



OFFICE OF
CHAIRMAN

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

January 17, 1989

The Honorable Donald W. Riegle, Jr.
Chairman
Committee on Banking, Housing and Urban Affairs
United States Senate
Washington, D.C. 20510-6075

Dear Chairman Riegle:

Enclosed are the materials prepared by the staff of the Securities and Exchange Commission in response to the request of the Securities Subcommittee of the Senate Committee on Banking, Housing and Urban Affairs for a study regarding the transformation of the Securities and Exchange Commission to a self-funding status. Accompanying the materials is an explanatory memorandum from George Kundahl, Executive Director, who directed the staff study.

As you know, a preliminary study was provided previously to your staff and to the House Subcommittee on Oversight and Investigations. In addition, on December 20, 1988 George Kundahl and I testified on this issue before Chairman Dingell and other members of his subcommittee. The staff findings and options presented in the enclosure provide, in my view, an excellent identification of the personnel and funding problems facing the agency and provide some concrete options for improvement. At this stage in the process, and to quote from the executive summary of the Self-Funding Study, "only Congress can provide the solution."

I would be pleased to discuss these issues further and welcome action by the Senate to assist the Securities and Exchange Commission in fulfilling its mission.

Sincerely Yours,

A handwritten signature in cursive script that reads "David S. Ruder".

David S. Ruder
Chairman



EXECUTIVE DIRECTOR

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

January 17, 1989

MEMORANDUM

To: Chairman Ruder
From: George G. Kundahl *GGK*
Executive Director
Subject: Self-Funding Study

My staff has prepared the final package of materials on the self-funding study for transmittal to the Securities Subcommittee of the Senate Committee on Banking, Housing and Urban Affairs. The package includes: the study previously prepared on December 20, 1988; legislative proposals for the five personnel options and the second funding option; and a discussion of alternatives for additional fee revenue. The study document dated December 20, 1988, is unchanged except for the cover which now identifies it as the final response and is now dated January 1989.

The legislative proposals are organized into two parts. The first part includes the five personnel options. Each of these options is discussed separately in order to give the Congress the ability to consider them individually rather than as an "all-or-nothing" proposition. The second part implements fully the establishment of a permanent revolving fund to be overseen by OMB and the appropriations and authorizing committees of the Congress. This funding approach would maintain all current budget procedures, but eliminate the problems associated with Gramm-Rudman-Hollings targets or similar government-wide actions. Essentially, the SEC would be in an "off budget" status with an independent funding source. A section-by-section analysis on each of the legislative proposals accompanies the package.

The fee options are discussed in a separate paper rather than included as part of the formal study document. The options include: increasing the registration fee under the 1933 Act; applying the section 31 transaction fees to OTC trades in NASDAQ-NMS Securities; and increasing the section 31 transaction fee rate. Each of these fee options has been discussed previously in other forums. No new fee sources are identified.

I recommend that these materials be transmitted to Chairman Riegle as the agency's response to Senate Report 100-105 which accompanied the Securities and Exchange Commission's authorization bill in the Senate (S.1452).