GAO
Accountability * Integrity * Reliability
United States General Accounting Office
Washington, DC 20548

April 27, 2001

The Honorable John D. Dingell
Ranking Minority Member
Committee on Energy and Commerce
House of Representatives

The Honorable Edward J. Markey
House of Representatives

Subject: *Evaluation of Steps Taken to Address the Problem of Unpaid Arbitration Awards*

Our June 2000 report, *Securities Arbitration: Actions Needed to Address the Problem of Unpaid Awards*,[1] revealed that a significant proportion of awards against brokers had not been paid to investors. Most of the unpaid awards were owed by brokers that had left the securities industry. The Securities and Exchange Commission (SEC) and securities self-regulatory organizations (SRO) have taken substantial actions to implement recommendations we made to address this problem.

This letter responds to your January 17, 2001, request that we review the status of certain issues addressed in our June 2000 report. Our objectives were to (1) evaluate steps that SEC and the SROs have taken in response to recommendations in our report, (2) provide any updated information on the arbitration award payment rate since our last report, and (3) to comment on proposed solutions to the unpaid award problem made in correspondence to you by William S. Shepherd, a Texas securities attorney.

Results in Brief

SEC and the National Association of Securities Dealers-Dispute Resolution, Inc.[2] (NASD-DR) have taken several positive steps in response to our report recommendations that could help reduce unpaid awards. For example, NASD-DR has begun monitoring the payment of awards by NASD member broker-dealer firms and individual brokers and now asks investors that have won arbitration awards to inform it when awards are not paid. NASD-DR also has developed procedures to help investors seek alternatives to arbitration when their broker-dealers have failed. For

[1] *Securities Arbitration: Actions Needed to Address the Problem of Unpaid Awards* (GAO/GGD-00-115, June 15, 2000).
[2] In July 2000, NASD-DR became operational as a subsidiary of the National Association of Securities Dealers (NASD). NASD-DR administers NASD arbitration, mediation, and other alternative dispute resolution services.

example, NASD-DR has designed procedures to notify claimants when broker-dealer firms or individual brokers are no longer registered and, therefore, may not be influenced by NASD disciplinary procedures to pay awards. NASD-DR has also developed a rule change to waive predispute arbitration agreements when broker-dealers or individual brokers leave the industry. These changes are to be effective in June 2001. In addition, SEC and NASD-DR have made information available to warn investors about the potential for unpaid arbitration awards and encourage investors to more thoroughly investigate the backgrounds of brokers with whom they intend to do business.

SEC intends to periodically inspect NASD-DR's procedures for monitoring award payment and has arranged with NASD-DR to obtain detailed quarterly statistics on award payment. Initial data from NASD-DR's monitoring of the payment of awards during mid-September through December 2000, suggests that the rate at which awards were not paid has diminished. We reported in June 2000, that in 1998 an estimated 64 percent of awards decided by NASD-DR forums had not been paid in full. The more recent data show that about 13 percent of awards decided from mid-September through December 2000, were not paid in full as of February 7, 2001. The more recent data, however, is limited to a very short time period. As in our June report, broker-dealers and individual brokers that had left the securities industry owed most of the unpaid awards.

If unpaid awards remain a problem, we recommended that SEC consider other approaches to address the problem. We discussed some of the costs and burdens of several alternative approaches in our June 2000 report. Mr. Shepherd's proposal of providing insurance coverage for unpaid awards is similar to those previously discussed approaches and would have similar costs and burdens. Therefore, the proposal would need to be looked at carefully. We are not making any further recommendations at this time.

Background

Arbitration, an alternative to suing in court, uses a neutral third party to resolve differences between two parties in controversy. The securities industry uses arbitration to resolve disputes among industry members, their employees, and individual investors. The arbitrators' decisions are final and can be appealed to the courts only for narrowly defined reasons, such as misconduct or bias on the arbitrators' part. Arbitration awards are to be paid within 30 days of the date of the award, unless a party seeks a judicial review. SROs administer arbitration programs under SEC oversight. NASD-DR is the largest of these accounting for about 92 percent of investor-initiated securities arbitration cases in 1998.

Scope and Methodology

To evaluate actions taken in response to our report we reviewed available documentation of actions taken by SEC and NASD-DR since our June 2000 report. In addition, we examined SEC and NASD-DR Web sites for information warning investors that arbitration awards may not be paid. To provide updated information on the rate at which arbitration awards are being paid, we analyzed NASD-DR's report to SEC on award payment from mid- September through December 2000. In regard to

Mr. Shepherd's proposal for insurance coverage of unpaid awards, we addressed related proposals in our June 2000 report. We obtained comments from SEC and NASD-DR on a draft of this report and discuss these comments near the end of the report.

We conducted our work in Washington, D.C., during January through March 2001, in accordance with generally accepted government audit standards.

SEC and SROs Have Taken Several Positive Steps in Response to Our Report

In correspondence to you on January 2, 2001, SEC provided information on various steps taken regarding our report findings and recommendations. SEC's letter addressed specific responses to our recommendations, provided the results of NASD-DR's analysis of the status of NASD-member firms and individuals that had not paid awards, and provided information on a pilot program that offers investors the opportunity to use non-SRO arbitration forums. These actions should help improve regulatory oversight of award payment, give investors alternatives to pursue when awards are unpaid due to failed brokers, better inform investors of the possibility of unpaid arbitration awards, and encourage investors to more carefully choose the brokers with whom they intend to do business. Ultimately, these actions should help reduce the occurrence of unpaid arbitration awards.

NASD-DR Adopted Procedures to Monitor the Payment of Awards

Our June 2000 report found that an estimated 52 percent of awards administered by NASD-DR in 1998 were totally unpaid and 12 percent were only partially paid. We recommended that NASD-DR adopt procedures for monitoring the payment of arbitration awards. NASD-DR has adopted procedures that implement our recommendation. Effective September 18, 2000, NASD-DR began requiring NASD member firms to certify in writing that they have complied with awards against them or their individual brokers. A member firm must, within thirty days, notify NASD-DR that it paid an award, or that it has a valid basis for nonpayment, such as the filing of a court action to vacate the award. In addition, NASD-DR also now asks investors to notify it promptly if their awards have not been paid within 30 days of the date that they received the award. These procedures allow NASD-DR to identify which brokers are paying awards and begin suspension proceedings against nonpaying brokers. These procedures also provide NASD-DR with a means of compiling data that it and SEC can use to assess the extent to which unpaid awards remain a problem.

NASD-DR Has Begun Addressing the Problem of Unpaid Awards Caused By Failed Broker-Dealers

To improve investors chances of collecting unpaid awards caused by failed broker-dealers we recommended that SEC require NASD-DR to develop procedures that would help reduce costs and increase options for investors faced with the possibility of unpaid awards. NASD-DR has adopted program changes that should make it easier for investors to establish claims and judgments against failed brokers. NASD-DR redesigned its procedures to notify claimants if a member broker-dealer or individual

broker is no longer registered and, therefore, may not be influenced by NASD-DR disciplinary procedures to pay awards. This change, which is to become effective in June 2001, should provide investors with information they need to decide whether it is in their best interest to proceed with arbitration or seek other means of redress.

NASD-DR also has developed a rule change to help investors pursue claims against parties from which it may be difficult to collect award payments. In April 2001 SEC approved a NASD rule that would preclude a broker-dealer firm that has been terminated, barred, or suspended, or that is otherwise defunct, from enforcing a predispute arbitration clause against a customer. This would allow the customer (investor), instead, to seek legal recourse through the courts and establish a judgment against any assets of the defunct broker. This rule change is to become effective in June 2001. NASD-DR also is considering another rule change that would streamline default proceedings whenever a terminated or defunct broker-dealer firm or individual broker fails to answer or appear in a case and the claimant elects to continue with arbitration. This change is intended to make it easier for the investor to establish an award against a defunct broker-dealer or individual broker. NASD-DR expects to file this proposed rule change with SEC later in 2001. These rule changes should help investors save time and money in establishing their claims and judgments against failed brokers or seek other means of redress. These changes would satisfy the intent of our recommendation.

SEC and NASD-DR Have Taken Actions to Make Investors Aware That Awards May Not Be Paid

To help investors avoid the possibility of having an unpaid award, we recommended that SEC and SROs develop information to better educate investors about possible award nonpayment. SEC and NASD-DR have acted on our recommendation that they (1) develop and publicize information to focus investor attention on the possibility of unpaid arbitration awards and (2) encourage investors to more thoroughly investigate the backgrounds of broker-dealers and individual brokers with whom they intend to do business. SEC has revised its online publications to contain information about the potential for unpaid arbitration awards and to underscore the importance of thoroughly investigating a broker's disciplinary history. The publications include SEC's "Invest Wisely," "Ask Questions," and "Check Out Brokers and Advisors" publications.[3] For example, the "Ask Questions" publication contains the following text:

> "Which brokerage firm or individual broker you select is very important for several reasons. You'll want to investigate thoroughly before doing business with a broker or firm that has a history of complaints or problems with regulators. Also, you should know that if your firm or broker goes out of business or declares bankruptcy, you might not be able to recover your money—even if an arbitrator or a court rules in your favor."

[3]These online publications can be accessed through the SEC Web site (www.sec.gov).

The other publications contain similar language, and new printings of paper versions of these publications are also to include the revised language. In addition, the discussion of arbitration under the "Search Key Topics" function on SEC's Web site includes the following language:

> "**Caution**. When deciding whether to arbitrate, bear in mind that if your broker or brokerage firm goes out of business or declares bankruptcy, you might not be able to recover your money—even if the arbitrator or court rules in your favor. That's one of the reasons why it is so important to investigate the disciplinary history of your broker or brokerage firm before you invest. For tips on how to do this, please read our publication entitled *Check Out Your Broker*."

SEC also said that it has added language to the standard letter SEC sends to investors who contact it about problems. The language advises investors to weigh the cost of proceeding with arbitration against the likelihood of being able to collect any award if the broker-dealer has left the industry or gone bankrupt.

SROs have also taken action to educate investors about the potential for unpaid awards. SEC has worked with NASD-DR and the New York Stock Exchange (NYSE) to make similar changes to their Web sites. As a result, NASD-DR has added information in several places on its Web site about the importance of learning about a broker's background, and the potential for nonpayment of arbitration awards.[4] For example, the "How to Start an Arbitration" section of the NASD-DR Web site includes language similar to that in SEC's "Search Key Topics" cautioning investors of the possibility of not getting paid and advising them to investigate their broker's disciplinary history. It goes on to provide information on how to find this background information. The NASD-DR's Web site also now includes a section entitled "What If I Don't Get Paid," that provides detailed information and references to other material regarding nonpayment of awards. NYSE also has included similar information regarding unpaid arbitration awards in its *Users Guide to Arbitration*, which can be accessed through NYSE's Web site.[5] NYSE's and NASD-DR's Web sites also include the January 2001-revised *Arbitration Procedures* pamphlet of the Securities Industry Conference on Arbitration. The pamphlet includes a section entitled "What If I Don't Get Paid?" These changes positively respond to our recommendation and should help call investors' attention to these issues.

SEC Intends to Periodically Examine the Extent of Award Nonpayment

To determine the effectiveness of actions taken to reduce the extent to which awards are not paid and whether unpaid awards remain a problem, we recommended that SEC periodically examine the extent of award nonpayment. SEC indicated that it has arranged with NASD-DR to obtain detailed quarterly statistics on unpaid awards and related NASD-DR actions. SEC said that it would periodically inspect NASD-DR's procedures for monitoring award payment and taking disciplinary action against member broker-dealer firms and individual brokers that have not paid awards. If

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[4]NASD Dispute Resolution, Inc., has a Web site for arbitration and mediation information (www.nasdadr.com).

[5]Information about the NYSE arbitration program is on its Web site (www.nyse.com).

unpaid awards remain a problem after it has assessed NASD-DR's new procedures, SEC said that it would consider the feasibility of other approaches to addressing the problem.

NASD-DR Has Followed-up on the Status of Brokers With Possible Unpaid Awards

In preparing our June 2000 report, we obtained information showing that some broker-dealers and individual brokers that had been a party to arbitration cases involving unpaid awards were still, perhaps inappropriately, doing securities business. SEC indicated that NASD-DR had followed-up on this information to determine the broker-dealers' and individual brokers' status in the securities industry. NASD-DR's analysis showed that in all cases that resulted in an award against the named broker-dealer or individual, the award had either been paid, the parties had reached a settlement, or NASD had taken action to cancel, terminate, or suspend the broker-dealer's or individual broker's membership. NASD-DR's follow-up effort was effective in that it documented that 18 awards had been paid or otherwise satisfied and resulted in actions taken to eliminate 3 nonpayers from the securities industry.

SEC Monitors Pilot Program

Our June 2000 report also mentioned a 2-year pilot program, inaugurated in January 2000, that would give brokerage customers the opportunity to use non-SRO forums to arbitrate disputes. Under this program, customers having qualified claims with one of seven participating broker-dealers may have the option of using a non-SRO forum to arbitrate their dispute. SEC said that it would continue to monitor the pilot program. SEC reported that so far investors had shown little interest in using the non-SRO forums perhaps because the cost to investors is higher.

Limited Data Suggest That the Rate of Unpaid Awards Has Declined

You also asked that we apprise you of any changes in the rate at which arbitration awards are being paid. In early February 2001, NASD-DR provided its first report to SEC on the payment of awards. The information reported showed that, as of December 31, 2000, 38 awards (about 13 percent) out of 296 awards--decided since September 18, 2000, that granted investors monetary relief against a broker-dealer or individual broker--had not been paid in full. As a result of its monitoring, NASD-DR instituted suspension proceedings against 13 broker-dealer firms or individual brokers in connection with 12 unpaid awards.[6] Two of the 12 unpaid awards were temporarily on hold pending hearings on the matters that the respondents had requested. The remaining 10 awards were cases in which NASD-DR had sent out a warning letter and was waiting for a response. The other 26 unpaid awards involved broker-dealers or individual brokers that were no longer in the securities industry.

The 13 percent rate of unpaid awards for the more limited time span of September through December 2000, is significantly lower than the estimated 64 percent for 1998

[6]For one of these awards, NASD-DR started separate suspension proceedings against both the member firm and a person associated with that firm.

shown in our June 2000 report. We do not know the extent to which NASD-DR's implementation of our recommendation that it monitor the payment of awards might be responsible for the reduction. Nor do we know to what extent short-term fluctuations in the rate of unpaid awards may account for part of this difference. The differences in the rates of unpaid awards across these two time periods also may be due in part to certain characteristics of the awards involved. For example, in our sample of 247 of the 845 monetary awards NASD-DR arbitrators made in 1998, 10 broker-dealers were each responsible for 3 or more unpaid awards, which in sum accounted for 62 unpaid awards. Yet among the 296 awards NASD-DR arbitrators made in the 4th quarter of 2000, the NASD-DR data identified only one instance where a broker-dealer was responsible for more than one unpaid award. Given the short time span covered by the recent data, SEC and NASD-DR need to continue monitoring award payment to determine whether additional steps should be taken.

The NASD-DR data also show that broker-dealers and individual brokers that were no longer in the securities industry continued to be responsible for most unpaid awards. In June 2000, we reported that the unpaid awards were largely due to brokers that were no longer in business. For mid-September through December 2000, the NASD-DR data showed that such defunct brokers accounted for 26 or 68 percent of the 38 unpaid awards. NASD-DR has said, as noted earlier, that it is proposing rule changes in 2001 to help address this problem. As we recommended in June 2000, SEC also plans to continue to monitor the problem of defunct brokers that do not pay awards and assess whether it needs to consider other approaches to address the problem.

Alternative Proposal Would Need Careful Examination

You referred to a letter from Texas securities attorney, William S. Shepherd, who disagreed with our recommendations and proposed other solutions to the problem of unpaid awards. Mr. Sheperd proposed that the problem can be solved entirely by regulations that make clearing firms liable for the acts of introducing brokers and by requiring introducing brokers to carry insurance. As you requested, we will evaluate Mr. Shepherd's proposals as part of future planned work addressing the regulation of clearing firms and introducing brokers.

Our June 2000 report discussed the notion of insurance coverage of unpaid awards. In that report we noted the views of officials of SEC, NASD, the Securities Investor Protection Corporation (SIPC), and the Securities Industry Association. These officials expressed concern that expanding SIPC coverage, for example, to include unpaid arbitration awards would quickly exhaust the SIPC fund (of about $1.1 billion) if annual payments were to be as high as the $129 million of unpaid awards that we estimated for 1998.[7] They also said covering unpaid awards would increase SIPC's caseload, requiring SIPC to expand and increasing its need for resources. They also expressed concern that expanding SIPC coverage could increase costs for broker-dealers and investors, might encourage frivolous arbitration claims, and might reduce incentives for investors to carefully choose their brokers and investments. The same officials said that establishing a separate insurance fund to cover unpaid arbitration awards would pose these same problems.

[7]SIPC is a nonprofit membership corporation of broker-dealers, which provides certain protections to customers of failed broker-dealers against loss of cash and securities up to statutorily defined limits.

Insurance coverage of unpaid arbitration awards thus could impose additional costs and burdens on investors and other market participants. However, insurance coverage would not serve to prevent fraudulent practices or punish unscrupulous brokers. In order to be equitably and effectively implemented, such insurance, therefore, would need to be carefully examined and any attendant problems resolved.

Conclusions

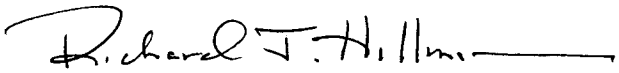
SEC and SROs have taken actions in response to our June 2000 recommendations that should help reduce the occurrence of unpaid arbitration awards. However, more time is needed to assess the effectiveness of the actions taken to date. Although recent data suggest that the percentage of unpaid awards has decreased, this data was limited to a very short time span. That data also showed that the problem of unpaid awards was still primarily due to broker-dealers and individual brokers leaving the securities industry without paying awards. NASD-DR has developed certain rule and procedure changes to help address this problem. SEC also plans to continue to monitor the payment of awards and, if nonpayment continues to be a problem, consider other approaches. Insurance coverage of unpaid awards, as proposed by Mr. Shepherd, could impose additional costs on investors and other market participants and would need to be carefully examined.

Agency Comments and Our Evaluation

NASD-DR and SEC provided written comments on a draft of this report, which are reprinted in enclosures I and II. NASD-DR and SEC generally agreed with the contents of this report and provided several technical comments, which were incorporated into the final report. NASD-DR commented that we took the appropriate caution about drawing conclusions from the limited data gathered so far on the payment of awards in the follow-up period. Nonetheless, NASD-DR believed that its initiatives to educate investors and monitor award payment, along with NASD enforcement program actions, have probably helped improve award payment to investors.

As agreed with your office, unless you publicly release its contents earlier, we plan no further distribution of this report until 30 days from its issue date. At that time, we will provide copies to Representative W. J. "Billy" Tauzin, Chairman, House Committee on Energy and Commerce; Representative Michael G. Oxley, Chairman, and Representative John J. LaFalce, Ranking Minority Member, House Committee on Financial Services; the Honorable Nick Lampson, House of Representatives; the Honorable Laura S. Unger, Acting Chairman, SEC; Mr. Frank Zarb, Chairman, NASD; Mr. William S. Shepherd; and other interested parties. We will also make copies available to others upon request.

Please call me at (202) 512-8678 if you or your staff have any questions concerning this report. David Tarosky was a major contributor to this report.



Richard J. Hillman, Director
Financial Markets and Community Investment

Comments from NASD Dispute Resolution, Inc.

Note: GAO comments supplementing those in the report text appear at the end of this enclosure.

Linda D. Fienberg

President
NASD
Dispute Resolution

Chief Hearing Officer and
Executive Vice President
NASD Regulation

April 20, 2001

Mr. Richard J. Hillman
Director, Financial Markets and Community Investment
U.S. General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Hillman:

NASD Dispute Resolution, Inc. (Dispute Resolution) appreciates the opportunity to comment on your draft letter to Representatives Dingell and Markey regarding the follow up to the United States General Accounting Office (GAO) Report entitled: Securities Arbitration: Actions Needed to Address Problem of Unpaid Awards (GAO Report or Report.)

Dispute Resolution believes that you have accurately captured the positive actions we have taken in response to the GAO recommendations of June 2000. You are correct in concluding that, in the fourth quarter of 2000, the percentage of paid awards was higher than during the review period covered by the Report. However, you also note the appropriate caution about drawing conclusions from the limited data gathered so far in the follow up period. Dispute Resolution's initiatives to educate investors and to monitor award payment have probably helped to improve the rate and timeliness of payments. The NASD enforcement program also contributed to the increased rate of payment. Many of the problem broker-dealers responsible for non-payment of awards in 1998 are no longer in business. We believe that Dispute Resolution's initiatives and the enforcement actions have combined to improve the environment for prompt payment of awards to investors.

Below, we itemize several suggestions for clarifications to your draft letter to Representatives Dingell and Markey. We note that you already have acknowledged that the SEC recently approved an amendment to NASD Code of Arbitration Procedure Rule 10301 that prohibits a firm that has been terminated, suspended, or barred from the NASD, or that is otherwise defunct, from enforcing a pre-dispute arbitration agreement against a customer in the NASD arbitration forum. (Release No. 34-44158; File No. SR-NASD-01-08). Dispute Resolution will implement this new rule in June 2001.

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See comment 1.

1. On page 3 of your draft, you include a description of the Dispute Resolution initiative to require member firms to certify in writing that they have complied with awards against them or their individual brokers. You may want to clarify that a firm, within thirty days, must tell Dispute Resolution that it paid the award, or that is has a valid basis for non-payment, such as the filing of a court action to vacate the award.

See comment 2.
Now on page 4.

2. On page 3 of your draft, you note that, during the first quarter of 2001, Dispute Resolution plans a procedural change to notify claimants if a member broker-dealer or individual broker is no longer registered. Since the first quarter is over, it may be more helpful to indicate that Dispute Resolution plans to implement the new procedure concurrently with the effectiveness of the amendment to Rule 10301 described above.

See comment 3.

3. On page 5 of your draft, you mention the new information added to the Dispute Resolution web site regarding the importance of learning about a broker's background and the potential for non-payment of awards. In addition to the materials available on the web site, the Securities Industry Conference on Arbitration (SICA) updated the publication entitled *Arbitration Procedures* in January 2001 to include expanded coverage on payment of arbitration awards. The revised publication is now posted on the Dispute Resolution and NYSE web sites.

See comment 4.

4. Footnote 4 on page 5 contains the address for the Dispute Resolution web site. The site contains arbitration <u>and mediation</u> information.

See comment 5.

5. On page 6 of your draft, you mention the SICA pilot program which gives investors the option to use a non-SRO forum to arbitrate their dispute. We suggest the following clarifications to that paragraph:

> Our June 2000 report also mentioned a <u>two-year</u> pilot program<u>, inaugurated in January 2000,</u> that would give customers the opportunity to use non-SRO forums to arbitrate disputes....customers having qualified claims with one of seven participating broker-dealers <u>may</u> have the option of using a non-SRO forum to arbitrate their dispute....SEC [said] <u>reported</u> that so far investors have shown little interest in using the non-SRO forums because [of the higher cost] <u>the cost to investors is higher</u>.

See comment 6.

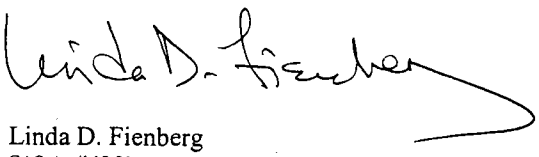
6. On page 6, the section heading is misleading. The following changes would conform the heading to the text:

> Limited Data Suggest That the [Award Payment Rate Has Declined] <u>Rate of Unpaid Awards has Declined</u>.

Mr. Richard J. Hillman
April 19, 2001
Page 3

Again, thank you for the opportunity to respond to the GAO draft letter and to work with your staff to help fashion responsive initiatives. As you know, Dispute Resolution agreed to report quarterly to the SEC regarding the payment of arbitration awards. We also will keep you informed of other relevant developments in our rules or procedures. If you have any questions or require further information, please contact me at (202) 728-8407.

Very truly yours,



Linda D. Fienberg
GAO April 19 01 response.doc

cc: George H. Friedman
Kenneth Andrichik
Robert Love

GAO Comments

The following are GAO's comments on NASD Dispute Resolution, Inc., letter dated April 20, 2001.

1. Text was added to note that an award must be paid within thirty days, unless there is a valid basis for nonpayment, such as the filing of a court action to vacate the award.

2. Text was revised to indicate that the changed procedure is to become effective in June 2001.

3. Text was added to indicate that NYSE's and NASD-DR's Web sites include the *Arbitration Procedures* pamphlet of the Securities Industry Conference on Arbitration, which includes a section entitled "What If I Don't Get Paid?"

4. Footnote was modified to include mediation.

5. Text was modified to indicate that the subject pilot program was a 2-year pilot, inaugurated in January 2000, customers may have the option of using a non-SRO forum, and that SEC reported that investors had shown little interest in the program perhaps because the cost to investors is higher.

6. Caption was modified to "Limited Data Suggest That the Rate of Unpaid Awards Has Declined."

Enclosure II

Comments From the Securities and Exchange Commission

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

DIVISION OF
MARKET REGULATION

April 18, 2001

Mr. Richard J. Hillman
Director, Financial Markets and
Community Investment
United States General Accounting Office
Washington, DC 20548

Dear Mr. Hillman:

Thank you for the opportunity to review and comment on the General Accounting Office's (GAO) draft report entitled Evaluation of Steps Taken to Address the Problem of Unpaid Arbitration Awards. As you know, the Commission and its staff have worked closely with the National Association of Securities Dealers (NASD) to implement GAO's recommendations [1] for reducing unpaid arbitration awards. Implementation of GAO's recommendations is now substantially complete. The staff will of course continue to monitor this issue. The staff has appreciated the ability to work with your staff to address the concerns raised in the June 2000 report. We have separately provided your staff with technical comments that should be reflected in the final report.

Sincerely,

Annette L. Nazareth
Director

[1] Securities Arbitration: Actions Needed to Address the Problem of Unpaid Awards (GAO/GGD-00-115, June 15, 2000).

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