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United States Senate

COMMITTEE ON BANKING, HOUSING, AND
URBAN AFFAIRS

WASHINGTON, DC 20510-6075

KENNETH A. McLEAN, STAFF DIRECTOR
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December 16, 1987

The Honorable Ernest F. Hollings
Chairman
Subcommittee on Commerce, Justice, and State,
the Judiciary and Related Agencies
S-146A Capitol Building
Washington, D.C. 20510

Dear Chairman Hollings:

We are writing to you in your capacity as a conferee in the ongoing effort to reach a final appropriations resolution. We know that this has been a particularly difficult ordeal this year and are grateful for your efforts. We recognize that the competing stakes which you must balance in your endeavor are already great. But we feel that this one additional issue is so vitally important that we must bring it to your attention. This is to urge you to finally appropriate a Securities and Exchange Commission budget at the \$142 million level passed by the Senate. As you will recall, this was already a decrease from the \$145 million requested by the Administration and considerably lower than the \$158 million authorized by both the House and the Senate. The SEC believes that it can begin to cope with the unprecedented demands facing the agency in 1988 only with a minimum budget of \$142 million. With any lower funding the agency would face a staffing situation requiring reduction from the already strained 1987 level.

Yesterday the Chairman of the Securities and Exchange Commission, David S. Ruder, was a witness at a Securities Subcommittee hearing. Mr. Ruder described the current resource situation at the SEC in the most dire terms. Staff has been pulled away from continuing programs to support the investigations of illegal securities trading stemming from the Ivan Boesky scandal. These investigations apparently involve securities firms and traders across the industry and continue to generate a very high public profile. The SEC believes, and we agree, that the confidence and integrity of the securities markets requires the vigorous pursuit of all leads in this historic scandal and a complete resolution

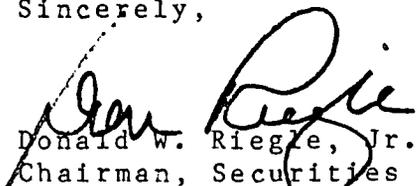
of the investigation and any resulting actions. It is clear that this important commitment is straining the resources of the SEC.

On top of this unprecedented investigation of trading scandals, the Commission has embarked on a complete review of the market events leading to the stock market crash last October. Again, this effort requires extraordinary staff resources drawn from ongoing regulatory programs.

Finally, as some of us advised you in a letter earlier this year, it became apparent during our Subcommittee hearings on the SEC budget authorization that the Commission has been subjected to unrealistic budget levels for the last several years which have impacted the agency's ability to respond at a time of crisis in the securities industry. While the market grew at record levels in volume and complexity, the staff of the SEC was actually decreased between 1980 and 1987. Frankly, the Commission's ability to adequately execute even its routine regulatory functions was already stretched very thin before the onslaught of the October market break and the expanding securities trading scandal investigation. One of the most perplexing aspects of this situation is that the SEC is operated at an enormous profit from fee revenue. Money which should have been used to support growth in the agency to correspond with the growth in the industry has instead been turned back to the Treasury. The SEC's budget could be increased 100 percent at no cost to the taxpayers.

For these reasons we urge you to finally appropriate the \$142 million funding level passed by the Senate. Based on our review of their resource level earlier this year, and our oversight of the current extraordinary market events, we agree that it is vital to meet this minimum funding level. Given the current conditions in the securities markets, it could well prove to be a shortsighted savings to reduce market oversight and regulation at this time.

Sincerely,


Donald W. Riegle, Jr.
Chairman, Securities Subcommittee


Timothy E. Wirth


Alan Cranston


Jake Garn, Ranking Minority Member


Christopher S. Bond


Christopher J. Dodd


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