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THE WHITE HOUSE
WASHINGTON

May 20, 1978

MEMORANDUM FOR: THE PRESIDENT
FROM: STU EIZENSTAT *Stu*
SUBJECT: Enrolled Bill H.R. 8331 - Securities
Investor Protection Act Amendments of
1978

SECURITY INFORMATION

The last day for action is May 26, but OMB and my staff have received several requests from the SEC and securities industries representatives that you sign this bill as soon as possible to remove present market uncertainties.

THE BILL

The Securities Investor Protection Act (SIPA) was enacted in 1970 in response to the 1969-70 bear market, when hundreds of brokerage firms went out of business. The purpose of the Act was to restore public confidence by protecting customers against losses that could be caused by the financial failure of broker-dealers. The Act has been successful, and H.R. 8331 amends and improves SIPA by: (1) increasing the level of protection for the customer of a failed broker-dealer from \$50,000 to \$100,000; and (2) generally streamlining liquidation procedures and reducing the cost of liquidation.

The bill contains two non-SIPA amendments. It would help small businesses by allowing the SEC to increase from \$500,000 to \$1.5 million the size of a securities offering that may be made without compliance with the registration requirements of the 1933 Securities Act. Eight years have passed since the ceiling was last raised to \$500,000.

The SEC and securities industry have urged that you sign the bill as quickly as possible because of the final provision: an amendment to delay the effective date of section 11(a)(3) of the 1934 Securities Act from May 1, 1978 to February 1, 1979. Section 11(a)(3) will prohibit exchange members from effecting

transactions for their own accounts, or accounts over which the members exercise investment discretion. The SEC strongly believes that this delay is necessary to avoid disruption in the securities markets.

VOTES IN CONGRESS

Voice vote in both chambers.

ARGUMENTS FOR APPROVAL

- ° Streamlines and reduces expense of liquidation procedures.

- ° The concentration of the securities industry into a smaller number of large firms is likely to continue, thereby raising the need for the increased protection for stockholders provided by the bill.

- ° Delaying the effective date of Section 11(a)(3) will permit smaller firms to adjust and increase their ability to remain competitive.

ARGUMENTS FOR VETO

None.

AGENCY AND STAFF RECOMMENDATIONS

OMB, SEC and the Security Investor Protection Corporation recommend approval. Treasury and the Federal Reserve Board have no objection. Senior staff have raised no objections. I recommend you sign the bill.

DECISION

_____ Sign H.R. 8331

_____ Veto H.R. 8331