



IASBDA

**International Association of Small Broker –
Dealers and Advisers**

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Re: File Nos. SR-FICC-2006-03 AND SR –NSCC-2006-03

The International Association of Small Broker-Dealers and Advisers, www.iasbda.com, submits the following comments on the above referenced rule filings regarding clearing fund premiums. The justification for increasing these fees on smaller members of the clearing entities is not apparent. There is no explanation of a greater history of risk. Indeed there is very little explanation of anything in this filing. A statement that there is no burden on competition is not justified because larger fees on smaller members is a *per se* burden, perhaps necessary but still a burden. See comment letter of Jim Nardone dated May 5,2006. The Commission and the public must understand how this formula works in practice with respect to small firms thru real examples. As Nardone states, those examples may show a tremendous impact on small firms and no impact on large firms with unregulated entities that may be a greater risk. This filing does not allow any insight into who is affected by it and should at least provide some guidance as to the range of firms affected.

The clearing organizations are complex regulated entities and must present a sufficient risk analysis to justify increasing such fees. It is understandable that they would attach their fees to various net capital requirements, but must do so by showing that they are not unfairly burdensome on smaller firms, not only broker-dealers, but also the small issuers they serve. In this regard a better explanation is needed of how the two concepts, net capital and clearing fund requirement relate to each other. If the result is to force small brokers into clearing arrangements with larger firms, there is a cost to the entire micro and small cap markets. There may be severe unintended consequences to small issuers and investors. The Commission is in the middle of its analysis of the impact of section 404 of the Sarbanes Oxley Act on small issuers and has acknowledged that small firms are under intense regulatory cost pressure. Surely this rule's impact deserves more than a cursory denial of a burden on competition. This rule is not time sensitive and the commission should require the clearing associations to project the actual

costs the rule change will have on all its clearing members and only then make a finding on its competitive burden.