The International Association of Small Broker Dealers and Advisors

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The International Association of Small Broker-Dealers and Advisors,www.IASBDA.COM submits the following comments on the above referenced proposal regarding foreign broker-dealers operating in the U.S.On its face this proposal is hard to disagree with as it suggests that clients with $25 million in assets can access foreign bd's regulated by their home country. It suggests that retail investors are not included. But a closer analysis would state this proposition differently. In essence the proposal allows those foreign broker-dealers who have not chosen to establish a U.S. affiliate to access any customer who has combined their investment with others to reach a total of $25 million dollars. A qualified investor-unlike an accredited investor , includes any "partnership that owns and invests on a discretionary basis not less than $25,000,000 in investments." If this is a correct reading then we believe there is potential harm to U.S. investors and unfair competition to those U.S. firms that currently specialize in this business, both affiliates of foreigners and home grown firms. While this relief might be appropriate and helpful to foreign bd's that maintain a U.S. office because of time differentials, it is not so limited.

Let us assume a senior U.S. investor with a total portfolio of $750,000 in foreign and domestic securities with a registered bd who has been very happy with his U.S. bd accessing foreign securities. That investor can be solicited by an investment partnership to invest his entire portfolio with a foreign bd which has no U.S. contacts and never wanted any. The purported purpose of such a transfer of trust would be to save intermediary fees. We suggest however that the investor forfeits almost all his U. S. protections for this savings and if he is a buy and hold investor, those yearly savings would be negligible. We believe that it would be far better to place a limit on individual investors of 5-10 million dollars and allow those below that amount to retain their U.S. protections at least until we see how this new paradigm works. We have questioned before whether wealth itself creates sophistication but at least one senior official has noted that the staff retains that belief as a matter of convenience. We continue to believe that inherited wealth and that acquired not-through investments evidences nothing about sophistication. But that type of wealth is an easy target for investment partnerships and senior staff has recognized this.."Whether the accredited investor definition is where it should be is a good question," said Alan Beller, the SEC director of the division of corporate finance. "But that definition reaches across the spectrum of securities law, and affects other investments." At least the accredited investor standard applies to individual wealth and not to bundled wealth as this standard does. We therefore suggest that some thought be given to the test of funds under management in this context and whether its ever

appropriate for senior investors who have many other ways to access foreign markets.

Our second comment deals with the unsolicited exemption as we believe the staff underestimates how often this is used by sophisticated investors to access foreign markets after the close of U.S. markets. We note at p.8 the statement that, the exemption would not be a viable basis for a foreign bd to conduct an ongoing business, is not supported by any facts or studies. We think they can do just that by dealing with sophisticated investors who do their own research and maintain an ongoing dialogue with foreign bd's after the U.S. market shuts down. We believe the nature of that dialogue consists of the color of the local markets for individual stocks and the merits of those stocks. Frankly we believe that most investors with $25 million in assets are very content investing thru this exemption. We think this procedure should be recognized by confirming that once a U.S. investor initiates contact with a foreign bd on its own, the exemption has been satisfied as the dialogue will inevitably continue and to our knowledge the staff has never taken enforcement action in this regard. We further believe this rationale should apply to foreign options exchanges approached by U.S.investors.

Finally we believe the Commission should very carefully weigh the impact this amendment has on small firms that have provided these services for many years. We do not believe they are the ones worried about intermediation costs nor do we hear an outcry from their clients. These intermediation costs however provide the best protection in the world, namely a U.S. supervised broker-dealer. While globalization may inevitably hurt the small firms,less regulation should not be a factor in that demise. It would be useful to see a robust discussion of the impact on small firms in the final adoption of this rule. We note that at least one comment questions how secure investors can be that these foreign bd's will deliver securities as promised if such delivery has presented so many problems under Reg. SHO in our own regulatory system. We predict that as investors realize fails and losses from investment partnerships investing with foreign bd's,these proposed amendments will look like the wrong idea at the wrong time. Great concern has been expressed about SARBOX driving the financial markets overseas. This rule invites the business overseas at one of the most critical times in U.S. financial market history. The RFA analysis for this proposal at page 109 is exactly one paragraph long and dismisses the impact on small brokers by referencing "staff discussions with industry." We believe that more is required and at the very least the industry members referenced should be identified.

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