant to Rule 17a-5, "Annual filing of audited financial statements". We believe that the cost of obtaining this additional assurance vs. the benefit of an examination in order to provide an opinion on the broker-dealer's assertion with respect to the exemption from Rule 15c3-3 would not justify the need for this report.

C. Change in Applicable Audit Standards

The change from Generally Accepted Auditing Standards ("GAAS") to PCAOB auditing standards for the audit of the Financial Report, the examination of the Compliance Report and the review of the Exemption Report has been authorized by the Dodd-Frank Act. The question is should these standards be applied to the audits of all broker-dealers and what is the related benefit. It appears to us that the current standards under GAAS for the non-carrying broker-dealer are sufficient to provide reasonable assurance on the fairness of the presentation those financial statements. Although this is also true for the audits of the other broker-dealers, we understand the expansion of certain auditing requirements based on the PCAOB standards might be more suitable for larger, clearing broker-dealers. However, the costs associated with the under PCAOB standards are likely

to be higher and there would be little benefit, in our judgment, from these increased costs and the resulting audit conclusions satisfactorily achieved under GAAS for the “smaller” broker-dealer.

Should the Commission not be in a position to accept two sets of auditing standards for broker-dealers, deferring the effective date for non-carrying and smaller broker-dealers until one year after the approval of these amendments would provide these broker-dealers and their independent public accounting firms time to adjust to the new requirements.

We appreciate the Commission’s consideration of our comments. Please feel free to contact us if we may provide additional information concerning these or other related issues.

Sincerely,



Robert J. Kaufmann
Partner



David H. Grumer
Partner