

OFFICE OF
THE CHAIRMAN

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

April 18, 1977

The Honorable William Proxmire
Chairman
Committee on Banking, Housing
and Urban Affairs
United States Senate
Washington, D. C. 20510

Dear Mr. Chairman:

This is in further response to your request of January 25, 1977 for the Commission's comments on S. 305. As you know, the Commission's views on this legislation were originally transmitted to the Committee in conjunction with testimony offered by Chairman Hills on March 16, 1977. Since that time the legislation has undergone considerable modification which has affected the impact it would have on the Commission's budget and it is therefore the purpose of this letter to offer an estimate of the probable costs to the Commission that would be associated with enactment into law of S. 305.

We believe that the likely cost impact on the Commission of the bill's prohibitions of certain corporate payments and its improvements in the system of corporate auditing and accounting is minimal and, at present, not susceptible to reduction to a specific dollar estimate.

Section 203 of proposed S. 305, on the other hand, can be cost analyzed. This section requires the Commission (1) to set up a disclosure program of reporting by any person who is directly or indirectly the beneficial owner of more than 5 percent of any class of a security as defined under the section, (2) to develop a centralized non-duplicative and minimum burden reporting system regarding such ownership in securities and to make available the collected information to government agencies and the public, and (3) to report to Congress within 30 months of the date of enactment of the bill on the effectiveness of the beneficial ownership requirements of the Securities Exchange Act and the desirability and feasibility of reducing or otherwise modifying the 5 percent threshold. Accordingly, cost estimates are provided for three phases of this disclosure program: (1) the development of a comprehensive reporting system, (2) creation and maintenance of a data base, and (3) the report to Congress.

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I. The Development of a Reporting System. This development under Section 13(g) will provide necessary ownership information not now provided and will be integrated with other ownership reporting systems including those under Sections 13(d) and 16(a). Such rule-making activity likely would entail a review of the content of various ownership reporting requirements to assure that all data obtained are complete, comparable, and easily tabulated for computer purposes. We estimate that one and one-half staff years would be necessary. On the assumption that the person or persons responsible would have an average salary at GS-12 step 1, and adding supervisory time, it is estimated that the cost involved would be approximately \$38,000. It should be noted that we do not include the cost of reviewing reporting duplication under Section 13(f) (reporting by institutional investment managers) since the proposed rule and forms are not yet finalized, and, thus, a cost estimate of this review is not now feasible.

II. Creation and Maintenance of Machine Readable Data. We estimate a universe of 14,000 potential respondents (10,000 publicly held corporations with an average of 1.4 equity issues per corporation). While no data are available for estimating the number of 5 percent owners of these 14,000 issues, we believe that the average number falls somewhere between 1 and 5 and have estimated a probable range of cost figures accordingly.

Our estimated costs for creating machine readable data fall into four components.

(1) Preconditioning of data. We estimate that a GS-5 clerk can process 21 forms per day or 32 amendments per day and assume that clerks will have to update all original 13-D filings with the amendments filed at the Commission since 1968.

(2) Key punching and verification. We assume that data from each initial registration will require five data cards, that amendments require only two data cards, and that approximately 400 cards can be key-punched and verified by an operator in one day.

(3) System Development and Program Formulation. Costs estimated are only for creating the data file and do not include programming to access the data for retrieval.

(4) Machine time. Computer time for developing the data system is assumed to be 25 percent of the number of staff hours for system development. Time for data storage is also included.

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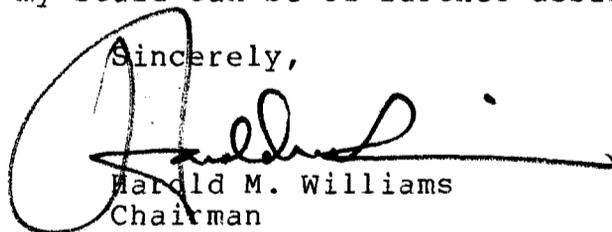
Based on our analysis of the personnel required and their productivity and the number of forms and amendments likely to be filed, we estimate the cost associated with creation of the proposed data base ranges between \$89,000 and \$336,000 with annual maintenance cost to fall between \$31,000 and \$80,000. As noted earlier, we can only set ranges of possible expense here because of our lack of data as to the average number of 5 percent holders per issue. The comparable staff year figures, assuming an average salary at GS-7 step 1, are seven to 28 staff years for creation of the data base and three to seven for maintenance.

III. Report to Congress. Proposed Section 13(h) would require a report within thirty months after the date of enactment with respect to the effectiveness of the ownership reporting requirements and the desirability and feasibility of reducing or otherwise modifying the 5 percent threshold, giving appropriate weight to a number of specific considerations. After the adoption of the rules drafted in Item 1 above, it is our belief that the report required by Section 13(h) likely would involve the review of information filed pursuant to that rulemaking and that the review and analysis of this information and a compilation of the report would involve four staff years; based on the same figures specified in Item 1 above, we estimate a total cost for the report of approximately \$100,000.

In summary, we estimate the total cost to the Commission of implementing proposed Section 203 of S. 305 to be in the range of \$230,000 to \$470,000, plus estimated data file maintenance cost of \$31,000 to \$80,000 per annum. Of course, additional unestimated costs would be borne by the private sector.

I hope this information will be helpful to the Committee. Please let me know if I or my staff can be of further assistance.

Sincerely,



Harold M. Williams
Chairman