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United States General Accounting Office
Washington, DC 20548

September 5, 2001

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

Dear Mr. Dingell:

We received your letter, dated August 2, 2001, jointly signed by your colleagues, requesting the General Accounting Office to conduct a follow-up study on protection of investors using on-line broker-dealers.

GAO has accepted your request as work that is within the scope of our authority. In reviewing the resource requirements to fully respond to your request, however, and considering the backlog of requests we have from congressional committees, it is difficult to specify at this time when GAO can start this work. We have assigned your request to Mr. Tom McCool, Managing Director for Financial Markets and Community Investment. Mr. McCool, or a member of his team will contact your office to discuss options to help meet your needs.

If you have any questions, please contact Mr. McCool on (202) 512-8678 or me on (202) 512-4507.

Sincerely yours,

Doris E.L. Cannon
Assistant Director
Congressional Relations



THE CHAIRMAN

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

August 24, 2001

The Honorable John D. Dingell
Ranking Member
Committee on Energy and Commerce
U.S. House of Representatives
Room 2322, Rayburn House Office Building
Washington, DC 20515-6115

Dear Congressman Dingell:

Thank you for your letter dated August 2, 2001 regarding the recent report by the U.S. General Accounting Office (GAO), On-line Trading: Investor Protections Have Improved but Continued Attention Is Needed (GAO-01-858, July 20, 2001). We appreciate your insights into the GAO Report and its recommendations for further improvement in this area. We are currently preparing a formal written statement on Commission actions taken on these GAO recommendations for Congress. I will forward a copy to you when it is completed.

If you have any further questions or issues, please do not hesitate to contact me or Annette Nazareth, the Director of the Division of Market Regulation, at (202) 942-0090.

Sincerely,

A handwritten signature in cursive script, appearing to read "Harvey L. Pitt".

Harvey L. Pitt

Similar letters sent to:

The Honorable Edolphus Towns
The Honorable Edward J. Markey

cc: The Honorable W.J. "Billy" Tauzin
The Honorable Michael G. Oxley
The Honorable John J. LaFalce
The Honorable Richard H. Baker
The Honorable Paul E. Kanjorski



THE CHAIRMAN

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

October 3, 2001

The Honorable C.W. Bill Young
Chairman
Committee on Appropriations
U.S. House of Representatives
H-218 Capitol Building
Washington, DC 20515

Dear Chairman Young:

I am writing to inform you of the steps taken by the Securities and Exchange Commission in response to the report of the General Accounting Office entitled On-line Trading: Investor Protections Have Improved but Continued Attention Is Needed. I commend the GAO for its report on online broker-dealers. In this report, the GAO recommended that the Commission:

- work with the industry to establish consistent and meaningful measures for outages and delays and to ensure that broker-dealers maintain consistent records of system slowdowns and outages that impact their customers;
- take steps to ensure that conspicuous plain English disclosure of the risks of margin, systems outages or delays, and trading be made on web sites of broker-dealers that offer online trading; and
- monitor the extent to which broker-dealers embrace the Commission staff's recommendations and other guidance on disclosing trading risk and the risk of systems outages or failures, and on protecting investor records and information, and, on the basis of this assessment, determine the need for further rulemaking in these areas.

We agree with these recommendations and are developing strategies to implement them.

Commission staff has initiated discussions with industry representatives to discuss the GAO's recommendations and other ways to ensure that the securities industry maintains sufficient operational capability. In addition, the staff recently reviewed the public web sites of 27 broker-dealers, including all of the broker-dealers whose practices were described in the Commission staff report prepared by the Office of Compliance Inspections and Examinations cited by the GAO. The review indicated that many firms were providing risk disclosures on their web sites. Eighty-one percent of web sites available for staff review contained disclosures on trading risks, and 76 percent of web sites contained margin disclosures. The most significant

weakness was the failure of most broker-dealers sampled (74 percent) to disclose to customers online the possibility of systems delays and outages. We note that broker-dealers may have additional disclosures on the customer portion of their web sites that are not accessible to the general public.

The Commission intends to encourage online broker-dealers to strengthen the risk disclosures made to customers on their web sites. The Commission's examination staff will evaluate the extent to which firms are incorporating the recommended disclosures into their web sites during routine examinations of broker-dealers that offer online trading. These findings will be shared with NASD Regulation to determine what further actions need to be taken to ensure that investors receive appropriate information when they trade online.

The Commission is committed to ensuring that investors are protected, whether they access securities markets online or through traditional means. We are pleased to report that, due to broker-dealers' contingency planning, the retail, trading, and back office operations of firms affected by the terrorist attacks were moved to back-up locations and were fully operational when the markets reopened on September 17, 2001.

Please feel free to contact me, Annette Nazareth, Director of the Division of Market Regulation, at (202) 942-0090, or Lori Richards, Director of OCIE, at (202) 942-7400 for additional information.

Yours truly,



Harvey L. Pitt

Similar letter sent to:

The Honorable Joseph I. Lieberman
The Honorable Dan Burton
The Honorable Robert Byrd

Copies to:

The Honorable John D. Dingell ✓
The Honorable Edward J. Markey
The Honorable Edolphus Towns
The Honorable W.J. "Billy" Tauzin
The Honorable Michael G. Oxley
The Honorable John J. LaFalce
The Honorable Richard H. Baker
The Honorable Paul E. Kanjorski