necessary to enable the Commission to monitor the activities of a broker-dealer affiliate whose business activities is reasonably likely to have a material impact on the financial and operational condition of the broker-dealer. Without this information, the Commission would be unable to assess the potentially damaging impact of the affiliate's activities on the broker-dealer.

There are currently 166 respondents that must comply with Rules 17h–1T and 17h–2T. Each of these 166 respondents require approximately 10 hours per year, or 2.5 hours per quarter, to maintain the records required under Rule 17h–1T, for an aggregate annual burden of 1,660 hours (166 respondents × 10 hours). In addition, each of these 166 respondents must make five annual responses under Rule 17h–2T. These five responses require approximately 14 hours per respondent per year, or 3.5 hours per quarter, for an aggregate annual burden of 2,324 hours (166 respondents × 14 hours). In addition, there are approximately seven new respondents per year that must draft an organizational chart required under Rule 17h–1T and establish a system for complying with the Rules. The staff estimates that drafting the required organizational chart requires one hour and establishing a system for complying with the Rules requires three hours, thus requiring an aggregate of 28 hours (7 new respondents × 4 hours). Thus, the total compliance burden per year is approximately 4,012 burden hours (1,660 + 2,324 + 28).

Written comments are invited on: (a) Whether the proposed collection of information is necessary for the proper performance of the functions of the agency, including whether the information will have practical utility; (b) the accuracy of the agency's estimate of the burden of the collection of information; (c) ways to enhance the quality, utility, and clarity of the information collected; and (d) ways to minimize the burden of the collection of information on respondents, including through the use of automated collection techniques or other forms of information technology. Consideration will be given to comments and suggestions submitted in writing within 60 days of this publication.

Please direct your written comments to Kenneth A. Fogash, Acting Associate Executive Director/CIO, Office of Information Technology, Securities and Exchange Commission, 450 5th Street, NW., Washington, DC 20549.

Dated: July 7, 2003.

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 03–18400 Filed 7–18–03; 8:45 am]

BILLING CODE 8010–01–P

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–48180; File No. PCAOB–2003–03]

Public Company Accounting Oversight Board; Order Approving Proposed Rules Relating to Registration System

July 16, 2003.

I. Introduction

On May 8, 2003, the Public Company Accounting Oversight Board (''Board'' or ''PCAOB'') filed with the Securities and Exchange Commission (''Commission'') proposed rules PCAOB–2003–03 pursuant to Section 107(b) of the Sarbanes-Oxley Act of 2002 (''Act''). Notice of the proposal was published in the **Federal Register** on June 11, 2003.[1] The Commission received sixteen comment letters. For the reasons discussed below, the Commission is granting approval of the proposed rules.

II. Description

Section 102 of the Act prohibits any person that is not a registered public accounting firm from preparing or issuing an audit report with respect to any ''issuer,'' as that term is defined in the Act, or from participating in preparation or issuance of any such report. In order to enable public accounting firms to comply with this registration requirement, the Board has proposed rules to establish a registration system. The registration system consists of eight rules (PCAOB Rules 2100 through 2106, and 2300), as well as definitions that would appear in Rule 1001, and a registration form (PCAOB Form 1).

Under the Act, the registration requirement is effective 180 days after the date on which the Commission makes its determination under 101(d) of the Act that the Board is capable of carrying out its responsibilities under the Act. The Commission made this determination on April 25, 2003, which means that domestic public accounting firms that wish to prepare or issue, or participate in the preparation or issuance of, audit reports with respect to any issuer must register with the Board by October 22, 2003.[2]

The proposed registration form requires disclosure of information concerning the applicant and its associated accountants, and about the applicant's audit clients that file reports with the Commission. Applicants must pay a fee to cover the costs of processing and reviewing registration applications, the amount of which will be announced by the Board prior to commencing acceptance of registration applications. Within 45 days of receiving an application, the Board must (1) approve the application, (2) issue a written notice of a hearing, or (3) request more information from the prospective registrant.

Although the Board has authority under the Act to exempt, with the approval of the Commission, non-U.S. public accounting firms, in whole or in part, from any of the Board's requirements under the Act, the Board decided that its proposed registration rules would apply to non-U.S. public accounting firms that prepare or furnish audit reports with respect to ''issuers'' or that play a substantial role in the preparation or furnishing of these reports. In response to concerns expressed by foreign regulators, accounting firms and others about the impact of the Board's proposed rules on non-U.S. accounting firms, the Board made several accommodations prior to submitting its proposed rules to the Commission.

These accommodations include (1) reducing the scope of information required by the registration form, (2) allowing firms to withhold certain information on the form if they can demonstrate that providing the information would conflict with non-U.S. law (by providing an English copy of the non-U.S. law, a legal opinion that submitting the information would violate the law, and an explanation of the applicant's efforts to seek consents or waivers to eliminate the conflict), and (3) allowing non-U.S. firms an additional six months to register with the PCAOB.[3]

Pursuant to the Act, registered public accounting firms must file annual reports with the Board and are subject to the Board's oversight through its inspection, investigation and

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[1] Securities Exchange Act Release No. 47990 (June 5, 2003); 68 FR 35016 (June 11, 2003).

[2] As discussed below, the Board's proposal would give foreign public accounting firms an additional 180 days (*i.e.,* until April 19, 2004) to register.

[3] The Board held a public roundtable meeting on March 31, 2003, at which various foreign regulators, accounting firms, and professional organizations, as well as representatives of U.S. institutional investors, discussed the ramifications of the registration of non-U.S. accounting firms.

disciplinary programs. The proposed rules that are approved by this order address only the Board's registration requirements for public accounting firms, and do not address the reporting or other requirements that will be imposed on registered firms or the manner in which the Board will exercise its oversight authority under the Act.

III. Summary of Comment Letters

The Commission received sixteen comment letters regarding the proposed registration system. Eight of these letters were from foreign governments and professional groups, and their comments related primarily to the impact of the proposal on non-U.S. accounting firms.[4] Seven of the letters were from major accounting firms and the SEC Practice Section of the American Institute of Certified Public Accountants (''AICPA/SECPS'').[5] and one letter was from the National Association of State Boards of Accountancy (''NASBA'')

Most of the letters from foreign governments and professional groups commended the Board on its accommodations for non-U.S. accounting firms, although they continued to express a desire for complete exemption from registration and oversight by the PCAOB. Most commenters in this group were of the view that registration in the United States would be costly, duplicative and burdensome. They expressed concern about the scope of the information requested in the registration form, about their perception that some of the information requested (*e.g.,* general consents to cooperate with Board requests for information) went beyond registration and into the realm of oversight, and about their perception of the burden on small firms of complying with the proposal and the resulting risk of further consolidation in the accounting profession. Several of these commenters expressed concern about the confidentiality of information submitted to the Board. Many commenters in this group requested that the registration requirement be delayed, both to permit firms to complete their registration applications and to give the Board's foreign counterparts time to develop or enhance their own registration and oversight regimes and agree with the Board on ways to reduce the need for PCAOB registration and oversight.

The letters from the AICPA/SECPS and the six largest accounting firms operating in the United States raised concerns about the scope of information requested by the PCAOB's proposed registration form and requested clarification of several issues. Among other things, the commenters in this group expressed concern about the confidentiality of information submitted to the Board, the scope of certain definitions such as ''associated person'' and ''associated entity,'' the manner of obtaining the Board's proposed relief from submitting information that would violate non-U.S. law, and the differences in SEC and Board requirements for fee disclosure. Several of the commenters in this group noted that the Board's broad requirement that applicants consent to cooperate with any request of the Board for testimony or documents should be subject to established privileges, such as the attorney-client privilege, and constitutional protections against self-incrimination. Commenters also objected to the Board's request for information about legal proceedings, particularly criminal proceedings, which were not related to audits. Many of the commenters in this group suggested that the Board and the Commission permit ''provisional'' registration in order to avoid disruption in the delivery of audit services. These commenters expressed concern that even if applicants make a good faith effort to comply, they might not be able to obtain all required information (or respond to Board requests for supplemental information) by the October 22, 2003 deadline, and that the Board may have difficulty in processing information by that date, even if it is submitted in time.

The NASBA letter requested that the Board cooperate with state boards of accountancy in their regulatory role, and suggested several ways in which the Board and the Commission might support state regulatory bodies.

IV. Discussion

Title I of the Act assigns the Board the formidable task of designing and implementing a registration and oversight system within a relatively short period of time. The investor protection goals of the Act justify the need for prompt action, but the importance of the Board's task and its potential impact on the public securities markets demand that it be undertaken in a thoughtful and reasoned manner. After careful review of the Board's proposed registration system, the Commission finds that it is consistent with the requirements of the Act and the securities laws and is necessary and appropriate in the public interest and for the protection of investors.[6]

A. Impact on Non-U.S. Accounting Firms

The Board has taken an important step in its mandate under the Act by proposing rules regarding registration of non-U.S. audit firms that prepare, issue, or play a substantial role in the preparation or issuance of, audit reports relating to U.S. public companies. This step has raised concerns in the international community, and the Board has made efforts to address those concerns, through its roundtable meeting in March, through its public comment process and through meetings and discussions with foreign regulators. In response to these concerns, the Board made significant accommodations in its proposal, especially with regard to non-U.S. accounting firms, including changes eliminating the potential conflicts of law raised by the registration system, narrowing the scope of information to be provided, and extending the deadline for foreign firms to register. This approach is similar to the approach the Commission has taken in implementing other provisions of the Act, by allowing for certain accommodations.

The Board has acknowledge that it is still considering the nature of its oversight, especially with respect to foreign public accounting firms. The Commission encourages the Board to continue its reasoned approach when considering its oversight role, especially with respect to non-U.S. firms. In this regard, we applaud the Board's initiative to work with its foreign counterparts to find ways to accomplish the goals of the Act without subjecting foreign firms to unnecessary burdens or conflicting requirements.

We urge the Board to continue its dialogue with oversight bodies outside the United States in order to try to find ways to reduce administrative burdens and coordinate in areas of common programmatic interest, such as annual reporting, inspections and discipline. We encourage the Board to move expeditiously to determine the nature and scope of its oversight over foreign public accounting firms. The

[4] Letters in this group were submitted by the European Commission, the European Federation of Accountants, the Financial Services Agency of Japan, the Institute of Chartered Accountants in England and Wales, the Instut der Wirtschaftsprüfer and the Wirtschaftsprüferkammer (jointly), the Japanese Institute of Certified Public Accounts, the Swiss State Secretariat for Economic Affairs, and the Swiss Institute of Certified Public Accountants and Tax Consultants.

[5] In addition to the letter submitted by the AICPA/SECPS, letters in this group were submitted by BDO Seidman LLP, Deloitte & Touche LLP, Ernst & Young LLP, Grant Thorton LLP, KPMG and PricewaterhouseCoopers.

[6] Section 107(b)(3) of the Act.

Commission is cognizant that many countries have embarked on ambitious reforms with respect to auditor oversight, and that the International Organization of Securities Commissions has issued a statement noting the basics of robust and effective oversight. Given these developments, we are confident that the Board and its foreign counterparts will make progress in developing workable cooperative arrangements.

B. Other Aspects of the Registration System

Many of the comment letters submitted by accounting firms and professional groups related to specific aspects of the registration form. A continuing theme of many of the comment letters was the desire for clarification of certain definitions, rules and registration form line items. It is not surprising that first-time users of a registration form and those seeking to work through a complex registration system would find areas of ambiguity. We believe that some of the issues raised by commenters in this group can be addressed by the PCAOB through formal or informal interpretations and clarifications, and, in this connection, we understand that the Board is considering the publication of ''Frequently Asked Questions'' and responses. We encourage the Board to use this and other means to assist applicants in complying with the registration rules. We also encourage the Board to review the registration form after the Board has gained more experience with the registration process, to determine whether amendments to the form can be made to make the registration process more efficient.

Finally, with respect to the comments submitted by NASBA, we appreciate the efforts of that organization and its members to work with the PCAOB on the important task of auditor regulation and oversight. We believe that both the Board and state regulatory bodies will benefit from continued close cooperation.

V. Conclusion

On the basis of the foregoing, the Commission finds that the proposed rules are consistent with the requirements of the Act and the securities laws and are necessary and appropriate in the public interest and for the protection of investors.

It is therefore ordered, pursuant to Section 19(b)(2) of the Securities Exchange Act of 1934, that the proposed rules (File No. PCAOB–2002–03) be and hereby are approved.

By the Commission.

Jill M. Peterson,

Assistant Secretary.

[FR Doc. 03–18497 Filed 7–18–03; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–48176; File No. SR–DTC–2002–19]

Self-Regulatory Organizations; The Depository Trust Company; Order Approving Proposed Rule Change to Establish an Inventory Management System

July 14, 2003.

I. Introduction

On December 19, 2002, The Depository Trust Company (''DTC'') filed with the Securities and Exchange Commission (''Commission'') proposed rule change SR–DTC–2002–19 pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act'').[1] Notice of the proposal was published in the **Federal Register** on May 21, 2003.[2] For the reasons discussed below, the Commission is approving the proposed rule change.

II. Description

The industry's prolonged discussions of the development of a new matching model that would promote straight through processing (''STP'') for institutional transactions identified a series of deficiencies in the current processing systems used in settling those transactions.[3] Industry members, particularly members of the Securities Industry Association's Institutional Trade Processing Committee, pressed DTC to develop a series of capabilities which would permit participants to centrally manage their own settlements as a way of furthering STP in the settlement process itself. A working group under the Settlement Advisory Board of The Depository Trust & Clearing Corporation (''DTCC'') assisted in crafting the framework for IMS.

Today, participants control the processing of their institutional deliveries received from a matching utility (such as Omgeo) through DTC's Authorization and Exception system (''ANE''). ANE prevents a delivery from being sent to DTC's processing system without an affirmative authorization from the delivering participant. This affirmative authorization is given either on an item-by-item basis or through a ''global'' authorization. A participant can submit exceptions to explicitly withhold a delivery from processing. Conversely, deliveries from the National Securities Clearing Corporation's (''NSCC's'') Continuous Net Settlement system (''CNS'') are automatically processed unless the participant instructs NSCC otherwise via an exemption. Other deliveries, such as Night Deliver Orders (''NDOs''), along with authorized institutional deliveries and CNS deliveries are processed by DTC at predefined times. All of these transactions may recycle (*i.e.*, pend) in the event of a position deficiency or a problem with system controls. Recycles are processed based on one of two recycle options; a ''First In First Out'' process or a DTC preestablished recycle queue.

Participants generally have sought greater control over the processing of their deliveries than these procedures permit. Therefore, participants have built internal inventory management systems or adopted internal manual procedures that exempt deliveries from automatic processing so that the participants can control the sequence and timing of their deliveries. This has caused the industry to build redundant systems, has increased the number of reclaims, and is contrary to achieving STP.

Implementation of the IMS allows a participant to choose how it wants to authorize its deliveries. The key components of IMS include:

(1) New authorization capabilities (which replace the ANE system) that allow participants to stage transactions for automated settlement;

(2) A new ''profiling'' system that allows participants greater control over the timing and order of their deliveries using predefined profiles, based on transaction type and asset class, to eliminate today's frequent direct intervention in the settlement process that inhibits STP;

(3) Capabilities permitting the linkage of transactions so particular receive

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[1] 15 U.S.C. 78s(b)(1).

[2] Securities Exchange Act Release No. 47826 (May 9, 2003), 68 FR 27876.

[3] The present U.S. system has evolved over time in different ways for different instruments, participants, and marketplaces. While the current system has met the needs of the industry well, the result is an intricate web of processing steps that are not standardized and are quite complex and inflexible. Many participants manage their processing with late-cycle interventions such as (a) withholding or ''exempting'' trades from more automatic processes, subsequently intervening in the system to reintroduce the transaction when they are ready to process it and (b) reversing or ''reclaiming'' problem transactions before or after settlement has occurred. These practices late in the settlement cycle disrupt automated processing and contribute to the incidence of fails, which creates costs and risks for participants and for the system as a whole.