RESPONSES OF THE UNITED STATES TO THE SELF-ASSESSMENT QUESTIONNAIRE ON THE IMPLEMENTATION OF THE OBJECTIVES AND PRINCIPLES OF SECURITIES REGULATION

Information presented is as of April 20, 2000.

NOTE: The responses to this survey were prepared by the staff of the US Securities and Exchange Commission and do not necessarily reflect the views of the Commission itself.

Principle 1: The responsibilities of the regulator should be clear and objectively stated.

1. What is your assessment of the current status of your jurisdiction regarding implementation of this Principle?

☐ Implemented	☒ Partially Implemented	☒ Not Implemented

1.1 If implemented:

1. Please describe how this principle has been implemented:

The responsibilities of the US Securities and Exchange Commission (SEC or Commission) are clearly and objectively stated in the following federal securities statutes, and in the rules and regulations that the Commission has adopted under these laws.

Securities Act of 1933 (Securities Act)
Securities Exchange Act of 1934 (Exchange Act)
Public Utility Holding Company Act of 1935 (PUHCA)
Trust Indenture Act of 1939
Investment Company Act of 1940 (Investment Company Act)
Investment Advisers Act of 1940 (Advisers Act)
Securities Investor Protection Act of 1970 (SIPA)

Other federal laws of more general applicability, such as the Administrative Procedure Act, as well as Presidential Executive Orders, also may confer responsibilities upon the SEC.

2. Are further improvements or changes proposed? If so, please describe.

None is proposed at this time.

Principle 2: The regulator should be operationally independent and accountable in the exercise of its functions and powers.

2. What is your assessment of the current status of your jurisdiction regarding implementation of this Principle?

☒ Implemented	☐ Partially Implemented	☐ Not Implemented

2.1 If implemented:

1. Please describe how this principle has been implemented:

Under the Exchange Act, the SEC is composed of five commissioners. Commissioners are appointed by the President and confirmed by the Senate. No more than three commissioners can be members of the same political party. Commissioners are not allowed to engage in other employment than serving as a commissioner, and they cannot participate in stock-market operations or transactions regulated by the SEC. Commissioners hold office for staggered five-year terms. The President selects the Chairman of the SEC from among the five commissioners. Although the procedure for removal of a commissioner is not addressed in the Exchange Act, a commissioner may only be removed for cause. If the commissioner opposed removal, it would require impeachment by Congress.

The SEC has authority to interpret its mandate under the statutes it administers, and each of these statutes confers broad rulemaking powers on the SEC.

The SEC is accountable to Congress and is required to report to Congress annually regarding its activities. Also, each house of Congress has established a subcommittee whose oversight responsibilities include the securities laws administered by the SEC.

The United States and the federal agencies, including the SEC, are immune from suits involving money damages unless they have consented to be sued. Consent must be clearly and explicitly given and cannot be inferred. The exclusive remedy for money damages in tort against a federal agency is the Federal Tort Claims Act. Under the FTCA, the only allowable defendant is the United States; the agency cannot be sued in its own name.

2. Are further improvements or changes proposed? If so, please describe.

None is proposed at this time.

Principle 3: The regulator should have adequate powers, proper resources and the capacity to perform its functions and exercise its powers.

3. What is your assessment of the current status of your jurisdiction regarding implementation of this Principle?

☒ Implemented	☒ Partially Implemented	☒ Not Implemented

3.1 If implemented:

1. Please describe how this principle has been implemented:

The federal securities laws provide the SEC with comprehensive registration, rulemaking and adjudicatory powers with respect to oversight and regulation of the US securities markets. The SEC has the power to compel testimony and production of documents from any person that it reasonably believes to have information relevant to past, present and prospective violations of the federal securities laws. The SEC has authority to initiate administrative or civil enforcement proceedings and to refer matters to the US Department of Justice for criminal prosecution.

The SEC, like any other federal agency, is required to submit an annual budget, first to the Office of Management and Budget, an executive branch agency, and then to the Congress. The SEC's budget for fiscal 2000 is approximately $360 million.

2. Are further improvements or changes proposed? If so, please describe.

None is proposed at this time.

Principle 4: The regulator should adopt clear and consistent regulatory processes.

4. What is your assessment of the current status of your jurisdiction regarding implementation of this Principle?

☒ Implemented	☒ Partially Implemented	☒ Not Implemented

4.1 If implemented:

1. Please describe how this principle has been implemented:

The Administrative Procedure Act requires proposed substantive rules to be published with an opportunity for comment by interested parties before adoption. Provisions of the APA and laws administered by the Commission require that certain actions, such as approval of SRO rules, issuance of certain exemptive orders, and approval of certain applications, may be taken only after written notice and an opportunity for comment by interested persons. Finally, the APA provides for judicial review of final agency actions.

In addition to compliance with the APA, the Commission uses several procedures so that its rules and procedures are consistently applied, comprehensible, fair and equitable.

- The SEC uses transparent procedures when proposing and adopting rules and when providing exemptive and other types of relief from the application of the federal securities laws. Proposed and final rulemakings are published in the Federal Register and are publicly available, as are exemptions from the securities laws, interpretive positions and SEC "no-action" letters. SEC decisions enforcing its rules are publicly available as well.
- The SEC places emphasis on writing in plain English.
- The SEC discusses rulemaking and other matters at continuing legal education seminars and other conferences and meetings.
- The SEC meets periodically with groups of industry representatives to discuss rulemaking and other issues of concern.
- When the SEC considers its rules in an enforcement context, proposed enforcement actions are reviewed for consistent application.
- If there is disagreement among SEC staff as to the proper application of a rule, staff members with the differing views have an opportunity to advocate their views.

2. Are further improvements or changes proposed? If so, please describe.

None is proposed at this time.

Principle 5: The staff of the regulator should observe the highest professional standards, including appropriate standards of confidentiality.

5. What is your assessment of the current status of your jurisdiction regarding implementation of this Principle?

☐ Implemented	☒ Partially Implemented	☒ Not Implemented

5.1 If implemented:

1. Please describe how this principle has been implemented:

SEC commissioners and staff are subject to government-wide conflict of interest laws, standards of ethical conduct for employees of the executive branch, and the SEC Conduct Regulation. The SEC's Conduct Regulation contains comprehensive securities ownership and transaction reporting rules, as well as prohibitions on certain transactions. In addition, commissioners and certain SEC staff are subject to financial reporting and disclosure rules of the Office of Government Ethics that apply to senior executives. Generally the

securities ownership and financial reporting and disclosure rules apply to the employee, and to the employee's spouse and immediate family members.

One of the fundamental principles underlying both the government-wide ethics rules and the SEC's Conduct Regulation is that every person with dealings with the Government should be treated fairly and equally. Many of the statutory provisions and regulations are directed toward this objective.

In addition to monitoring commissioners' and employees' financial information and securities ownership, the SEC provides each new commissioner and employee with a copy of the SEC's Conduct Regulation and an ethics manual. Employees are briefed on ethics matters on their first day of employment. Ethics bulletins are issued and training is held periodically, both to explain new requirements and remind employees of existing requirements. The SEC has a full-time Ethics Counsel supported by four attorneys who specialize in ethics matters. In addition, each office and division within the Commission has a designated ethics liaison officer and deputy liaison officer, who receive additional training. SEC employees can consult with these persons in confidence regarding any ethics questions they have. In addition, the Commission's Office of the Inspector General is responsible for monitoring and investigating possible ethics violations.

With respect to confidentiality, the Exchange Act provides that the SEC and the staff cannot disclose, or use for their personal benefit, information filed with or obtained by the SEC. Violations of this prohibition can lead to disciplinary action, including discharge, and a willful disclosure of nonpublic information is a criminal offense. The restrictions continue to apply after leaving Commission employment.

2. Are further improvements or changes proposed? If so, please describe.

None is proposed at this time.

Principle 6: The regulatory regime should make appropriate use of Self-Regulatory Organizations (SROs) that exercise some direct oversight responsibility for their respective areas of competence, and to the extent appropriate to the size and complexity of the markets.

6. Please briefly describe the role of SROs in your jurisdiction and explain, with respect to each SRO:

    a. what functions it is required to perform;
    b. the source of its powers to perform those functions; and
    c. what general limitations, if any, exist on the scope of the powers of SRO.

An SRO is defined in the Exchange Act as any national securities exchange, registered securities association, registered clearing agency, and the Municipal Securities Rulemaking Board. Currently 24 organizations are considered SROs, including eight active securities exchanges, the NASD, 13 active clearing agencies, and the Municipal Securities Rulemaking Board (MSRB). In February 2000, the SEC approved the International Stock Exchange's application for registration as the ninth national securities exchange.

SROs are granted special rulemaking and enforcement responsibilities under the Exchange Act to assist the SEC in regulating the securities industry. They are responsible for establishing, reviewing, and enforcing standards of conduct for their members, and for fair and orderly operation of trading facilities they provide. They adopt rules governing sales practices, trading and business practices, and financial responsibility for their members, and they enforce those rules and the federal securities laws in general. Under the Exchange Act, every registered broker or dealer that engages in a public securities business must become a member of, and therefore be subject to, the regulation of a registered securities association.

The SEC plays an active role in the SRO registration and rulemaking process, which is essential to the successful functioning of the self-regulatory apparatus. All SROs must fulfill statutory requirements set forth in Exchange Act, and submit proposed rule changes to the SEC for review and approval.

In addition to approving the registration of an SRO, and reviewing its rule changes, the SEC has authority under the Exchange Act to censure and impose sanctions on SROs and their members for failure to comply with the federal securities laws including the rules of the SRO. The SEC can also review SRO disciplinary action against a member, and denials of membership in, or access to, an SRO. The SEC also conducts inspections of programs administered by the SROs and conducts oversight examinations of broker-dealers recently examined by an SRO to evaluate the quality of the SROs' examination, regulatory, and surveillance programs. *See* responses to Questions 8 and 10.

Principle 7: SROs should be subject to the oversight of the regulator and should observe standards of fairness and confidentiality when exercising powers and delegated responsibilities.

7. What is your assessment of the current status of your jurisdiction regarding implementation of this Principle?

☒ Implemented	☐ Partially Implemented	☐ Not Implemented

7.1 If implemented:

1. Please describe how this principle has been implemented:

Under the Exchange Act, the SEC has responsibility to ensure that SROs require their members to comply with the federal securities laws and their own rules. The SEC plays an active role in the SRO registration and rulemaking process; has authority to censure and impose sanctions on SROs and their members for failure to comply with the federal securities laws, including the rules of the SRO; can review SRO disciplinary actions and denials of membership or access; and conducts periodic routine oversight inspections of programs administered by the SROs.

As noted previously, the SROs must fulfill certain statutory requirements. These requirements are generally intended to ensure that the SROs accept qualified persons as members, have fair membership standards and representation, and do not unfairly deny applicants access to membership of SRO-sponsored facilities. They also require that the SROs equitably allocate fees and other charges, fulfill the purposes of the federal securities laws, and comply with, and enforce compliance by their members with, the federal securities laws. The SROs observe confidentiality where appropriate.

2. Are further improvements or changes proposed? If so, please describe.

The NASD, the New York Stock Exchange, and others are considering whether and how to demutualize and convert their markets to for-profit status. These changes may require a reexamination of the SRO model. Suggested alternative models might include one SRO that regulates all markets or several SROs that conduct their own regulatory and surveillance functions solely for their own market, but with a single SRO overseeing member regulation, sales practices and other aspects of intermarket trading.

Principle 8: The regulator should have comprehensive inspection, investigation and surveillance powers.

8. What is your assessment of the current status of your jurisdiction regarding implementation of this Principle?

☗ Implemented	☒ Partially Implemented	☒ Not Implemented

8.1 If implemented:

1. Please describe how this principle has been implemented:

The SEC has broad authority to determine the scope of its investigations and the persons and entities subject to investigations – including both regulated and non-regulated persons and entities. The federal securities laws administered by the SEC provide that each member of the Commission, and any

officer designated by the Commission, has broad investigatory powers. These powers include administering oaths and affirmations; subpoenaing witnesses, compelling the attendance of a witness; taking evidence; and requiring the production of any books, papers, correspondence, memoranda, or any other records the SEC deems relevant to an investigation. Under the securities laws, the SEC can enforce its subpoenas in a US federal district court. Failure to obey a court order of compliance is punishable by contempt. In addition, regulated entities are required to keep a vast array of documents available for inspection and production to the staff when requested.

The SEC also has broad authority under the Exchange Act, the Investment Advisers Act, and the Investment Company Act, to conduct inspections of entities registered with the SEC. This examination authority extends to brokers, dealers, transfer agents, national securities exchanges, registered securities associations, clearing agencies, investment companies and investment advisers registered with the Commission. In addition, the Investment Company Act authorizes the Commission to require accountants and auditors to keep reports, work sheets, and other documents and papers relating to registered investment companies, and to make them available for examination by SEC staff.

Examinations of these regulated entities may be conducted "at any time" and "from time to time," as the SEC deems "necessary or appropriate in the public interest or for the protection of investors." In exercising its examination authority, SEC staff reviews data, information, documents, and records maintained by the regulated entity being examined or other regulated entities that may have information relevant to the examination.

2. Are further improvements or changes proposed? If so, please describe.

None is proposed at this time.

Principle 9: The regulator should have comprehensive enforcement powers.

9. What is your assessment of the current status of your jurisdiction regarding implementation of this Principle?

☒ Implemented	☐ Partially Implemented	☐ Not Implemented

9.1 If implemented:

1. Please describe how this principle has been implemented:

The SEC is responsible for non-criminal enforcement of the federal securities laws and prosecutes cases in US federal courts and in administrative

proceedings. If the SEC decides to institute enforcement proceedings, it has several options. First, the SEC may bring a civil injunctive action against a person or an entity that the SEC believes has violated or is about to violate the federal securities laws. This type of enforcement action is filed in federal district court.

In a civil injunctive action, the SEC seeks a court order compelling the defendant to obey the law in the future. Violating such an order can result in criminal contempt proceedings, which may result in fines or incarceration. The SEC may also seek ancillary relief -- requirements imposed on a defendant to remedy the harm caused by the violation. Ancillary relief may include an accounting, disgorgement of ill-gotten gains where a defendant has profited from a violation of law, civil money penalties, and a bar from serving as an officer or director of a public company. The SEC also may ask a federal court for emergency relief, generally in the form of a Temporary Restraining Order (TRO). In seeking a TRO, the SEC often requests that a court issue an order "freezing" illegally obtained money so that, at the successful conclusion of the case, the assets may be returned to defrauded investors.

Second, the Commission may institute administrative proceedings against a person or an entity regulated by the SEC or any person that it believes has violated the law. This type of enforcement action is litigated before an SEC administrative law judge and is subject to appeal directly to the Commission. The Commission's decision is in turn subject to review by a US Court of Appeals. The Commission acts in a judicial capacity if it reviews the administrative law judge's initial decision.

Administrative proceedings provide for a variety of relief, including a censure, a limitation on activities (in the case of a regulated entity or associated person), a suspension of up to twelve months, a bar, or a cease and desist order. In 1990, the US Congress passed the Securities Law Enforcement Remedies and Penny Stock Reform Act, which gave the SEC authority to obtain an accounting, disgorgement, and a civil money penalty in appropriate administrative proceedings.

In both civil injunctive actions and administrative proceedings, the SEC has the power to enter into enforceable settlements. In a civil action, the SEC requests that a court issue an order reflecting the settlement. The SEC also has the authority to refer cases to the criminal law enforcement authorities (the US Department of Justice and the individual US Attorney's offices). To assist the Department of Justice, the SEC provides assistance to US Attorneys by, among other things, providing access to SEC investigative files and appointing SEC staff to serve as Special Assistant US Attorneys. A criminal prosecution does not preclude the SEC from taking civil action for the same conduct, and similarly, SEC action does not preclude a subsequent criminal prosecution.

2. Are further improvements or changes proposed? If so, please describe.

None is proposed at this time.

Principle 10: The regulatory system should ensure an effective and credible use of inspection, investigation, surveillance and enforcement powers and implementation of an effective compliance program.

10. What is your assessment of the current status of your jurisdiction regarding implementation of this Principle?

☒ Implemented	☐ Partially Implemented	☐ Not Implemented

10.1 If implemented:

1. Please describe how this principle has been implemented:

The SEC carries out its investigative and enforcement powers through conducting investigations and bringing enforcement actions where appropriate. An SEC investigation can be either a formal or an informal investigation. In an informal investigation, the staff relies on the voluntary cooperation of individuals and entities to obtain information and cannot issue subpoenas or require or administer oaths or affirmations. The staff typically requests voluntary production of documents and may request the creation of documents. The staff also may seek interviews or transcribed testimony of witnesses. Informal investigations are non-public, and certain procedural safeguards also apply to informal investigations.

At the end of an informal investigation the staff has several options. It can authorize an administrative proceeding; recommend that the SEC seek injunctive relief; refer the matter to the Department of Justice for criminal prosecution; conclude the investigation without recommending an enforcement proceeding; or pursue a formal investigation if witnesses have not cooperated or if subpoena power is required to obtain necessary information.

Before the staff can conduct a formal investigation, it must obtain authorization from the Commission through a formal order of investigation. The Commission will issue a formal order if it finds that there is a likelihood that a violation of the federal securities laws is occurring or has occurred. The formal order describes the nature of the investigation and grants the staff power to issue subpoenas and administer oaths. Formal investigative proceedings are non-public. The SEC's rules for formal investigations give witnesses procedural protections, such as the right to have a lawyer present when testifying.

At the end of a formal investigation, the staff again has several options. It can recommend that the SEC seek injunctive relief; authorize an administrative proceeding; refer the matter to the Department of Justice for criminal

prosecution; or conclude the investigation without recommending an enforcement proceeding.

The SEC's Office of Compliance Inspections and Examinations administers the Commission's examination program. SEC staff conduct examinations of broker-dealers, investment advisers, investment companies, transfer agents, and clearing agencies for compliance with applicable securities laws and, where applicable, SRO rules and regulations.

The SEC conducts three types of examinations: (i) compliance examinations of entities for which the SEC is the primary regulator; (ii) oversight examinations of entities that are also regulated by an SRO; and (iii) special purpose, sweep and cause examinations. Compliance examinations are "routine" examinations of entities subject to the SEC's jurisdiction to test the entity's compliance with applicable laws and regulations. Oversight examinations are conducted of brokers and dealers subject to SRO regulation and examination. SEC staff conducts oversight examinations on firms recently examined by an SRO to evaluate the quality of SROs' examinations, and their regulatory and surveillance programs. Special purpose, sweep, and cause examinations focus on matters of particular concern to the SEC. The staff also conducts inspections of SROs' regulatory, surveillance, and enforcement programs.

All examinations and the findings resulting from the examinations are non-public. The SEC will share certain non-public examination information, where appropriate, with other regulators. *See* response to Question 11.

2. Are further improvements or changes proposed? If so, please describe.

As a result of the enactment of the Gramm-Leach-Bliley Financial Services Modernization Act of 1999 in November 1999, the SEC's examination program will be expanded to include the examination of brokers, dealers, investment advisers, and investment companies affiliated with a bank or bank holding company.

Principle 11: The regulator should have authority to share both public and non-public information with domestic and foreign counterparts.

11. What is your assessment of the current status of your jurisdiction regarding implementation of this Principle?

☐ Implemented	☒ Partially Implemented	☒ Not Implemented

11.1 If implemented:

1. Please describe how this principle has been implemented:

The SEC maintains non-public information in its files and adheres to strict rules of confidentiality to ensure that the information remains non-public. Under Section 24(c) of the Exchange Act, however, the SEC can make non-public information and records in its possession available to persons the SEC deems appropriate, including domestic and foreign counterparts, if they have a need for the information and make appropriate assurances of confidentiality. The SEC has adopted Rule 24c-1 under Section 24(c), which provides that the SEC can provide non-public information to a federal, state, local or foreign government, or to a foreign financial authority, among others.

Under Section 21(a)(2) of the Exchange Act, the SEC can assist a foreign securities authority if the foreign authority states that it is conducting an investigation to determine if its laws have been violated. The term "foreign securities authority" is broadly defined. A "foreign securities authority" means any foreign government, or any governmental body (which would include a department, agency or political subdivision of the foreign government) or regulatory organization empowered by a foreign government to administer or enforce a law, rule, or regulation as it relates to a securities matter. The SEC may provide information in its public files, and, under Section 21(a)(2), it may collect information and evidence requested by the foreign securities authority. The SEC, for example, may compel the production of evidence and testimony on behalf of the foreign securities authority.

2. Are further improvements or changes proposed? If so, please describe.

None is proposed at this time.

Principle 12: Regulators should establish information sharing mechanisms that set out when and how they will share both public and non-public information with their domestic and foreign counterparts.

12. What is your assessment of the current status of your jurisdiction regarding implementation of this Principle?

☒ Implemented	☐ Partially Implemented	☐ Not Implemented

12.1 If implemented:

1. Please describe how this principle has been implemented:

The SEC has entered into information sharing arrangements, generally known as Memoranda of Understanding or "MOUs," that focus on the mechanics of assistance and information sharing between the SEC and the foreign securities authority. The MOUs outline the confidentiality and use of information

shared between the SEC and the foreign securities authority. Each MOU is designed to fit the particular circumstances of the foreign market and the powers of the SEC's foreign counterpart.

There is no requirement that an MOU be in place for the SEC to provide assistance to a foreign counterpart, even in cases requiring the use of the SEC's compulsory powers. Section 21(a)(2) of the Exchange Act explicitly states that the SEC may provide assistance to a foreign securities authority where the foreign securities authority is "conducting an investigation which it deems necessary to determine whether any person has violated, is violating, or is about to violate any laws or rules relating to securities matters that the requesting authority administers or enforces." *See also* response to question 13.1 below. As noted above, under Section 24(c) of the Exchange Act, the SEC can share information with a foreign counterpart as long as the person receiving the information provides certain assurances of confidentiality. The SEC is willing to approach enforcement and regulatory cooperation with a foreign securities authority on an *ad hoc* basis.

The SEC also has developed a process to share non-public examination-related information with other regulators under Section 24(c) of the Exchange Act and Rule 24c-1. Generally, regulators who want to obtain examination-related records make a specific written request for the information. SEC staff has identified situations where access is routinely provided (namely, sharing with certain SROs and state securities regulators) and simplified this process. The SEC also has entered into formal information sharing arrangements with several SROs and state securities regulators through the use of confidentiality agreements that focus on the ongoing provision of certain non-public examination records.

2. Are further improvements or changes proposed? If so, please describe.

None is proposed at this time.

Principle 13: The regulatory system should allow for assistance to be provided to foreign regulators who need to make inquiries in the discharge of their functions and exercise of their powers.

13. What is your assessment of the current status of your jurisdiction regarding implementation of this Principle?

☒ Implemented	☐ Partially Implemented	☐ Not Implemented

13.1 If implemented:

2. Please describe how this principle has been implemented:

As noted above, Section 21(a)(2) of the Exchange Act explicitly states that the SEC may provide assistance to a foreign securities authority where the foreign securities authority is "conducting an investigation which it deems necessary to determine whether any person has violated, is violating, or is about to violate any laws or rules relating to securities matters that the requesting authority administers or enforces." This statutory provision also provides that the SEC may provide assistance without regard to whether the matter under investigation by the foreign securities authority would constitute a violation of the US federal securities laws. In providing assistance, the SEC may share public and non-public information in its files and compel the production of evidence and testimony on behalf of a securities foreign authority.

Section 24(c) of the Exchange Act and Rule 24c-1, as discussed, permit the SEC to provide non-public information and records to a foreign regulator, as long as the regulator can demonstrate a need for the information and provide appropriate assurances of confidentiality.

The SEC is able to protect information received from a foreign securities authority from unnecessary public disclosure. In general, under Section 24(d) of the Exchange Act, the SEC cannot be compelled to disclose records obtained from a foreign securities authority if the foreign securities authority has in good faith determined and represented to the SEC that public disclosure of such records would violate the laws of the foreign jurisdiction and the records were obtained from the foreign securities authority pursuant to an MOU or other authorized means. Of course, information received from a foreign securities authority would have to be disclosed to Congress or to a defendant in an action instituted by the SEC or US government.

2. Are further improvements or changes proposed? If so, please describe.

None is proposed at this time.

Principle 14: There should be full, accurate and timely disclosure of financial results and other information which is material to investors' decisions.

14. What is your assessment of the current status of your jurisdiction regarding implementation of this Principle?

☐ Implemented	☒ Partially Implemented	☒ Not Implemented

14.1 If implemented:

1. Please describe how this principle has been implemented:

The US federal securities regulatory system is based on the principle of full and fair disclosure to investors. Issuers offering securities to the public are required to file a registration statement unless otherwise exempted from the registration requirement. A preliminary copy of the registration statement must be filed with the SEC before any offers of securities may be made to the public, and a copy of the final prospectus must be delivered to investors at or before the time they receive confirmation of their purchase.

The registration statement must include a prospectus that contains information on specific topics, including a description of the securities, audited financial statements, a description of the issuer's business, identification of and information about directors and senior management, and the identity of substantial shareholders. In addition, the issuer must add any additional material information necessary to make the required statements, in the light of the circumstances under which they are made, not misleading. Registration statements, including any amendments, are publicly available as soon as they are filed with the SEC.

In addition to the registration statement requirements, public companies are required to make periodic filings – Annual and Quarterly Reports -- with the SEC. The Annual Report describes the issuer's business operations, its management and its financial condition and results of operations for the preceding fiscal year, and includes audited consolidated financial statements. The Annual Report is due within 90 days after the end of the issuer's fiscal year and is public immediately upon filing with the SEC. The Quarterly Report describes the issuer's financial condition and results of operations for the preceding fiscal quarter and the corresponding period from the prior fiscal year and includes unaudited financial statements. The Quarterly Report is due within 45 days after the end of each of the issuer's first three fiscal quarters and is public immediately upon filing with the SEC. Over 270 full-time SEC employees are devoted to reviewing filings to encourage a high level of disclosure. Public filings with the SEC by issuers are available free of charge on the internet through the SEC's Electronic Data Gathering Analysis and Retrieval system (EDGAR).

2. Are further improvements or changes proposed? If so, please describe.

At any given time, proposals for specific or technical improvements in disclosure requirements are often outstanding.

Principle 15: Holders of securities in a company should be treated in a fair and equitable manner.

15. What is your assessment of the current status of your jurisdiction regarding implementation of this Principle?

☒ Implemented	☐ Partially Implemented	☐ Not Implemented

15.1 If implemented:

1. Please describe how this principle has been implemented:

Laws in many states in the US contain provisions protecting minority shareholders from unfair treatment. State corporation laws usually include one or more of the following: dissenter's rights of appraisal, shareholder rights to call an extraordinary meeting of shareholders, and rights to petition for appointment of a trustee or auditor to protect minority shareholders. Shareholders also may have the right to petition or otherwise seek recourse from the state corporation commission or state securities regulator to protect their interests. Most state corporation laws also permit shareholders to file derivative actions. These are actions brought in the name of the corporation to recover damages from officers and directors who breached their duties to the corporation and its shareholders.

The federal securities laws' emphasis on full and fair disclosure helps ensure that all shareholders have access to the same information about the company.

The takeover provisions of the federal securities laws, while not specifically directed at protecting the rights of minority shareholders, provide for equal treatment for all shareholders of the target company. The federal securities laws generally require equal treatment of all shareholders in connection with the conduct of a tender offer.

Issuers are required to disclose publicly the identity and ownership position of major shareholders. The ownership level that triggers disclosure for US issuers is beneficial ownership of more than 5% of the issuer's outstanding equity voting securities. (The ownership level trigger for foreign issuers currently is 10%, but will be changing to 5% beginning September 30, 2000.)

2. Are further improvements or changes proposed? If so, please describe.

None is proposed at this time.

Principle 16: Accounting and auditing standards should be of a high and internationally acceptable quality.

16. What is your assessment of the current status of your jurisdiction regarding implementation of this Principle?

☒ Implemented	☐ Partially Implemented	☐ Not Implemented

16.1 If implemented:

1. Please describe how this principle has been implemented:

This principle has been implemented by requiring use of a comprehensive body of accounting principles by all issuers. United States Generally Accepted Accounting Principles (GAAP) are the accounting standards generally required to be used in preparing financial statements included in filings with the SEC. US GAAP is based on a written general framework. Generally, US domestic companies that are required to file financial statements with the SEC must apply US GAAP, which is an accrual basis of accounting. There is an exception for registered investment companies, which follow a fair value accounting model. Foreign issuers are allowed to prepare financial statements under US GAAP or using their home country GAAP, with reconciliation of net income and shareholders' equity to US GAAP.

The SEC has statutory authority for establishing accounting principles in the US. Historically, the SEC has looked to the Financial Accounting Standards Board (FASB), an independent private sector organization operating in the public interest to establish accounting standards. The FASB's activities are required to be open to public participation and observation. The FASB also publishes reports of its meetings and deliberations. The FASB follows certain precepts in the conduct of its activities, including: (i) to be objective in its decision making; (ii) to weigh carefully the views of its constituents; (iii) to promulgate standards only when the expected benefits exceed the perceived costs; (iv) to bring about needed changes in ways that minimize disruption to the continuity of reporting practice; and (v) to review the effects of past decisions. The work of the FASB is overseen by the SEC.

All audited financial statements included in filings with the SEC must be audited in accordance with US generally accepted auditing standards (GAAS). US GAAS is promulgated by the Auditing Standards Committee of the AICPA, and supplemented by the Independence Standards Board and by the SEC with respect to auditing independence requirements. These requirements are designed to ensure independence in fact and appearance of the individual auditor and the audit firm.

2. Are further improvements or changes proposed? If so, please describe.

The SEC recently issued a Concept Release on International Accounting Standards. In the Release, the SEC seeks comment on the necessary elements of a globally accepted, high quality financial reporting framework. The SEC is seeking comment on ways to achieve the dual objective of upholding the quality of financial reporting domestically, while encouraging convergence towards a high quality global financial reporting framework internationally. The SEC also is seeking input on when and under what circumstances it should accept financial statements of foreign private issuers that are prepared using the standards promulgated by the International Accounting Standards Committee.

Principle 17: The regulatory system should set standards for the eligibility and the regulation of those who wish to market or operate a collective investment scheme.

17. What is your assessment of the current status of your jurisdiction regarding implementation of this Principle?

☒ Implemented	☐ Partially Implemented	☐ Not Implemented

17.1. If implemented:

1. Please describe how this principle has been implemented:

A collective investment scheme (CIS) is generally operated in the US by its investment adviser. An investment adviser to a CIS must register with the SEC under the Advisers Act by filing a Form ADV with the SEC. The Advisers Act imposes detailed duties of disclosure, and certain regulatory requirements, on the activities of advisers. The Advisers Act also grants the SEC authority to, among other things, deny the registration of an adviser if the adviser or associated persons have engaged in certain misconduct.

An adviser is not required to have any specific training, but it must disclose in its Form ADV the educational and business background of its principal executive officers and individuals who provide advice. An adviser also must provide this and other information contained in its Form ADV to its clients and potential clients.

A CIS usually markets its shares through an affiliated principal underwriter. The principal underwriter must register with the SEC as a broker-dealer under the Exchange Act. The Exchange Act imposes detailed regulatory requirements on the activities of broker-dealers, and grants the SEC the authority to, among other things, deny the registration of a person who has engaged in certain misconduct. In addition, before a broker-dealer may conduct a securities business, it must become a member of the NASD or another SRO. SROs impose examination requirements on the employees and other associated persons of a broker-dealer.

2. Are further improvements or changes proposed? If so, please describe.

The SEC recently proposed significant changes to Form ADV. One proposed change would require that an investment adviser provide more extensive background and disciplinary information on its advisory personnel.

Principle 18: The regulatory system should provide for rules governing the legal form and structure of collective investment schemes and the segregation and protection of client assets.

18. What is your assessment of the current status of your jurisdiction regarding implementation of this Principle?

☒ Implemented	☐ Partially Implemented	☐ Not Implemented

18.1 If implemented:

1. Please describe how this principle has been implemented:

A CIS in the US is a legal entity organized under state law and owned by shareholders. A CIS must register with the SEC, and is regulated primarily under the Investment Company Act. The Investment Company Act imposes substantive requirements on the structure and operations of a CIS, in addition to disclosure requirements. For example, the Investment Company Act requires generally that at least 40% of the directors on the Board of Directors of a CIS be independent from the CIS, its investment adviser and affiliates of its investment adviser. The Board of Directors has overall legal responsibility for the management and performance functions of the CIS.

To protect the assets of a CIS, the Investment Company Act permits the CIS to maintain its assets only in the custody of "eligible custodians." Eligible custodians include: (i) banks subject to federal or state regulation; (ii) members of a national securities exchange (*i.e.*, a broker-dealer); (iii) clearing agencies that act as securities depositories, or the Federal Book-Entry System, provided that certain conditions are met; (iv) futures commission merchants and commodity clearing organizations; (v) certain foreign entities; or (vi) the CIS itself, subject to certain conditions.

2. Are further improvements or changes proposed? If so, please describe.

None is proposed at this time.

Principle 19: Regulation should require disclosure, as set forth under the principles for issuers, which is necessary to evaluate the suitability of a collective investment scheme for a particular investor and the value of the investor's interest in the scheme.

19. What is your assessment of the current status of your jurisdiction regarding implementation of this Principle?

☒ Implemented	☐ Partially Implemented	☐ Not Implemented

19.1 If Implemented:

1. Please describe how this principle has been implemented:

The Investment Company Act and other US securities laws impose disclosure requirements on a CIS to help investors determine whether an investment in a CIS will be suitable for their investment needs. For example, a CIS is required to disclose in its registration statement the CIS's investment objectives and principal investment strategies, and the principal risks of investing in the CIS. The registration statement must address the risks to which the CIS's securities portfolio as a whole are subject and the circumstances that are reasonably likely to affect adversely the CIS's net asset value, yield, and total return. In addition, a CIS's registration statement also must include a bar chart and table illustrating the variability of the CIS's returns.

A CIS also must disclose its policies concerning its diversification status, issuing of senior securities, borrowing money, underwriting the securities of other issuers, concentrating investments in a particular industry or group of industries, purchasing or selling real estate or commodities, making loans, and any other policy that may not be changed without shareholder approval. The Investment Company Act also requires a CIS to disclose the fees and expenses that an investor may pay if the investor buys and holds shares of the securities issued by the CIS.

The Investment Company Act requires a CIS to disclose: (i) the method that it will follow to determine the total offering price of its shares; (ii) when its shares will be priced; and (iii) that the share price at which a purchase or redemption order is effected is based on the net asset value next computed after receipt by the CIS of the order.

2. Are further improvements or changes proposed? If so, please describe.

None is proposed at this time.

Principle 20: Regulation should ensure that there is a proper and disclosed basis for asset valuation and the pricing and the redemption of units in a collective investment scheme.

20. What is your assessment of the current status of your jurisdiction regarding implementation of this Principle?

☐ Implemented	☒ Partially Implemented	☒ Not Implemented

20.1 If Implemented:

1. Please describe how this principle has been implemented:

The Investment Company Act prescribes the methods by which a CIS must value its portfolio securities to determine the CIS's net asset value. Portfolio securities for which market quotations are readily available must be priced according to market value; all other securities must be priced by the Board of Directors of a CIS using a fair value determination.

In addition, the Investment Company Act imposes requirements regarding the pricing of the redeemable securities issued by a CIS. In particular, the Investment Company Act requires that purchases and redemptions of CIS shares be effected at the current net asset value next computed after receipt by the CIS of an order to purchase or redeem. The Investment Company Act also requires that a CIS make payment to a shareholder within seven days after receipt of any redemption request by the shareholder. A CIS must disclose its pricing, purchasing and redemption procedures in its registration statement.

2. Are further improvements or changes proposed? If so, please describe.

None is proposed at this time.

Principle 21: Regulation should provide for minimum entry standards for market intermediaries.

21. What is your assessment of the current status of your jurisdiction regarding implementation of this Principle?

☐ Implemented	☒ Partially Implemented	☒ Not Implemented

21.1 If Implemented:

1. Please describe how this principle has been implemented:

The Exchange Act makes it unlawful for any broker or dealer to effect transactions in, or to induce or attempt to induce transactions in, securities unless the broker or dealer registers with the SEC. Broker-dealers file Form BD to register with the SEC, to apply for membership in the NASD or another SRO, and to apply for broker-dealer registration in the various states. Form BD requires information on the name and location of the broker-dealer, the type of business the firm intends to engage in, the names of its control affiliates and control persons, and the disciplinary history of the firm and those who control it. A broker-dealer may not operate until it has completed the application process with the SEC and the appropriate SRO.

In connection with broker-dealer registration, a broker-dealer generally must: (i) become a member of the Securities Investor Protection Corporation (SIPC), *see* response to Question 24; (ii) file appropriate forms to register its associated persons with the applicable SRO, have such persons pass SRO securities examinations, and submit fingerprints; (iii) make and maintain certain books and records and file required periodic financial reports; (iv) maintain a minimum amount of net capital in the form of liquid assets pursuant to SEC rules, which will vary depending on the type of business it conducts; and (v) be subject to periodic SEC and SRO inspections of financial responsibility and other regulatory requirements.

Broker-dealers and associated persons also must comply with SRO rules governing sales practices, trading and business practices, and member financial responsibility, as well as antifraud and other provisions of the federal securities laws. Firms and firm employees that violate SRO rules or the federal securities laws may be subject to SRO or SEC disciplinary action. SRO disciplinary actions are subject to SEC review under the Exchange Act.

2. Are further improvements or changes proposed? If so, please describe.

In August 1999, the broker-dealer registration database, the Central Registration Depository (CRD), was replaced by Web CRD, an Internet-based system. Broker-dealers now can file amendments to their registration forms electronically through Web CRD. This is expected to lower costs associated with the registration process.

Principle 22: There should be initial and ongoing capital and other prudential requirements for market intermediaries that reflect the risks that the intermediaries undertake.

22. What is your assessment of the current status of your jurisdiction regarding implementation of this Principle?

☒ Implemented	☐ Partially Implemented	☐ Not Implemented

22.1 If Implemented:

1. Please describe how this principle has been implemented:

Broker-dealers are required to maintain a certain level of financial soundness. This is regulated through broker-dealer financial responsibility rules, which are designed to provide safeguards with respect to customer funds and securities held at registered broker-dealers; promote accountability of those funds and securities; require the maintenance of accurate books and records; and require the broker-dealer to maintain sufficient liquid assets so that it can, if necessary, be liquidated in an orderly manner without the need for a formal proceeding.

The “net capital rule” under the Exchange Act prescribes minimum liquidity standards for broker-dealers. Its purpose is to ensure that broker-dealers maintain sufficient liquid assets to satisfy promptly the claims of customers in the event the broker-dealer fails, plus a cushion of liquid assets in excess of liabilities to cover potential market and credit risks. The "customer protection rule" protects customer funds and securities held by the broker-dealer. It requires a broker-dealer to have possession or control of all fully paid and excess margin securities of customers, and to make a daily determination to ensure that it is complying with this aspect of the rule. Additionally, the rule requires a broker-dealer to segregate and make a periodic computation of credits in excess of debits.

SEC rules under the Exchange Act require a broker-dealer to file periodic reports containing financial and operational data with the SRO which is designated as its examining authority. Most broker-dealers must also file with the SEC and its designated examining authority an annual audited report containing a statement of financial condition, a statement of income or loss, a statement of changes in financial position, a statement of changes in shareholders' equity and a statement of changes in subordinated liabilities. The annual audited report is accompanied by a supplemental accountant’s report setting forth any material inadequacies. Finally, the rules require broker-dealers carrying customer accounts to send their customers an audited balance sheet and other information.

As noted, SROs are responsible for establishing, reviewing, and enforcing standards of conduct for their members and, accordingly, make rules governing sales practices, trading and business practices, member financial responsibility and enforcement of those rules and the relevant SEC laws and rules. In addition, the SEC conducts inspections of the SROs' examination, regulatory and surveillance programs.

2. Are further improvements or changes proposed? If so, please describe.

None is proposed at this time.

Principle 23: Market intermediaries should be required to comply with standards for internal organization and operational conduct that aim to protect the interests of clients, ensure proper management of risk, and under which management of the intermediary accepts primary responsibility for these matters.

23. What is your assessment of the current status of your jurisdiction regarding implementation of this Principle?

☐ Implemented	☒ Partially Implemented	☒ Not Implemented

23.1 If Implemented:

1. Please describe how this principle has been implemented:

The broker-dealer financial responsibility rules discussed above provide safeguards with respect to customer funds and securities, promote accountability of those funds and securities, require the maintenance of accurate books and records and the filing of periodic financial and operational reports, and require a broker-dealer to maintain sufficient liquid assets such that it can, if necessary, be liquidated in an orderly manner. Implicit in these requirements is the assumption that firms have adequate internal controls to fulfill these obligations. For example, a firm's Financial Operations Principal must sign certain periodic reports filed with the SEC, and a branch manager must sign customer account opening forms. Managers can be held liable under the Exchange Act for failure to supervise employees in upholding these responsibilities, and managers and employees can be held liable for violations of the antifraud and books and records provisions, among others.

2. Are further improvements or changes proposed? If so, please describe.

None is proposed at this time.

Principle 24: There should be a procedure for dealing with the failure of a market intermediary in order to minimize damage and loss to investors and to contain systemic risk.

24. What is your assessment of the current status of your jurisdiction regarding implementation of this Principle?

☒ Implemented	☐ Partially Implemented	☐ Not Implemented

24.1 If Implemented:

1. Please describe how this principle has been implemented:

The financial responsibility rules provide for regulators to receive early warning from a broker-dealer if it experiences operational or financial difficulties, and require broker-dealers to maintain sufficient liquid assets to liquidate in an orderly manner without the need for a formal proceeding. The early warning provisions allow regulators to oversee an informal liquidation.

Additionally, as a condition of registration, broker-dealers are required to join SIPC, a nonprofit, membership corporation which is funded by broker-dealers and subject to SEC oversight. SIPC provides certain protections to the customers of a failed broker-dealer, thus mitigating the effects of a firm's failure. For example, SIPC establishes priorities in a liquidation proceeding, and provides for the payment of up to $500,000 per customer for claims for missing cash and securities, up to $100,000 of which may be claims for cash. The protection is against losses caused by the financial failure of the broker-dealer, and not against a change in the market value of securities in customers' accounts.

When a broker-dealer fails, SIPC asks a federal court to appoint a trustee to liquidate the firm and to protect its customers. In small cases, SIPC protects the customers by paying them directly. The trustee and SIPC will normally try to have some or all customer accounts transferred from the failed broker-dealer to another SIPC member broker-dealer.

2. Are further improvements or changes proposed? If so, please describe.

None is proposed at this time.

Principle 25: The establishment of trading systems including securities exchanges should be subject to regulatory authorization and oversight.

25. What is your assessment of the current status of your jurisdiction regarding implementation of this Principle?

☒ Implemented	☐ Partially Implemented	☐ Not Implemented

25.1 If Implemented:

1. Please describe how this principle has been implemented:

The Exchange Act makes it unlawful for a broker-dealer to effect a transaction on an exchange that is not registered with the SEC or exempted from registration by the SEC. The Exchange Act also provides procedures and requirements for registration as a national securities exchange. Under the Act, an exchange must:

- enforce compliance by its members and associated persons with the federal securities laws, including its own rules;
- permit any qualified broker-dealer to become a member;
- promote fair representation of members in the selection of directors and provide for at least one public director;
- provide for equitable allocation of reasonable dues and fees among members, issuers, and other persons using its facilities;
- prevent fraudulent and manipulative practices, promote just and equitable principles of trade, protect investors, and promote other specified goals; this has been interpreted to include the prevention of price fixing;
- provide for appropriate disciplining of its members and associated persons for violation of the federal securities laws;
- provide a fair procedure for discipline of its members and denying membership to applicants;
- not impose any burden on competition not necessary or appropriate; and
- prohibit the listing of any security issued in a limited partnership rollup transaction except under certain circumstances.

In order to enforce compliance, an exchange must also have a surveillance plan detailing how it will monitor trading by its members, and a compliance plan detailing how it will conduct examinations of the offices of its members.

The Exchange Act provides for similar procedures and substantive requirements for registration as a national securities association (NSA). The NASD is the only registered national securities association.

Alternative trading systems (ATSs) operate markets similar to national securities exchanges and Nasdaq. In order to accommodate traditional market structures and provide sufficient flexibility to ensure that new markets promote fairness, efficiency, and transparency, the SEC adopted Exchange Act Regulation ATS in 1998. Under Regulation ATS, an ATS may register as a national securities exchange or as a broker-dealer. If an ATS chooses to register as a broker-dealer, it must comply with additional reporting and record-keeping requirements that are designed to address an ATS' unique role in the market, and that vary depending on the ATS' activities and trading volume. However, an ATS that wishes to assume SRO functions must register as an exchange.

2. Are further improvements or changes proposed? If so, please describe.

As noted (*see* response to question 7), the NASD and the New York Stock Exchange are considering whether and how best to demutualize, which will require reorganization of their self-regulatory role.

Principle 26: There should be ongoing regulatory supervision of exchanges and trading systems which should aim to ensure that the integrity of trading is maintained through fair and equitable rules that strike an appropriate balance between the demands of different market participants.

26. What is your assessment of the current status of your jurisdiction regarding implementation of this Principle?

☒ Implemented	☐ Partially Implemented	☐ Not Implemented

26.1 If Implemented:

1. Please describe how this principle has been implemented:

2. Are further improvements or changes proposed? If so, please describe.

See response to Question 25.

Principle 27: Regulation should promote transparency of trading.

27. What is your assessment of the current status of your jurisdiction regarding implementation of this Principle?

☒ Implemented	☐ Partially Implemented	☐ Not Implemented

27.1 If Implemented:

1. Please describe how this principle has been implemented:

The high level of transparency in US markets can be attributed largely to SEC action that resulted in the creation of a consolidated quotation system, the consolidated tape, and last-sale reporting for Nasdaq securities. Public quotation reporting for equity securities is governed by the Exchange Act and SEC rules under the Act: the "Quote Rule," the "Limit Order Display Rule," and the "Plan Rule." Public transaction reporting for equity securities is also governed by the Exchange Act. The SEC has endeavored to ensure that data concerning trading interest, volume, and prices are available to investors, analysts, and other participants in the US equity markets so that they may have a full picture of trading activity. The best quotations (highest bid and lowest ask) and all trades are disseminated on a 90-second basis.

Pursuant to the Limit Order Display Rule and the Quote Rule (known as the "Order Handling Rules"), all significant market centers, including exchanges and OTC market makers, are required to make available to the public their best prices and the size associated with the prices. This information includes not only the best quotations of market makers, but also the price and size of customer limit orders that improve a market center's quotations. Market centers provide quote and trade information through central processors that are responsible for collecting and disseminating market information for different types of securities. The processors consolidate the information of individual market centers, determine the national best bid and best offer for each security, and disseminate the information to broker-dealers and information vendors. As a result, the best displayed prices for a particular security are made available to the public, and investors are aware of these prices no matter where they originate in the national market system.

2. Are further improvements or changes proposed? If so, please describe.

In February 2000 the SEC published a Concept Release requesting the public's views on whether fragmentation, the trading of orders in multiple locations without interaction among those orders, is a problem in today's markets and, if so, what steps should be taken to address it. The SEC is concerned that the fragmentation of trading interest among competing market centers will

inappropriately isolate orders, and interfere with vigorous price competition, public price discovery, best execution of investor orders, and market liquidity. After reviewing comments submitted in response to the release, the SEC will consider whether it is necessary to take regulatory action to address transparency and other fragmentation issues.

Principle 28: Regulation should be designed to detect and deter manipulation and other unfair trading practices.

28. What is your assessment of the current status of your jurisdiction regarding implementation of this Principle?

☐ Implemented	☒ Partially Implemented	☒ Not Implemented

28.1 If Implemented:

1. Please describe how this principle has been implemented:

A principal purpose of the Exchange Act is to prevent the manipulation of the securities markets, and in particular, the manipulation of a security's price. Several sections of the Exchange Act set the framework for manipulative behavior which is prohibited and against which the SEC and SROs will take action.

The Act prohibits the use of "wash sales" and "matched orders" for the purpose of creating a false or misleading appearance of active trading in any security registered on a national securities exchange. The Act also contains a general prohibition of manipulation for the purpose of inducing transactions in securities registered on a national securities exchange or traded over-the-counter. It also prohibits price stabilizing activities in contravention of SEC rules.

Section 10(b) of the Exchange Act prohibits the use of "any manipulative or deceptive device or contrivance" in connection with the purchase or sale of any security. It is a broad "catch-all" provision that empowers the SEC to prescribe rules that it deems necessary and appropriate in the public interest and for the protection of investors. The Act also prohibits a broker-dealer from effecting any transaction in, or inducing, or attempting to induce the purchase or sale, of any security, otherwise than on a national securities exchange, by means of any manipulative, deceptive or other fraudulent device or contrivance. Broker-dealers are also prohibited from making fictitious quotations.

In addition to these prohibitions, the SEC has defined by rule and regulation those devices or contrivances that it deems manipulative, deceptive, or otherwise fraudulent, and such quotations as are fictitious. The SROs have parallel and supplemental anti-manipulation provisions in many cases and, along with the SEC, conduct surveillance, inspections and examinations to prevent and detect illegal activity, and to discipline those who violate the above provisions.

2. Are further improvements or changes proposed? If so, please describe.

In October 1999, the SEC published a Concept Release on an Exchange Act Rule called the "short sale" rule. Since the adoption of this rule in 1938, securities trading has increased drastically in volume, velocity, and complexity. There have also been substantial improvements in market transparency and surveillance mechanisms. Because short sale regulation has remained fundamentally unchanged since that time, the SEC asked in the release for public comment on how to modernize the SEC's regulatory approach toward short sales.

Principle 29: Regulation should aim to ensure the proper management of large exposures, default risk and market disruption.

29. What is your assessment of the current status of your jurisdiction regarding implementation of this Principle?

☒ Implemented	☐ Partially Implemented	☐ Not Implemented

29.1 If Implemented:

1. Please describe how this principle has been implemented:

The financial responsibility rules provide safeguards with respect to customer funds and securities held at registered broker-dealers. The rules promote accountability of those funds and securities and require the maintenance of accurate books and records. The rules also require broker-dealers to maintain sufficient liquid assets so that it can, if necessary, be liquidated in an orderly manner without the need for a formal proceeding. The net capital rule, in particular, incorporates appropriate charges for unsecured receivables, concentrations in portfolios, market risk, and credit risk.

The information provided under Exchange Act rules helps the SEC and SROs to monitor broker-dealer exposure and risk. Additionally, in 1992, the SEC adopted new rules, which require broker-dealers to maintain and preserve risk assessment information with respect to broker-dealer affiliates, known as "Material Associated Persons," whose business activities are reasonably likely to have a material impact on the financial and operational condition of the broker-dealer. This includes information about the broker-dealer's net capital, liquidity, and ability to finance its operations.

2. Are further improvements or changes proposed? If so, please describe.

In response to market turmoil and the near collapse of Long Term Capital Management in the fall of 1998, the President's Working Group on Financial Markets issued a number of recommendations in April 1999 aimed at constraining excessive leverage in the financial system. The Working Group found that the scope and timeliness of available information on the activities of unregulated hedge funds was too limited, and concluded that they should be required to disclose additional, more timely information to the public. The Working Group agreed that enhanced disclosure would improve transparency and allow market participants to make better, more informed judgments about their borrowers and counterparties.

Principle 30: Systems for clearing and settlement of securities transactions should be subject to regulatory oversight, and designed to ensure that they are fair, effective and efficient and that they reduce systemic risk.

30. What is your assessment of the current status of your jurisdiction regarding implementation of this Principle?

☒ Implemented	☐ Partially Implemented	☐ Not Implemented

30.1 If Implemented:

1. Please describe how this principle has been implemented:

The Exchange Act gives the SEC authority over entities that are involved in securities processing and provides for a national system for the clearance and settlement of securities transactions. The scope of coverage includes organizations whose functions are essential to the efficient clearance, settlement, and transfer of securities, particularly clearing agencies and transfer agents. The SEC, clearing agencies, and the exchanges have established rules to enforce these obligations.

Clearing agencies include clearing corporations and depositories, and are SROs under the Exchange Act. They also are required to register with the SEC before providing clearing services. Prior to granting registration, the SEC is required to make certain determinations about the clearing agency's organization, operational capacity and rules. These determinations include the ability to facilitate prompt and accurate clearance and settlement, to safeguard securities and funds, to remove impediments and perfect the mechanism of a national clearance and settlement system, and generally to protect investors.

Under the Act, transfer agents must register either with the SEC, or with a bank regulatory agency if the transfer agent is a bank. Because there is no SRO for transfer agents, the SEC adopted specific rules and regulations for them, which are intended to facilitate the prompt and accurate transfer of securities and the maintenance and preservation of appropriate records. Like clearing agencies, transfer agents are also subject to inspection by the SEC.

2. Are further improvements or changes proposed? If so, please describe.

To further reduce risk, the SEC is considering whether to shorten the current settlement cycle from three business days to one day.