

Economic Research and Analysis

The economic analysis program provides the 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 reviews all rule proposals to assess their potential effects on small businesses; competition within the securities industry and competing securities markets; efficiency, competition, and capital formation; and costs, prices, investment, innovation and the economy.

What We Did

- Analyzed recent developments in the options market focusing on issues associated with the expansion of multiple trading.
 - Provided extensive economic advice, empirical data, and analytical support in connection with important policy initiatives designed to modernize and streamline securities regulation.
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Economic Analysis and Technical Assistance

Our economic analysis staff provided substantial quantitative economic evidence on several rulemaking projects.

Securities Offerings and Capital Formation

- Provided extensive empirical analysis and economic advice on issues related to the impact of the aircraft carrier, and cost of fraud and the impact of rule 144A market/ Exxon Capital transactions. The economic staff, in cooperation with the Divisions of Corporation Finance and Enforcement, analyzed thousands of documents pertaining to companies which filed fraudulent financial or registration statements.
- Provided economic advice and analysis on the proposed amendments relating to communications requirements for mergers and acquisition activity.
- Provided economic advice, technical support, and analysis of earnings quality and independence of audit committees in connection with proposed rules to promote greater independence and higher quality audit standards. The economics staff analyzed write-offs involving research and development expenditures, discretionary write-offs, and pooling accounting choices.

Mutual Funds

- Provided analytical support and technical assistance on proposed disclosure requirements that would require mutual funds to calculate and present after-tax returns. Analyzed how the assumed tax rate impacts the relevancy of after-tax returns for various categories of mutual fund investors based on their tax bracket.
- Provided advice and technical assistance on the pay-to-play restrictions on investment advisers, the householding rules, and amendments to rules that simplify the registration process for investment companies.

Market Structure and Trading Practices

- Provided extensive empirical data and analyses in connection with recent developments in the options markets, including the impact of increased competition in multiple-listings on quoted spreads, market share, and quality of quote information and customer executions.
- Provided economic advice and assistance in implementing Regulation ATS and evaluating the costs and benefits. Regulation ATS updates the regulatory framework for exchange and alternative trading

systems allowing the market to more fully benefit from advances in electronic trading systems.

- Provided analyses and economic advice to help the Division of Market Regulation craft the Short Sale Concept Release. The release addresses the need to review the operation and effectiveness of current short sale rules.
- Examined the practice of “flipping” whereby recipients of shares in an initial public offering sell immediately in the aftermarket. The examination focused on the extent to which flipping occurs, how often penalty bids are assessed, and the types of issues where penalty bids are used.
- Analyzed the impact of the New York Stock Exchange’s (NYSE) reduction in the minimum tick size.

Enforcement Issues

Our economic analysis staff provided assistance in investigations and enforcement actions involving the Nasdaq market, insider trading, mutual fund trade allocation, market manipulation, fraudulent 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. They also assisted in evaluating the testimony of experts hired by opposing parties.

Inspections and Examinations

Our economic analysis staff worked closely with the SEC's Office of Inspections and Examinations to:

- assist in developing a leverage based criteria to identify problem broker-dealers;
- analyze best execution issues on the options exchanges, including a comparison of trading costs of single and multiple-listed options; and
- evaluate compliance with the short-sale rules by day traders.

Special Projects

The economic analysis staff:

- developed the Mutual Fund Calculator for the SEC's website that enables investors to calculate the impact of a mutual fund's fees on investment returns;
- examined municipal bond trading; and
- provided analytical support and advice for a variety of ongoing investigations.