

## ICI Comments on Efforts to Improve U.S. Self-Regulatory System, March 2005

**March 8, 2005**

Mr. Jonathan G. Katz  
Secretary  
Securities and Exchange Commission  
450 Fifth Street, N.W.  
Washington, DC 20549-0609

**Re: Self-Regulatory Organizations (File Nos. S7-39-04 and S7-40-04)**

Dear Mr. Katz:

The Investment Company Institute<sup>1</sup> supports the Securities and Exchange Commission's examination of the operation and structure of self-regulatory organizations ("SROs").<sup>1</sup> The Commission's initiatives, which are intended to strengthen SRO governance processes and regulatory programs and to increase transparency of SRO operations, will advance the interests of investors by improving the self-regulatory system.

The Institute's comments on the SRO Rule Proposals and SRO Concept Release reflect the views of our members as investors. An efficient SRO structure is critical to our members, who, on behalf of millions of individual shareholders, are significant investors in securities. As the Commission notes, SROs are charged with an important public trust to carry out their self-regulatory responsibilities effectively and fairly while, among other things, protecting investors.

An examination of the role and operation of SROs is particularly timely, given recent changes to the structure of the U.S. securities markets and in the ownership structure of SROs.<sup>1</sup> The Institute believes that several of the rule proposals may serve to enhance the interests of investors by allowing SROs to manage more effectively the potential conflicts of interest in the self-regulatory system and by increasing transparency of the governance structure of SROs and of their regulatory programs and processes. These proposals include: requiring each exchange and association to separate its

regulatory function from its market operations and other commercial interests, whether through functional or organizational separation; requiring an exchange or association to establish ownership and voting limitations on the interest of its broker-dealer members; requiring additional safeguards when an SRO lists and trades its own, or an affiliate's, securities; and amending the procedures for the registration of exchanges and associations and the filing of amendments and supplements to the registration application. Similarly, we support suggestions in the concept release that would simplify regulation by, among other things, eliminating duplicative requirements on listed issuers and promoting the uniformity of SRO rules.

At the same time, we recommend that in implementing these proposals, the Commission be cautious to avoid establishing rules that are unnecessarily burdensome. Such an outcome could prevent SROs from fulfilling their regulatory and administrative responsibilities, to the detriment of investors.

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The Institute appreciates the opportunity to comment on the SRO Rule Proposals and SRO Concept Release. Any questions regarding our comments may be directed to the undersigned at 202-371-5408.

Sincerely,

Ari Burstein  
Associate Counsel

cc: The Honorable William H. Donaldson, Chairman  
The Honorable Paul S. Atkins, Commissioner  
The Honorable Roel C. Campos, Commissioner  
The Honorable Cynthia A. Glassman, Commissioner  
The Honorable Harvey J. Goldschmid, Commissioner

Annette L. Nazareth, Director  
Robert L. D. Colby, Deputy Director  
Division of Market Regulation

Paul F. Roye, Director  
Division of Investment Management

Securities and Exchange Commission

## **ENDNOTES**

<sup>1</sup> The Investment Company Institute is the national association of the American investment company industry.

<sup>2</sup> Securities Exchange Act Release No. 50699 (November 18, 2004), 69 FR 71126 (December 8, 2004) (“SRO Rule Proposals”) and Securities Exchange Act Release No. 50700 (November 18, 2004), 69 FR 71256 (December 8, 2004) (“SRO Concept Release”).

<sup>3</sup> As the Commission notes, increased dispersion of order flow across multiple markets has produced questions of comparable regulation by SROs and the effectiveness of cross-market supervision; increased competition among markets for listings and trading volume has applied pressure on SRO regulatory efforts and sources of funding; and the advent of for-profit, shareholder-owned SROs has introduced potential new conflicts of interest and issues of regulatory incentives.

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