



SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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December 18, 1979

Mr. Stuart E. Eizenstat
Assistant to the President
for Domestic Affairs & Policy
The White House
Washington, D. C.

Dear Stu:

I want to bring to your attention the letter the Commission's staff has sent to the Office of Management and Budget concerning the legislative proposal which has apparently grown out of our discussion several months ago concerning the possibility of further relief for small issuers under the federal securities laws. The goal of the draft bill is to create a new exemption from the Securities Act of 1933 for the benefit of small issuers seeking to raise capital by offering securities to certain institutions or large investors.

As the staff's letter indicates, OMB's legislative proposal is similar in philosophy to proposed Rule 242 which the Commission has recently published for comment. For that reason, the Commission could likely support the legislation in concept. I believe, however, that it would be inappropriate for the Commission to commit itself finally concerning the bill until we have had the benefit of analyzing the public's comments on proposed Rule 242. Moreover, in some specific respects, the bill differs from the Commission's pending rule proposal and from the concept we discussed at our meeting. The staff's letter addresses several of these points; the automatic inclusion of all limited partnerships within the scope of the proposed statutory exemption is particularly troublesome.

While the Commission, depending on the results of its comment process, could likely support legislation which mirrors proposed Rule 242, it would be difficult for me to urge Congress that such legislation is essential.

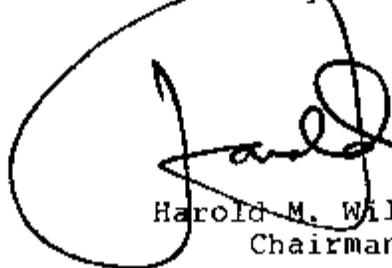
Mr. Stuart E. Eizenstat

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in light of our existing regulatory authority. In any event, however, if a bill of this nature is introduced, I believe that the legislation should also contain an amendment to raise the ceiling in Section 3(b) of the Securities Act to \$5 million. Section 3(b) permits the Commission to create new exemptions from the registration requirements of the Securities Act, and, if that authority were expanded to encompass offerings of somewhat larger size than the present \$2 million ceiling permits, the Commission would have the flexibility to fashion additional relief to meet the needs of small issuers. While I believe that an amendment to Section 3(b) would permit the Commission to accomplish by rule all of the objectives of the draft bill, such an amendment would not be inconsistent with OMB's proposal, and the same legislation could serve as the vehicle for both concepts.

I am sensitive to the Administration's desire to introduce legislation responsive to the capital formation needs of small business. That objective is one which the Commission shares -- as our initiatives in this area over the past several years demonstrate. If you would like to discuss these matters further, please do not hesitate to contact me. In addition, the Commission's staff is, of course, available to lend any assistance your office may require.

Sincerely,

A handwritten signature in black ink, appearing to read "Harold", is written over a large, loopy circular flourish.

Harold M. Williams
Chairman

Enclosure