

IV. BUDGET

Summary

The SEC is generally considered one of the best government agencies. Its budget is miniscule in comparison to that of most agencies, and those it regulates are its primary constituency. Because it is relatively small in terms of budget and is not readily perceived to be an agency for transfer payments, it has enjoyed a favored position and its budget has generally been appropriated within 30% of the amount requested.

The Transition Team reviewed and analyzed the functions being performed at The Commission. The budget reductions proposed result from a deregulatory approach, consistent with the statutory mandate, not from a make-do-with-less philosophy.

The Transition Team concludes that reductions can be made from actual FY 1980 expenditures at the following levels:

<u>FY 81</u>	<u>FY 82</u>	<u>FY 83</u>
2.8%	17.9%	27.5%

and is prepared to defend and justify the reductions.

Budget Trends

As short a time ago as 1970, the SEC total budget was less than \$25mm. Its expenditures have climbed sharply, some areas being more affected than others.

The Internal Operating Budget by Major Category for the SEC from 1971 through 1980 shows typical increases for regulatory agencies. (see Exhibit A) The greatest increases are in the lease-rental and acquisition of computer equipment, where expenditures are 9-10 times what they were a decade ago. Salaries and benefits are two and one-half times 1971 levels

and reflect both additional personnel and increased benefits and increased salaries.

Authorizations and Appropriations of the
Securities and Exchange Commission, 1976-1983

(\$000)

<u>Fiscal Year</u>	<u>Enacted</u>				
	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
Authorization	51,000	56,500	63,750	69,000	79,000
Appropriation	49,291	56,270	58,100	67,100	68,986

<u>Fiscal Year</u>	<u>Requested</u>			
	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
Authorization	No change	85,500	98,000	108,000
Appropriation	72,865*	77,150	Not yet proposed	

* Includes pending supplemental request to cover October 1, 1979 pay raise.

Once in the budget, an item establishes its own growth pattern and a substantial portion is deemed uncontrollable. The need for more is attributed to legislation and market conditions.

The Commission estimates its long range requirements as:

	<u>1981</u>	<u>1982</u>	<u>1983</u>
Salaries and related benefits	64,561	73,695	82,825
Non-personnel expenses of ongoing Commission programs	17,989	19,270	19,758
New initiatives:			
Consolidated headquarters building	950	2,315	2,315
Market Oversight Surveillance System	<u>2,000</u>	<u>2,720</u>	<u>3,102</u>
TOTAL AUTHORIZATION REQUEST	85,500	98,000	108,000
Projected Number of Authorized Positions	2,192	2,367	2,512

The Budget Process

A perhaps uncharitable description of the budget process, gathered from our interviews, is that each Division submits a shopping list for additional slots which it feels are required to handle "the greater volume and increased complexity" which every Division cites.

It appears there is no real attempt to establish priorities either within a Division, or throughout the Commission. The justification for any additional expenditure stands or falls on its own merit, in a vacuum. One project does not compete with another for dollars.

Budget process does not reflect adherence to any underlying long range concept of the goal of the Commission.

Little thought appears to be given to whether the service in fact is a benefit to the investing public, and further, a benefit which only the SEC can provide.

A certain air of unreality persists. Internal allocations of funds are made, and after the 11th month, the figures are "adjusted" so that the expenditures at year end match the allowance within a dollar or two.

Overtime expectations for each Division are added on a "historical basis", as is the travel component. Inflation has been a factor in the area of supplies and the costs of utilities and guard services.

The organization chart indicates the budget process proceeds on a division basis, funnels into the Executive Director and then up to the Chairman. The Executive Director's office either fails to implement the proper instructions or does not receive them.

Contracts

A list of the contracts entered into by the Commission is attached as Exhibit B. All the contracts with the exception of the stenographic services are contract computer services.

It might be noted here that this Exhibit reflects \$1,305,000 spent on MOSS already, and it is still at the pilot stage and located in New York.

Special Projects: Major Expenditures Which Might Be Eliminated or Deferred

Special projects involving major expenditures of funds and commitment of resources included:

1. MOSS Computer System - Once this system goes on line it will monitor every securities transaction. It will also duplicate present contract computer services and generate the need for more staff, without providing any additional investor protection.
2. New Office Building - Feasibility studies for this new building indicate that great economies can be gained directly and indirectly from having all SEC personnel in one location. Because of the increased personnel and the increases sought, this will require a new building. We believe that all personnel probably should be housed in one building, but that with the proposed staff reduction it will be the present headquarters building.
3. Small Business Conference - Approximately \$750,000 has been sought by the Commission to host a Small Business Conference. The Transition Team believes participation at a much lower level is more realistic.

Options

Since at this juncture no fiscal year 1981 appropriation

there is a possibility that some budget action

can be taken regarding fiscal year 1981, if the new administration can react quickly.

Methods of Achieving Budget Modification

The President's power not to spend under the Impoundment Act of 1974 as far as appropriated funds are concerned has been limited.

1. Termination of programs requires express legislation rescinding the appropriation.
2. Deferral of the spending is subject to a disapproval resolution by either House, and the Comptroller General enforces the disapproval.

The Chairman, exercising his authority as executive/administrative head of the Commission, with a majority of the Commission can elect to not expend funds unless Congress has appropriated those certain funds for a specific purpose with a "not less than" clause.

Through the Apportionment Act, the funds can be made available on an incremental basis, which tends to reduce large single expenditures.

Budget Goals

The Schedules which follow indicate the level of reduction in spending the Transition Team believes can be achieved without affecting the protection afforded investors.

Through attrition and minimal hirings, change of mission, discontinued programs, and true deregulation the lower level of expenditures reflected in the Schedules can easily be adhered to.

Foregoing the new building through smaller overall staff and most particularly smaller Washington staff represents sub-

stantial savings. The duplication of facilities required by three locations and the indirect costs of inefficiency and lack of productivity thereby engendered can be overcome in FY 82, when the entire Commission (minus its MOSS) can be housed in its present quarters at 500 N Cap.

The direct cost of the dispersed locations per annum as estimated as follows:

Drivers (3 at \$15,000)	\$ 45,000
Vehicles	
Trucks (AVIS)	10,000
Car (3 at \$2,000)	6,000
Fuel	10,000
Duplicate Facilities	
Xerox rooms, personnel and equipment	28,000
Libraries	21,000
Mail rooms and personnel	18,000
Toll Charges and Direct Lines	5,000
Computer Services (e.g., Lexis)	4,000
Overtime for storage and pickup	70,000
Electronic Communicator	1,000
Alterations	130,000
Additional ADP equipment required (annual cost)	30,000
Guard Services	<u>30,000</u>
TOTAL	\$408,000

The indirect costs in terms of loss of efficiency, productivity and high turnovers are estimated as follows:

	<u>Personnel Budget</u>	<u>Productivity Losses</u>
Economic & Policy Research	1,021,819	204,364
Corporate Finance	7,126,678	1,425,336
Administrative Services	932,437	186,487
Reports & Information Services	<u>2,602,323</u>	<u>520,465</u>
TOTAL	11,683,252	2,336,652
Total Washington Offices	33,210,145	

*James F. Giegerich & Associates, April 1980

The Transition Team cannot comment on the reliability of the figures. They were prepared to justify the new building.

EEO

One area of expenditures is not reflected in the budget. The manner of handling EEO complaints of the SEC is set forth in 17CFR 200.90.

At the SEC, and it is probably typical, it is difficult to determine the costs of the Equal Employment Opportunity programs as they are largely imbedded in other allocations.

At the SEC, in addition to the three employees shown as EEO employees, reporting to the Chairman, there are at least a dozen employees detailed to spend a minimum of 20% of their time on EEO complaint counseling and investigation. This is in addition to the EEO programs in the Personnel Office which includes special recruiting and travel for potential minority employees. A Complaint office is presently statutorily mandated, but prompt handling of the complaints would produce a significant saving.

There has been an institutional tendency to allow these complaints to linger within the agency for years, prior to resolution or forwarding to the EEOC or OPM.

Each complaint, while still at an 'informal' level is thoroughly investigated, with all due process, including counsel and transcripts. If the resulting report is less than 2" thick, we were told, the report is deemed incomplete. The process then starts again, de novo if the complaint is formally lodged. Some complaints have been actively investigated for over four years at the SEC.

We calculate \$150,000 in salaries and benefits and \$177,000 in transcription costs for a total of \$327,000 not shown on the

budget is being spent on EEO complaints, in addition to the salaries that are shown and the Personnel Office EEO program.

The new administration should attempt to calculate the cost/benefit of Equal Opportunity programs.

The EEO office is required to prepare Affirmative Action programs. These programs set goals for every division, related to the employee population distribution in the geographic area. Attached is Figure 13, from SEC Affirmative Action (EEO) Program Plan for Fiscal Year 1980 (Phase Two). This is a document of some 200 pages, and the attachment is illustrative of the activities of this division.

FIGURE 13: Transition Year Goals

Washington, D. C. Area

TARGETED OCCUPATIONS	OCCUPATIONAL LEVEL	PERCENTAGE OF GROUP IN CLF	TOTAL ESTIMATED VACANCIES	COMPUTATION OF GOALS (a) x (b) = (c)	GOALS
Clerical/Secretaria	Mid ¹ (GS-5 - 6)				
White Male		49.1	12	5.89	6
Black Male		13.0	12	1.56	2
Hispanic Male		2.9	12	0.34	1
Hispanic Female		1.9	12	0.22	1
Native American Male		0.2	12	0.24	1
Native American Female		0.2	12	0.24	1
Oriental Male		0.8	12	0.09	0
Oriental Female		0.6	12	0.07	0

BUDGET

IV. BUDGET EXHIBITS AND SCHEDULES

Internal Operating Budget by Major Category

	<u>1981 1/</u>	<u>1980 2/</u>	<u>1979 2/</u>	<u>1978 2/</u>	<u>1977 2/</u>	<u>1976 2/</u>	<u>1975 2/</u>	<u>1974 2/</u>	<u>1973 2/</u>	<u>1972 2/</u>	<u>1971 2/</u>
Salaries	\$52,327	\$52,496	\$47,678	\$44,025	\$39,698	\$36,743	\$33,044	\$28,046	\$24,476	\$21,848	\$19,929
Benefits	4,877	4,859	4,484	4,215	3,741	3,416	3,011	2,418	2,073	1,832	1,604
Travel & Transportation of Persons	2,125	1,962	2,003	1,785	1,648	1,291	1,199	1,000	742	595	424
Transportation of Things	42	33	51	44	34	33	39	18	18	21	5
Communications & Rentals	7,920	7,434	6,666	6,292	5,398	4,811	4,184	1,702	1,468	1,038	833
Printing & Publications	1,155	1,068	998	817	316	282	240	275	164	176	69
Other Services	5,320	3,443	3,624	3,783	2,485	1,853	1,914	1,846	2,010	912	526
Supplies	1,137	961	1,015	892	798	492	479	355	278	267	196
Equipment	1,192	475	525	404	2,117	130	285	544	64	110	16
Actual Obligations/Requested Appropriation	<u>\$76,095</u>	<u>\$72,731</u>	<u>\$67,064</u>	<u>\$62,257</u>	<u>\$56,235</u>	<u>\$49,051</u>	<u>\$44,395</u>	<u>\$36,204</u>	<u>\$30,293</u>	<u>\$26,799</u>	<u>\$23,602</u>

/ Estimated.

/ Actual.

SEC Contracts/Purchase Orders
 (Excluding maintenance and building improvements)
 over \$50,000

EXHIBIT D

Awarded in
Fiscal Year 1979

<u>Company</u>	<u>Item</u>	<u>Amount</u>	<u>Division or Office</u>
Disclosure Inc.	Micrographics	\$ 90,000	Office of Reports and Information Services
PRC	Micrographics	\$403,000	Office of Reports and Information Services
ABS	ADP equipment software and maintenance	\$202,000	Office of Reports and Information Services
CSA Reporting	Stenographic service	\$700,000	Division of Enforcement Office of General Counsel Regional Offices
Four Phase	TP	\$127,000	Office of Data Processing
Suba Leasing	IBM 360/65	\$ 66,000	Office of Data Processing
Monchik-Weber Systems Consulting, Inc.	Market Oversight Surveillance System (soft- ware)	\$442,000	Office of the Executive Director
LEXIS	Automated Legal Research	\$128,000	Commission

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SEC Contracts/Purchase Orders
 (Excluding maintenance and building improvements)
 over \$50,000

Awarded in
Fiscal Year 1980

<u>Company</u>	<u>Item</u>	<u>Amount</u>	<u>Division or Office</u>
IBM	CPU (IBM 370/158)	\$655,000	Office of Data Processing
LEXIS	Automated Legal Research	\$207,000	Commission
Monchik-Weber Systems Consulting, Inc.	Market Oversight Surveillance System Pilot Operations & Consulting	\$293,000	Office of the Executive Director
ABS (Automated Business Systems)	ADP Equipment Software & Maintenance	\$186,000	Office of Reports and Information Services
Disclosure, Inc.	Micrographics	\$235,000	Office of Reports and Information Services
Four Phase	TP Equipment	\$127,000	Office of Data Processing
GSA BOA	Systems analysts and programming support	\$ 84,000	Office of Data Processing
STC (Storage Technology)	Tape drives	\$ 74,000	Office of Data Processing
CSA Reporting Company	Stenographic reporting service	\$800,000	Division of Enforcement General Counsel Regional Offices
Racal-Milgo Information System, Inc	TP Equipment Hardware	\$ 40,000	Office of Data Processing (Regional Offices)
Subaasing Corporation	IBM 360/65	\$ 58,000	Office of Data Processing

SEC Contracts/Purchase Orders
 (Excluding maintenance and building improvements)
 over \$50,000

Awards and Projections
Fiscal Year 1981

<u>Company</u>	<u>Item</u>	<u>Amount</u>	<u>Division or Office</u>
Four Phase	TP (FY 81-FY 86)	\$600,000	Office of Data Processing
	TP (Oct. 80-Feb. 81)	\$ 55,000	Office of Data Processing
MWA	Market Oversight and Surveillance System - Pilot Operations	\$300,000	Office of the Executive Director
Interstate	Stenographic services	\$900,000	Division of Enforcement Office of General Counsel Regional Offices
ABS	ADP equipment hardware and maintenance	\$118,000	Office of Applications and Reports Services
Disclosure, Inc.	Micrographics	\$122,000	Office of Applications and Reports Services
Memorex	Storage control unit	\$ 73,344	Office of Data Processing
LEXIS	Automated Legal Research	\$227,000	Commission
Racal-Milgo Information System, Inc.	TP equipment hardware	\$ 43,000	Office of Data Processing (Regional Offices)

IV
IV

SCHEDULE 1
SECURITIES & EXCHANGE COMMISSION TENTATIVE BUDGET BASED ON FY 80 BUDGET

OPERATION AND PERSONNEL BENEFITS (\$000)

Distribution	Actual FY 80			FY 81		(beginning FY 82)			FY 82		(beginning FY 83)			FY 83	
	Pos.	Cost	\$ Reduction	Pos.	Cost	Pos.	Cost	\$ Reduction	Pos.	Cost	Pos.	Cost	\$ Reduction	Pos.	Cost
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
Administration Finance	1/ 265	2/ 7,975	3/ 20	4/ 239	7,752	212	6,890	10	201	6,546	191	6,201	5	186	6,046
Chief Accountant	23	866	10	22	880	21	842	10	20	800	19	758	10	18	720
Commodities	645	19,785	15	597	19,769	548	18,163	15	507	16,801	466	15,439	15	431	14,064
Consumer Affairs	14	288	50	11	233	7	156	50	5	117	4	78	50	3	59
Investment Regulation	263	7,495	20	237	7,286	211	6,476	20	190	5,828	169	5,181	20	152	4,922
Corporate Regulation	41	1,125	6/ 100	21	608										
Investment Management	176	5,358	20	157	5,208	140	4,629	20	126	4,166	112	3,703	20	101	3,333
Legal Counsel	6/ 113	3,562	40	50	3,078	68	2,308	25	60	2,020	51	1,731	50	38	1,290
Division & Review	9	307	10	9	315	8	299	10	8	284	7	269	10	7	256
Law Judges	11	486	0	11	525	11	525	0	11	525	11	525	0	11	525
Policy & Stat. Research	7/ 41	1,442	10	39	1,479	35	1,331	20	32	1,198	28	1,065	20	23	959
Totals	1,601	48,689		1,433	47,137	1,261	41,619		1,160	38,205	1,058	34,950		972	32,182

Actual FY 80	FY 81	(beginning FY 82)	FY 82	(beginning FY 83)	FY 83
Pos. Cost	Pos. Cost	Pos. Cost Base	Pos. Cost	Pos. Cost Base	Pos. Cost
Reduction	Reduction	Reduction	Reduction	Reduction	Reduction

Administrative	(239)(6,162)	(219) (6,137)	(202) (5,618)	(188)(5,186)	(171) (5,332)	(160)(4,494)
Rec. Dir. B/	16 489	14 475	13 422	12 380	10 338	9 304
Rec. Staff	32 1,077	30 1,105	29 1,047	28 995	26 942	25 895
Secretary & Librarian	21 470	19 457	17 406	15 365	14 325	13 295
Inspector	26 608	25 624	23 591	22 561	21 532	20 509
Personnel	25 675	23 654	20 582	18 514	16 466	14 419
Admin. Services	56 1,101	50 1,070	45 951	41 856	36 761	32 685
Info Processing	55 1,507	52 1,547	50 1,465	48 1,392	45 1,319	45 1,319
Public Affairs	8 237	6 205	5 154	4 123	3 92	4 74
Projects & Info. Serv.	195 2,660	147 2,327	140 2,586	133 2,457	126 2,327	120 2,211
PERSONNEL BENEFITS	1,998 57,511	1,789 56,003	1,481 45,871	1,481 45,871	1,292 38,696	1,292 38,696
Third-grade Increases (cumulative)	507	968				1,321
FAL SALARY & PERSONNEL	97,511	56,510	46,039	46,039	40,217	40,217
VEFITS	15,512	14,504	13,095	13,095	12,750	12,750
OPERATING EXPENSES						
TOTAL BUDGET	\$73,023	\$71,014	\$59,934	\$59,934	\$52,967	\$52,967

FORZED AND APPROVED BUDGET	11/	12/	13/
\$85,500	\$98,000	\$108,000	\$108,000

Action from Authorized & Approved Budget	16.9%	30.0%	31.5
2.8%	17.9%	27.5%	27.5%

Action from FY 80

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SCHEDULE 1 Notes

Notes Accompanying Tentative Budget Based on FY 80 Budget

n.b. The SEC is an independent agency, and therefore the Administration can directly enforce spending cuts only through its choice of designated Chairmen. GSA, through its control of government office space can fail to provide the new building sought and can cancel the leases on the 2 other D.C. locations when personnel reductions warrant, at the end of FY 81. Large equipment leases (such as MOSS) are similarly run through GSA. OMB can exert a braking effect through the Apportionment Act by making funds available on an incremental basis.

The major decreases in the Commission budget result from expenditures foregone. These expenditures include the MOSS computer; the new building and attendant moving costs, and \$750,000 for a Small Business Conference. (See Notes 11-13) The other decreases in expenditures result from economies obtained in the "Other Expenses" which are among the recommendations in this final report. These other decreases totaling \$1,500,000 in FY 81 and \$1,200,000 in FY 82 are in such areas as (a) less rental space being required, (b) better management resulting in less need for additional building services and guards for overtime periods, (c) less travel, and (d) saving the direct and indirect costs of operating in 3 separated D.C. locations.

1. The numbers indicating positions are positions filled; included are both headquarters and regional personnel; not included are "Reports and Information" clerical personnel detailed to Corporation Finance, Enforcement, Market Regulation Divisions and the General Counsel's Office.
2. Salaries and Personnel Benefits include: basic salaries; temporary salaries; overtime (historic basis); night differential (where applicable); Holiday pay; terminal leave and "other personnel compensation."
3. The distribution of reduction in personnel between headquarters and the Regional offices is set in Section III.
4. Cost includes 10/1/80 5% pay raise, but no additional across-the-board pay raises.
5. Minor divisions are shown where they appear on the Commission Organization Charts.
6. The Bankruptcy function will continue to be handled out of General Counsel's office pending a more suitable solution.
7. Reductions do not include Accounting Fellows.
8. Includes in addition to the Chairman's staff of 12, the following: EEO (3), Internal Audit (4) and Legislative Affairs (5), all reporting directly to the Chairman.

Notes to Schedule 1 continued on next page

tes Accompanying Schedule I con.

k. For working distribution see Schedule II

l. Includes 10% p.a. increase in costs of services and supplies; does not include contract termination costs re MOSS.

m. This figure was reached as follows:

Pending FY 81 Appropriation	\$77,150
October 1980 pay raise	4,000†
Unanticipated cost increases	350†
Additional positions	1,425*
Increased average employment	1,625*
Moving expenses to new building	950*
FY 81 Authorization	<u>\$85,500</u>

n. This figure was reached as follows:

1981 Authorization	\$85,500
October 1981 pay raise	4,600*
Increased personnel costs	5,315*
Higher space leasing costs	1,365††
MOSS	720*
Data processing increase	200††
Contingency for non-personnel costs	300††
FY 82 Authorization	<u>\$98,000</u>

o. This figure was reached as follows:

1982 Authorization	\$ 98,000
October 1982 pay raise	5,200*
Increased personnel costs	4,410*
MOSS	582*
FY 83 Authorization	<u>\$108,000</u>

The items with the single dagger are included in the Transition Team's proposed budget figures; the items with the double dagger are included at a lower funding level. The asterisked items are expenses foregone.

SCHEDULE II
SECURITIES & EXCHANGE COMMISSION TENTATIVE BUDGET BASED ON FY 80 BUDGET BY MAJOR DIVISION

Accounted Costs by Major Divisions (\$000)

Distribution	Actual FY 80				FY 81				FY 82				FY 83		
	Pos.	Cost	\$ Reduction	%	Pos.	Cost	\$ Reduction	%	Pos.	Cost	\$ Reduction	%	Pos.	Cost	%
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
Administration Finance	382	14,094	19	20	371	14,629	20	10	320	12,950	22	5	292	12,317	23
Chief Accountant	23			10				10				10			
Investment	659	25,746	35	15	623	24,565	35	15	525	21,246	35	15	445	18,826	35
Consumer Affairs	14			50				50				50			
Investment Regulation	277	10,066	14	20	252	9,936	14	20	203	8,215	14	20	163	6,896	13
State Regulation	41	1,367	2	100	21	828	1								
Investment Management	185	6,870	10	20	166	6,545	9	20	134	5,425	9	20	111	4,696	9
Legal Counsel	113			40				25				50			
Division & Review	9	5,354	7	10	101	4,337	6	10	79	3,197	5	10	56	2,369	4
Law Judges	11			0				0				0			
Public & Staff Research	41	1,702	2	10	39	1,538	2	20	32	1,295	2	20	25	1,058	2
Totals	1,761	\$65,199			1,582	\$62,378			1,293	\$52,326			1,252	\$46,150	

I Continued

SECURITIES & EXCHANGE COMMISSION TENTATIVE BUDGET BASED ON FY 80 BUDGET BY MAJOR DIVISION

Account Costs by Major Division (\$000)

Distribution	Actual FY 80				FY 81				FY 82				FY 83		
	Pos.	Cost	\$ Reduction		Pos.	Cost	\$ Reduction		Pos.	Cost	\$ Reduction		Pos.	Cost	\$
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
Administrative	(239)	(6,162)													
• Dir.	16	489		20				20				20			
• Staff	32	1,077		10				10				10			
Story & Library	21	470		20				20				20			
Controller	26	608	11	10	219	8,635	12	10	188	7,608	13	10	160	6,769	13
Personal	25	673		20				20				20			
• Services	56	1,101		20				20				20			
Processing	55	1,507		10				10				0			
Public Affairs	8	237		40				40				40			

Reports & Info. Serv. (distributed to appropriate Divisions)

PERSONNEL	1998	1789	1481	1237
BUDGET	\$73,023	\$71,014	\$59,934	\$52,907
ESTIMATED & APPROVED BUDGET		\$85,500	\$98,000	\$108,000
Reduction from Authorized and Approved Budget		16.9%	38.8%	51%
Reduction from FY 80		2.8%	17.9%	27.4%

The Reports and Information personnel are distributed to the appropriate Divisions

SCHEDULE III

SECURITIES & EXCHANGE COMMISSION TENTATIVE BUDGET
 BASED ON FY 80 BUDGET BY MAJOR DIVISION

Detail of "Other Expenses"

OTHER EXPENSES	Actual FY 80 Cost	Savings FY 81	Additional Savings FY 82	Additional Savings FY 83
	(1)	(2)	(3)	(4)
1/				
13 Accident Compensation	67,511			
21 Travel & Transportation	1,981,655	198 ^{2/}	266 ^{2/}	178 ^{2/}
22 Transportation -Things	33,329			
Tele, MU, Teletype	1,408,428		200 ^{3/}	92 ^{3/}
Mail	558,544			
Federal Express	43,000			
Rent Computer	855,567			
Rent other equip.	607,032	4 ^{4/}		
Space: 320 1st St	303,240	142	161	
1100 L St NW	474,496		474	
all other space	3,196,291			
23 Rent-Comm-Utilities	7,446,598			
24 Print- Repra	1,068,399	400 ^{5/}		
Equip. main-	350,303			
Office alter	91,406			
Guard Service	155,896 ¹	6 ^{6/}	168 ^{7/}	
A/c-heating	149,636 ¹	168		
Misc	81,962		8 ^{8/}	
Training	231,390		85	
Health Unit	84,992			
Other contract services	1,176,487			
MOSS		2,000 [†]	2,720 [†]	3,102 [†]
Transcription	665,000 ¹	9 ^{9/}		
Purchase transcripts	170,673 ¹	100		
Background Inves.	19,200			
AQP Contract services	273,352		10 ^{10/}	
Move & Store	23,666		5	
Represen. Expenses	791			
25 Other Services	3,473,740			
26 Supplies-Materials	964,926	11 ^{11/} -0-	12 ^{12/} 50	12 ^{12/} 75
31 Equipment	474,496			
Total Savings		1,008	1,409	345
Total FY 80 "Other Expenses"	\$15,512,	\$15,512.	15,512	15,512
Cumulative Savings from FY 80		1,008	2,417	2,762
TOTAL PROPOSED OTHER EXPENSES		\$14,504	\$13,095	\$12,750

† Expenses foregone are not subtracted from total.

Notes accompanying Schedule III

1. These are the account numbers used in the SEC financial statements.
2. This reflects a 25% reduction in travel plus a 20% cost of travel.
3. Same as above, with personnel reduction.
4. Communication between the three Washington locations, no longer required.
5. The space cannot be vacated until mid-year, therefore only 1/2 the saving is reflected in FY FY 81.
6. A six-month rule moratorium will save \$325,000 in Federal Register and CRF costs, more selective distribution of other printings will save \$75,000.
7. These are GSA charges for services above the SLUC level, which are now utilized because of overtime. Better management will reduce this by 1/2 in FY 81 and FY 82.
8. Minimal hirings will reduce training costs.
9. It is calculated that approx. \$177,000 of the \$835,679 for this item is charged to EEO complaints. Adherence to the SEC EEO complaint process will require \$77,000 rather than \$177,000 to properly fulfill the purpose.
10. Moving and storage costs for the reduced staff should produce this saving.
11. The reduction in personnel should be reflected in a reduction in use of supplies and materials. However this reduction is offset by anticipated increased costs.
12. Reduction in personnel, and therefore use of supplies and materials exceeded the increased costs.
13. See line 26, Schedule I

LEGISLATION

V. LEGISLATION

Legislative initiatives affecting the SEC are within the jurisdiction of the Securities Subcommittee of the Senate Banking, Housing and Urban Affairs Committee. Presently the ranking members of the subcommittee are Senators Richard Lugar and Paul S. Sarbanes. Senator Jake Garn will be the Chairman of the Committee in the coming term and Senator William Proxmire will be the ranking minority member. In the House SEC legislation comes within the jurisdiction of the Consumer Protection and Finance Subcommittee of the House Interstate and Foreign Commerce Committee. The Chairman of the subcommittee is Rep. James H. Scheuer. The ranking minority member is Rep. James T. Broyhill. There is talk of the subcommittee jurisdiction being transferred to the Communications Subcommittee. This will have to await Committee reorganization in the next Congress.

Foreign Corrupt Practices Act

New legislation affecting the SEC which is likely in the new Congress includes revisions of the Foreign Corrupt Practices Act. This Act was passed in 1977 and involves the payment of moneys by American companies in foreign business transactions. The Administration should seek amendment of this legislation to eliminate criminal penalties presently included in it. The Act has had an unfortunate effect on American companies competing in foreign markets. Complete disclosure will be adequate to satisfy SEC requirements and the SEC's enforcement authority

would retain injunctive power to take care of those who were not in compliance. We believe this legislation would be received positively in the Congress and would pass. It should have high priority because it would signal the business community of the Administration's positive encouragement to compete in foreign markets.

The following is a summary of some of the more important legislative proposals before the Congress and also include a brief discussion of legislation which is likely to be introduced in the new Congress.

S. 2515 - The Government Guaranteed Securities Acts Amendments of 1980. Introduced by Senator Harrison Williams. This bill

is designed to protect investors in Ginnie Mae securities.

"Ginnie Maes" are shares in mortgage pools. They are guaranteed by the Federal government. The legislation is designed to keep the Ginnie Mae program viable and free from scandals that would destroy it. Mortgage bankers or lenders who make real estate loans pool their mortgages and enter into a contract to sell them as securities packages to investors such as insurance companies, credit unions or individuals. The agreements to buy or sell at a fixed price are sometimes made as long as nine months in advance.

S. 2515 would require brokers and dealers in certain specified government-guaranteed securities to register with the SEC and bank regulatory agencies who would then have regulatory authority. Under terms of the bill, a Government

Securities Rulemaking Board would be created to exercise primary rulemaking authority for such dealers to promote fair trading principles and ethical business practices. A centralized clearing facility open to all who participate in making these markets would be encouraged.

Dealers who currently trade exclusively in Ginne Mae securities are at the present time exempt from the regulations to which others in the securities industry are subject with only the exception of the anti-fraud provisions of the securities laws. All securities professionals would under the Act be required to register with the SEC. This would include banks as well if they trade in certain government securities. The bill is an attempt to consolidate the registration requirements for municipal and government securities.

The proposed Government Securities Rulemaking Board would establish the rules with which persons and institutions involved in the government securities business would have to comply. Inspection and enforcement would remain a responsibility of the NASD, the banking agencies, and the SEC. Basically it retains the self-regulatory authorities. The Board would be funded by fees and assessments on public securities dealers.

The bill encourages the establishment of a centralized clearing agency for government-guaranteed securities. The bill would expand the SEC's authority over the clearing of government-guaranteed securities by giving it authority under Section 17A of the Exchange Act to facilitate development of a national

system of clearance and settlement for transactions in government-guaranteed securities. Legislation in this area does not appear to be cost justified.

Miscellaneous Small Business Legislation

There are a number of bills also in the Congress which are designed to help small business. Among these are S. 653, "The Small Business Capital Preservation Act of 1979;" S. 1967, "The Capital Formation Act of 1979," and S. 2239 "Incentive Stock Options."

S. 653 would permit an individual to defer taxes on the gain from the sale or exchange of certain small business stock within 18 months of the sale. Under the bill, gain would be recognized to the extent that the sales price exceeds the cost of the small business stock purchased during the 18 months following the sale. If a tax payer defers taxes the basis of the small business stock acquired during the 18-month period would be reduced by an amount equal to the unrecognized gain realized on the initial sale or exchange.

S. 1967 would allow securities dealers who are making a market for the securities of small businesses to defer up to \$1 million of gain on the purchase and sale of those securities. The gain would be deferred for up to ten years thus providing reserves for a financial cushion to cover lean years.

S. 2239 provides that a stock option meeting certain requirements which is granted to an employee would be taxed at capital gains rates when the employee sells the stock.

A.L.I. Federal Securities Code

Also anticipated is the introduction of the American Law Institutes Codification of the Securities Code. There is wide ranging dispute as to whether the codification answers some of the problems of security law. It is expected that the proposal would require several years of discussion before action on the Code could be taken. Support, or lack thereof, by the Administration and the leadership of the SEC will vitally affect the outcome of this legislation.

Although the codification of the Federal Securities Laws promises some improvement in some areas of the Securities Laws, an attempt at its adoption by Congress would delay other efforts to lessen the burdens on business while at the same time protecting the investing public. Passage by Congress would take at least two years and Professor Louis Loss, the author, estimates it would take five years. A Congress focusing on the Code would have little time to consider other provisions affecting the SEC. It should be kept in mind that codification is extremely expensive in terms of Congressional time and in terms of money for the implementation phase after adoption.

Those who advocate the Code's adoption say that it would make it easier for companies to raise capital. The seven statutes which now are administered by the SEC are in a state of uncertainty, and proponents say the Code would provide simplification, understandability and certainty. The Code would shift the center of the SEC disclosure universe from the

hit or miss registration requirement of the 1933 Act -- whose reliance on an "offer" or "sale" has led to much arcane interpretation -- to company registration and continuous disclosures. Every company would register on the occasion of its first "distribution" or its achieving \$1,000,000 of gross assets and a total of 500 security holders; thereafter the reporting, proxy, tender offer and insider reporting provisions would apply equally to all registered companies. Another important part of the Code is the concept of a "one-year registrant." Since the market would be informed about a company that had been subject to continuous disclosure for at least a year, the Code reflects some deregulation so far as those one-year registrants are concerned.

There are concerns about a number of the provisions of the Code. An example is the tremendous exposure which would be imposed on outside directors for any false or misleading statements in the 10-K annual report. Under the Code, the 10-K report would become the key disclosure document in capital raising. It is likely that recruitment of outside directors would be increasingly difficult due to the Code's change in status of the outside director, who would have to become almost full time in order to know the validity of the statements.

The SEC would be given broader authority to regulate the standards of conduct which until now have been governed by private regulation. We favor increasing the use of private regulation and decreasing the SEC's authority in this area wherever possible.

There are a number of controversial issues which are not dealt with in the Code. If a Code were deemed the desirable course to follow, it would seem appropriate to decide how to deal with futures contracts based on securities and what the rules should be for tender offers.

Recommendations on A.L.I. Federal Code

The Code contains a number of valuable ideas in facilitating capital raising. It should be considered as to which of these encourage the twin goals of deregulation and capital formation. Adoption of sections of the Code which meet these two criteria could be considered on a section-by-section basis rather than the adoption of the whole. The Code as a whole runs counter to the strong movement towards deregulation wherever and in whatever governmental department possible. The Code gives much greater power to the SEC than it needs to carry out its functions. It would be far more desirable to use congressional time to explore the enhancement of the States' role in security regulation and those other steps which would enhance deregulation at the national level.

Legislation Defining Jurisdiction of Financial Institution
Regulatory Agencies

At the present time the Chicago Board Options Exchange has asked the SEC and the Chicago Board of Trade has asked the CFTC to permit trading in these products.

Legislation is needed to define the proper regulatory framework for this product and many others which cross existing jurisdictional lines. The SEC, the bank regulatory agencies, and other financial institution regulatory agencies are not properly coordinated in their efforts. The Reagan administration should set a high priority the passage of legislation which consolidates where possible, these uncoordinated and competing governmental activities.