

February 10, 1971

Delivered by hand.

Honorable John J. Sparkman
Chairman, Subcommittee on
Housing and Urban Affairs
Committee on Banking and Currency
United States Senate
Washington, D. C. 20510

Dear Senator Sparkman:

This letter is written in response to a suggestion made at the hearings on February 10, 1971 before your Committee with respect to the confirmation of five members of the Board of Directors of the Securities Investor Protection Corporation (SIPC) established pursuant to the Securities Investor Protection Act of 1970 (Public Law 91-598) (The Act). Your Committee was concerned, as is usual practice in considering nominations requiring Senate confirmation, with possible conflicts of interest.

In considering this matter, certain aspects of the Act should be borne in mind. In the first place, SIPC is not a federal agency. Section 3(a)(1) of the Act specifically provides that it shall not be an agency or establishment of the United States Government. The Act specifies in considerable detail the composition and qualifications of the members of the Board of Directors. It provides that five directors shall be appointed by the President with the advice and consent of the Senate, of whom three shall be selected from among persons who are associated with and representative of the securities industry and two shall be selected from the general public and be persons who are not associated with any broker-dealer or securities industry group. In addition, there are two directors who are not appointed by the President or subject to Senate confirmation, one being an officer or employee of the Treasury Department designated by the Secretary of the Treasury and one being an officer or employee of the Federal Reserve Board designated by that Board.

As contemplated by the Act, three nominees for the Board of Directors Mr. Glenn E. Anderson, Mr. Andrew J. Melton, Jr., and Mr. Donald T. Regan are executive officers of registered broker-dealers and are thus associated with and representative of the securities industry. All three of them are shareholders of the securities firms with which they are associated. In addition, they hold other investments. In my opinion, their association with the securities firms of which they are officers, creates, in itself, no conflict of interest and in any event this association is not only contemplated but required by the Act. A conflict of interest could arise, either if the firms of which they are officers were to become the subject of any specific action by SIPC or if they had a claim against any securities firm which was placed in liquidation pursuant to the Act and SIPC was called upon to consider the claim. All three of the nominees have advised me that in any such case they would disqualify themselves from participation in the matter.

The other two directors nominated by the President are Mr. Byron D. Woodside and Mr. George J. Stigler. As you have been advised, Mr. Woodside served as a member of the Securities and Exchange Commission from 1960 until 1967 when he retired and Mr. Stigler has, since 1958,

been the Charles R. Walgreen Distinguished Service Professor of American Institutions at the University of Chicago. Both of these gentlemen have advised me that they have no interest in, or association with, any broker or dealer or other securities industry member and have not had any association within the last two years. I understand that neither plans to acquire any interest whatsoever in any securities broker or dealer.

The other two directors who are not subject to confirmation by the Senate are Mr. Bruce K. MacLaury, Deputy Under Secretary of the Treasury and Mr. J. Charles Partee, Adviser to the Board of Governors of the Federal Reserve System. Both are, of course, subject to the statutes or rules with respect to conflicts of interest applicable to the agency in which they serve and I perceive no conflict of interest in their serving on the Board of Directors of SIPC in accordance with the Act.

I see no reason why directors of SIPC should not invest in the securities of companies not in the securities business since SIPC has no regulatory functions with respect to, or jurisdiction over, such companies.

In conclusion, after discussion with all of the persons nominated to serve on the Board of Directors of SIPC I do not believe that they have any conflict of interest, except for a potential conflict which might be regarded as existing by reason of compliance with the requirement of the Act that three directors be associated with and representative of the securities industry. In view of the understandings expressed by them at the hearing to me, I think no problem in this regard presently exists or is likely to arise.

Sincerely,

Philip A. Loomis, Jr.
General Counsel

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2/10/71