

Economic Research and Analysis

The Office of Economic Analysis is the primary adviser to the Commission on the economics of securities markets and the economic impact of Commission actions. The economic analysis program provides technical and analytical support necessary to understand and evaluate the economic effects of Commission regulatory policy, including the costs and benefits of rulemaking initiatives. The staff also reviews all rule proposals to assess their potential impacts on small businesses, competition within the securities industry and across markets, and efficiency, competition, and capital formation.

What We Did

- Prepared various reports on market developments surrounding the September 11 terrorist attack, including the effects of issuer buybacks and short-selling activity.
- Monitored the economic effects of policy initiatives, such as decimalization, the execution quality disclosure rule, and bond market transparency via the Trade Reporting and Compliance Engine.
- Provided economic advice and guidance for various rule proposals required by the Sarbanes-Oxley Act of 2002. Also provided various reports and analyses of recent market developments including: accelerated disclosure of 10-K and 10-Q filings, accelerated disclosure of insider trades, proposed corporate governance reforms, auditor independence, the growth

of exchange-traded funds (ETFs) and intensified competition in the market for trading listed options.

- Developed statistical methods for forecasting securities registrations and transactions to set fee rates in accordance with the Investor and Capital Markets Fee Relief Act of 2002.
- Provided advice and technical assistance in a variety of compliance inspections and enforcement actions, applied financial economics and statistical techniques to examine evidence, and estimated the amount of disgorgement to be sought in insider trading cases.

Economic Analysis and Technical Assistance

The economic analysis staff provided substantial quantitative economic evidence on 67 regulatory and market initiatives impacting the securities industry and markets.

Market Structure and Trading Practices

- Provided economic advice and support for the Commission's exploration of market structure principles and issues, particularly for the October 2002 market structure hearings.
- Monitored the implementation of decimal pricing on Nasdaq and exchanges and reviewed decimalization studies submitted by the self-regulatory organizations (SROs). Prepared studies of decimalization's effects on penny jumping, transparency, inter-exchange competition, and short selling.

- Monitored the implementation of the execution quality disclosures and analyzed the disclosures for various market centers. Sought feedback from the industry and academia, and responded to their analyses.
- Provided economic advice and empirical analysis on the effects of policies and rules governing market operations, trading structures, and SRO initiatives, including: SuperMontage, exchange registration, primary market maker standards, and linkages in the equity and options markets.
- Analyzed the impact of requests for relief from short sale rules.
- Provided economic analysis and technical advice on issues pertaining to electronic communications networks such as access fees, quote display, and the impact of Regulation ATS obligations.
- Assessed the likely effects of single stock futures trading rules and evaluated proposed customer margin requirements.

Disclosure and Accounting Standards

- Monitored the economic effects of Regulation FD and evaluated related surveys and empirical studies.
- Continued to provide advice and technical assistance to the Division of Corporation Finance in conjunction with a Division study of compliance with the new audit committee requirements.
- Provided economic advice and technical assistance to the Division of Corporation Finance on the

acceleration of reporting deadlines for Forms 10-K and 10-Q.

- Provided economic advice and technical assistance on issues pertaining to road show communications, faster insider trading reporting, EDGAR foreign filings, and critical accounting policies.

Mutual Funds

- Analyzed the costs and benefits of rule changes impacting mutual funds and investment advisers. In particular, provided support for rules governing investment company mergers, Internet investment advisers, the custody of investment company securities, proxy voting of investment advisers, and the disclosure of proxy policies.
- Provided support to the Division of Investment Management regarding changes to the frequency of disclosure requirements.
- Prepared reports on issues relating to the economic effects of ETFs and the evaluation of applications for new types of ETFs. For example, the staff provided assistance in the evaluation of ETFs based on bonds, and provided assistance in the evaluation of actively-managed ETFs.
- Provided support to the Division of Investment Management on the economic implications of exemptive relief applications.

International and Cross-Border Issues

- Helped determine the agenda for the International Organization of Securities Commissions' Standing Committee 3 and papers for the Technical Committee

that provide guidance and establish principles to be followed by both securities regulators and financial intermediaries worldwide.

- Participated in the new Joint Forum (JF) Working Group on enhanced disclosure by securities firms, banks, insurance companies and hedge funds. Provided input on the JF Working Group's mandate and work plan and contributed to its deliberations and discussions with industry representatives from both the suppliers and users of financial information.

Inspections and Examinations

Our economic analysis staff provided advice and technical assistance to the SEC's Office of Compliance Inspections and Examinations in reviewing the first phase of the new Consolidated Options Audit Trail, as well as broker-dealer and exchange order execution practices in the equity and option markets.

Enforcement Issues

Our economic analysis staff provided assistance in approximately 96 investigations and other enforcement actions involving insider trading, fraudulent fund trade allocation, market manipulation, deceptive financial reporting, and other violations of securities laws. The staff applied financial economics and statistical techniques to determine whether the elements of fraud were present and to estimate the amount of disgorgement to be sought. The economics staff also assisted in evaluating the testimony of experts hired by other parties.