

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

AUG 5, 1975

The President  
The White House  
Washington, D.C. 20500

Dear Mr. President:

I have the honor on behalf of the Securities and Exchange Commission to transmit herewith, pursuant to Section 7(c)(2) of the Securities Investor Protection Act of 1970 ("the Act"), the Fourth Annual Report of the Securities Investor Protection Corporation ("the Corporation" or "SIPC") covering the year 1974. Section 7(c)(2) of the Act requires the Corporation to submit its Annual Report to the Commission and provides that the Commission shall transmit such Report to the President and the Congress "with such comment thereon as the Commission may deem appropriate." Our principal comment is that the Report demonstrates the soundness of SIPC as an institution and the excellence of its management. In addition, we have the following comments.

Proposed Amendments to the Act

As described on pages 6 to 8 of the Annual Report, a SIPC Special Task Force made a number of recommendations which became the basis of proposed amendments of the Act which were submitted to Congress in late 1974. The legislative proposal was introduced into both Houses of Congress last year (S. 4255 and H.R. 17684) and has been reintroduced this year (S. 1231 and H.R. 8064). The major recommendations of that proposal are: (1) to amend existing procedures which require court-appointed trustees in all SIPC liquidations to permit SIPC to make direct payments to customers in small cases; (2) to permit customer accounts to be transferred in bulk to other brokers in appropriate cases rather than be liquidated account by account; and (3) to raise the dollar limits of protection to correspond to the limits of protection afforded depositors by the FDIC and the FSLIC.

Generally speaking, the Commission strongly supports the proposed amendments. However, we do have certain reservations about particular provisions. Some of our concerns are outlined in the attached letter of March 11, 1975, to Chairman Owens, copies of which were previously sent to the Senate Subcommittee on Securities and the House Subcommittee on Commerce and Finance. We have been asked to comment on S. 1231. When we do so, we may have further comments on the proposed amendments.

### Assessments and the SIPC Fund

At pages 4 and 5, the Annual Report states that SIPC received substantially lower revenues in 1974 than in 1973 due in part to “approved reductions in assessments of members of the American Stock Exchange.” Before approving those reductions pursuant to Section 4(e)(1) of the Act, the Commission received satisfactory assurances that doing so would not result in any detriment to the Fund. In addition, the plan approved by the Commission provided, in accordance with Section 4(e)(1), that no reduction would be permitted at any time when there was outstanding any borrowing by SIPC pursuant to Section 4(g) of the Act or any borrowings under confirmed lines of credit. The plan also provided that SIPC had the right to suspend application of the assessment reduction at any time during the term of the plan for “justifiable financial reasons.” We note that, despite the reduced revenues, the SIPC Fund grew by over \$10 million in 1974.

### Delinquencies

The Annual Report states on page 5 that 300 persons subject to the Act were delinquent in filing reports or paying SIPC assessments at year end. However, as a result of an effort by SIPC and the Commission to reduce the number of broker-dealers which no longer conduct a securities business but which remain registered, only approximately 75 of those delinquencies remain unresolved. The predominant number of those 75 delinquent registrants are the subject of self-regulatory or Commission review for appropriate action.

### Examining Authorities

The Securities Acts Amendments of 1975 transferred from SIPC to the Commission the responsibility for designating for each broker-dealer which is a member of more than one self-regulatory organization one of such organizations to examine such broker-dealer for compliance with applicable financial responsibility rules. During 1974, the Commission adopted a rule which will facilitate the exercise of this responsibility. As noted on page 10 of the Annual Report, Rule 17a-19 under the Securities Exchange Act of 1934 and related Form X-17A-19 provides a uniform method of reporting to the Commission and SIPC of changes in a broker-dealer’s membership in self-regulatory organizations.

### Litigation

On page 12, the Annual Report discusses the holding of the Sixth Circuit in the Guaranty Bond case that customers of a SIPC member have an implied right of action to obtain review of SIPC’s determination not to initiate a liquidation proceeding. The Annual Report notes that the Supreme Court had agreed to review the matter in response to SIPC’s petition, which the Commission supported.

In SIPC v. Barbour, decided May 19, 1975, the Supreme Court reserved the decision of the Sixth Circuit, finding a private right of action would be consistent neither with the legislative intent, nor with the effectuation of the purposes the Act is intended to serve. This decision supports the view of the Commission and SIPC that only the Commission may seek judicial review of SIPC's discretionary determination not to enter a case.

Conclusion

The Commission reiterates its support for the proposed amendments to the Act, with the reservations noted earlier. We look forward to the opportunity to participate in the legislative process with a view toward the enactment of amendments which will enable SIPC to provide better protection to public investors.

Respectfully,

Ray Garrett, Jr.  
Chairman

Attachment