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May 22, 2023

Securities and Exchange Commission

Rule-comments@sec.gov

Re: File Number S7-08-23

I appreciate the opportunity to comment on the proposed changes to SEC Rule 17a-5, that were described in combined SEC releases 33-11176, 34-97182 and IC-34864.

Our firm, Integrated Solutions, is a leading service provider within the financial industry, with a client base of approximately one hundred small to medium sized broker-dealers that are involved in a myriad of business lines. We are privileged to be able to offer guidance to our customers in a practical manner, which helps them navigate the multitude of rules that they are subject to.

Though the combined releases address various rules and procedures, I have chosen to address only the proposals involving Rule 17a-5 and the FOCUS Report. The proposed changes are good for our firm. They will increase our workload and give us an opportunity to increase the fees we charge our clients. Yet since we feel obligated to advocate honestly for our clients, we feel compelled to discuss the proposals as they would be affected should some of what is proposed be adopted without modification or exemption.

This letter represents my own personal views and does not necessarily represent the views of any of our clients.

The releases make clear that the Commission prefers that data submitted to the Commission conform to an electronic format that is machine readable. I read some of the comment letters submitted in relation to the releases and most of them suggest that it is incontrovertible that all of the submissions to the Commission should be done that way and that investors, regulators and others would benefit from a requirement for such submissions. This stimulated me to write this comment letter to explain why I and others at our firm don't agree that what the Commission has proposed would result in a significant improvement at all, that the cost of mandating eXtensible Business Reporting Language (or "XBRL") submissions to EDGAR would result in significant burdens for most broker-dealers, that certain signature ideas are ill-conceived and that the entire process of modifying FOCUS reports is inappropriate.

FOCUS Report

Most people who read the SEC's releases noted above would think that most broker-dealers file FOCUS reports with SEC and that the FOCUS reports they do file are in the format of SEC's FOCUS report. That is not true at all. Most broker-dealers file FOCUS reports with the Financial Industry Regulatory Authority ("FINRA"). The FINRA version of the FOCUS report is actually different than the current SEC version. The narrative of the proposal speaks at length about the need for signatures of various people on the FOCUS reports as filed. The narrative ignores the fact that FOCUS reports filed with FINRA are filed via FINRA's

Gateway system and do not contain signatures, at all. Various line items in the SEC version are slightly different in these versions.

In addition, to supplement its FOCUS reports, FINRA requires Form SSOI to gather information that is potentially important but is missing from SEC forms.

Quite importantly but unmentioned in the SEC releases is why it seems to take forever for either of these regulators to modify their report forms to accommodate changes in Generally Accepted Accounting Principles ("GAAP") or regulatory requirements. For example, the statement of financial condition in the FINRA version of the reports does not contain a line for Limited Liability Company equity, in spite of the fact that most new broker-dealers are organized that way. The SEC version uses the same line for Partnership equity and for Limited Liability Company equity but also requires a separate indication of Limited Partners' or Members' equity. I know that Limited Partners are often passive investors while Members are often active participants in the businesses in which they are involved. In short, they are not comparable. Corporate broker-dealers are not categorized in that manner, at all.

It is clear to me that coordination among regulators and SEC is vitally important. Actually, it should occur constantly and modifications to the content of the FOCUS reports that are filed should be a relatively simple and timely process no matter where those modifications are designed or initiated.

Need for XBRL

The releases suggest that XBRL is necessary for analytical desires of regulators. We know that there are code numbers next to all of the important figures in FOCUS reports. It has been that way for decades! In fact, regulatory personnel regularly raise questions about why a particular code number item varied from a previous filing. Often, they don't even refer to the textual description of an item but rather refer only to the code numbers. This process has worked successfully for many years.

SEC's proposal about FOCUS items needing to be encoded in XBRL is simply an example of proposing a solution to a non-existent problem. Simply put, since it ain't broken there's no need to fix it.

The real world

The releases contain 427 pages, with some of those pages studying the costs of the changes proposed by the SEC. Seemingly absent from the analyses is a description of the difficulty of the preparation and filing of annual audited financial statements of registered broker-dealers.

The releases point out that the vast majority of these statements cover fiscal years that end in December. We know that there is a grave shortage of trained auditors available to examine financial statements prepared in accordance with GAAP. Since many of the broker-dealer filers are small firms, the auditing process of those firms tends to not begin until late in January of each year, after the December FOCUS filings occur. The audit workpapers need to be reviewed by various personnel at the auditing firms and there is a tendency for the functions to get stuck in these auditing firms in the last two weeks before the filing deadlines for the financial statements.

Exacerbating this process is the requirement that all broker-dealer audits be conducted by auditors that are registered with the Public Company Accounting Oversight Board ("PCAOB"). This requirement for broker-dealers that never have custody over the assets of broker-dealers complicates matters

significantly. In fact, there are currently fewer PCAOB-registered auditors than existed in earlier years. We question why this requirement should continue to exist in the current environment.

In fact, with fewer PCAOB-registered auditors available to examine financial statements, we believe that there should be significant relief for smaller broker-dealers, especially ones that never have custody of customer assets.

I note that registered Investment Advisers that do not have custody of customer assets are not required by SEC rules to have audits of their financial statements. Those entities are generally not significantly different from non-custodial broker-dealers regarding their financial or operational responsibilities to their clientele.

What SEC should consider doing or not doing?

Coordination with FINRA or other regulators regarding FOCUS report content

FINRA and other regulators have been able historically to make changes in report formats quickly and efficiently. SEC should accept these changes since they are created and adopted by regulators who are very serious regarding the content of the reports. Actually, those regulators are the first line of regulatory initiative, and they know clearly what they need to see on a regular basis. We realize that Rule 17a-5 has filing requirements for FOCUS reports, but these are effectively supplanted by paragraph (a)(3) of the rule, which allows for the various self-regulatory organizations and their members to operate under a plan that has been approved by SEC. It behooves the SEC to allow those self-regulatory organizations to adopt changes to the reports and to the protocols of filing and to do so quickly. There is also no need for signatures on regular monthly or quarterly filings. Since FINRA Rule 1220 makes clear who is responsible for regulatory filings, signatures do not necessarily modify those responsibilities anyway.

Signature requirements on annual financial statement filings

Since FINRA Rule 1220(a)(4) makes clear that every FINRA member needs to designate a Principal Financial Officer and a Principal Operations Officer and these people are the ones that need to be registered as a Financial and Operations Principal ("FINOP") or Introducing Broker-Dealer FINOP, SEC rules should indicate a strong preference that those people should be the signatories relating to annual financial statement filings. It does not matter what formal titles these people have. What does matter is that stockholders, partners, or members of broker-dealers who have little or no knowledge of financial statement requirements or the finances or operations of a particular broker-dealer should not be the persons who are compelled to execute oaths or affirmations simply because they happen to be available. We note that FINRA Rule 1220(a)(4), which was obviously approved in the past by SEC, says in part that FINOPS are responsible for:

> (i) final approval and responsibility for the accuracy of financial reports submitted to any duly established securities industry regulatory body;
>
> (ii) final preparation of such reports

On another note, we do commend the SEC for recognizing that wet signatures are not needed for its purposes. The E-Sign Act prevails. In addition, we do not see any significant necessity for notarization.

XBRL encoding should not be required except for very large broker-dealers or ones that are custodians

I am reminded that SEC is quite capable of recognizing when a requirement called for in a rule is unnecessary. Years ago, there was a member of the Capital Committee[1] of the Securities Industry Association (later known as SIFMA) who campaigned vigorously for changes to the Rule 17a-5 provision that then required that customers receive semi-annual copies of broker-dealer financial information. That person was a senior official of a major carrying broker-dealer who recognized that the cost of sending such financial information was very significant and that few customers were probably reading the information anyway. He made clear that if customers wished to read the information, it could be published on a broker-dealer's website or made available upon request. SEC recognized that there were better alternatives than to require the semi-annual mailings of financial data to customers and changed the rule.

Likewise, I find it hard to believe that for the vast majority of broker-dealers there is a compelling need for them to incur significant expense of coding financial statements. Customers do not read these, investors in the broker-dealers do not need them, regulators don't really need the coding with respect to most broker-dealers, especially since they regularly receive periodic FOCUS reports that are encoded as they have been for decades.

Should the SEC choose to ignore the above comment, I suggest that the filing period for annual financial statement filers not exempted from the requirement be extended by fifteen days to allow for XBRL encoding to be accomplished.

Recognize that broker-dealers are different from SEC filers

It may have been convenient for the SEC to sweep broker-dealers and their filings into an omnibus set of requirements that would be adopted by the SEC but broker-dealer reporting has little to do directly with the investing public. *Vive la difference*!

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Thank you for giving me the opportunity to comment on your proposed changes.

Please feel free to contact me at hspindel@integrated.solutions or 561-420-0842.

Very truly yours,

Howard Spindel
Senior Managing Director

[1] I served as a member of that committee for many years.