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David B. Stockman
Director
Office of Management
and Budget
SE Corner 17th St and
Pennsylvania Avenue, N.W.
Executive Office Building
Washington, D.C.

Dear Mr. Stockman:

I served as a Commissioner of the Securities and Exchange Commission from 1973 to 1976. In that post I had a remarkable opportunity to observe the operations of the Commission, its efficiency, the benefits of its activity and its importance to the Nation.

During that time, and I think it can safely be said, throughout its history, the Commission has been a truly frugal institution. It has never been characterized by some of the wasteful practices that have existed elsewhere in the government. Its offices and quarters are far from lavish. The habits of its personnel can only be described as "spartan," and its people have been remarkably hard working. Among the best evidence of this is the fact that upon any night and any weekend you will find lawyers, accountants and others, and many of them occupying senior positions, working at the Commission. This is evidence of their motivation and their dedication to the SEC's mission.

With these thoughts in mind, it is terribly distressing to learn of the proposal for further cuts in the Commission's budget, cuts that unquestionably will reduce significantly the effectiveness of the Commission at a time when perhaps it has never been more necessary that its performance roll well. As the President and other members of his administration have quite rightly observed, we are in a time when capital formation must be

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at the forefront of our national concerns. Capital formation can never be brought about unless there is confidence on the part of investors in the integrity and the soundness of the marketplace for securities. I have had the privilege of visiting and lecturing in many countries with regard to security law matters. Universally these countries look to the SEC as the model for their efforts to introduce integrity and honesty into their markets, qualities they deeply desire because of their recognition that without those qualities, it is impossible to induce people to commit their funds to enterprises.

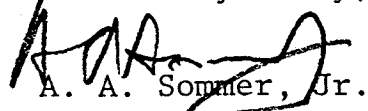
While I suppose there is some "fat" in every agency of the government, as, candidly, there is in every business organization, I would suggest that at the SEC the amount is as little as possible. As a result of the significant additional responsibilities given the Commission by the Securities Acts Amendments of 1975, which were not accompanied by any increases in authorized personnel, the Commission has of necessity been compelled to pare down, become more efficient, develop priorities for its activities and eliminate any waste that might have existed.

While I am sure that every agency in the government is addressing to you pleas similar to this, I would suggest that a discriminating examination of the SEC, its historic operations and its role in capital formation would indicate that it should not be called upon to effect economies that would eliminate a good deal of its muscle at a time when that muscle is essential to the public interest.

Apart from the above, the Commission regularly produces through filing fees revenues constituting about two-thirds of its budget. It is not difficult to conceive of ways in which these revenues could be increased to equal or exceed 100% of its budget. As one means, it was recently suggested to me by a former senior staff person that the imposition of extremely modest fees on tender offer filings could quickly yield the funds necessary to bridge the gap.

I applaud your efforts to introduce economies into the government. I trust that they will continue and I trust they will be successful. However, I am sure we share the conviction that these economies should not undermine other laudable goals of the Administration, including the integrity of securities markets which are so essential to the process of capital formation.

Yours very truly,


A. A. Sommer, Jr.