



SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

JUN 7 1976

The Honorable Gerald R. Ford
President
The White House
Washington, D. C. 20500

Dear Mr. President:

I have the honor to transmit herewith, pursuant to the Securities Investor Protection Act of 1970 (the "Act"), the Fifth Annual Report of the Securities Investor Protection Corporation ("SIPC") covering the year 1975. Section 7(c)(2) of the Act requires SIPC to submit its Annual Report to the Securities and Exchange Commission and provides that the Commission shall transmit such Report to the President and the Congress with "such comment thereon as the Commission may deem appropriate."

The Chairman's Message on page 2 of SIPC's Fifth Annual Report details what the Commission believes to be an important and laudatory trend in the reduction in the number of member liquidations over the past five years. While it is impossible to isolate all the factors which contributed to that trend, the Commission believes it reflects an increased financial stability in the securities industry to which several regulatory developments have contributed substantially.

The Commission in the past five years has established or amended a number of financial responsibility standards for broker-dealers. Those standards include Rule 15c3-3 under the Securities Exchange Act, which seeks to assure proper handling of customers' funds and securities by brokers; Rule 17a-5, amended in 1974 to require an auditor to indicate whether material inadequacies exist in the manner in which a

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broker maintains customers' funds and securities; and the net capital rule, Rule 15c3-1, which was significantly tightened over the five year period and was amended in 1975, 1/ among other things, to eliminate most of the exemptions provided for members of certain national securities exchanges and thus to provide a comprehensive and uniform rule.

Accompanying the development of improved standards has been a substantially strengthened inspection and reporting program by the Commission and the self-regulatory organizations to assure compliance with the applicable standards. Recently the effectiveness of reporting programs was increased by the Commission's adoption, on December 17, 1975, of the Financial and Operational Combined Uniform Single ("FOCUS") Report system. Developed by the Commission in cooperation with the Report Coordinating Group, the FOCUS reporting system replaces various regulatory and informational reports required by the Commission and the self-regulatory organizations, reduces to a single report the documents necessary for early warning, surveillance and the collection of economic data, and incorporates an annual audited report.

In addition, the Commission, aware of the importance to investor protection of safe and reliable securities processing systems, has been working closely with the exchanges and the National Association of Securities Dealers, Inc., as well as with brokers and other users of clearing, settlement, and depository services, to develop a national system for the clearance and settlement of securities transactions to which all qualified broker-dealers and financial intermediaries have access. The Securities Acts Amendments of 1975, enacted June 4, 1975, have provided a regulatory framework which is fostering rapid progress in this area.

1/ Securities Exchange Act Release No. 11497 (June 26, 1975).

The Commission notes that SIPC has made important contributions to the financial stability of the brokerage industry as well. Each year since 1973 SIPC has held a seminar for self-regulatory organizations and other interested persons which has provided a valuable forum for exchanging information regarding inspection, monitoring and reporting programs.

Proposed Amendments to the Act. While the foregoing regulatory developments will, we believe, continue to reinforce investor confidence in the securities markets, a most significant matter is still pending. In 1974 SIPC forwarded to Congress proposed amendments to the Act which are embodied in H.R. 8064 and S. 1231 and described on pages 16 and 17 of the Report. Among other things, the proposals would (1) permit SIPC to act as trustee in certain cases and to make payments directly to customers in certain small cases; (2) permit customer accounts to be transferred in bulk to other brokers in appropriate instances rather than be liquidated account by account; and (3) raise the dollar limits of protection from \$50,000, with a limit of \$20,000 on claims for cash, to \$100,000 with a \$40,000 limit on cash. The Commission transmitted its substantive and technical comments on the legislation to the Subcommittee on Consumer Protection and Finance of the House Committee on Interstate and Foreign Commerce and to the Senate Committee on Banking, Housing and Urban Affairs in October, 1975.

The Commission confirms the strong support of the proposed legislation which it expressed in its comments on SIPC's 1974 Annual Report and in testimony before the House Subcommittee last October. While the Commission believes that SIPC's efforts in satisfying customer claims, in closing cases, and generally, in protecting customers in instances of broker insolvency are commendable, the amendments are necessary to expedite the payment of claims, eliminate unnecessary administration expenses, and provide an adequate level of protection to public investors. The Commission urges speedy action on the amendatory bills now before Congress and offers to Congress its continued assistance as the bills proceed through the legislative process.

Advertising of SIPC Membership. As discussed on pages 12 and 13 of the Report, SIPC has also requested Congress to amend the SIPC Act to give SIPC express authority to require SIPC members to display the SIPC official symbol at all principal and branch sales offices and to include the official symbol or official advertising statement in all advertisements. While the Commission does not believe SIPC has authority to require this under the present Act, if the proposed amendment is enacted, the Commission will endeavor to assure that the rules promulgated thereunder reflect equitably the interests of SIPC, the broker-dealer community, and the investing public.

Changes in Accounting Procedures. On pages 6 and 7 of the Report SIPC notes that, beginning in 1976, members will base their SIPC assessments on Form X-17A-5 under the Securities Exchange Act of 1934 (the FOCUS Report), which is filed on a fiscal year basis, rather than on Form X-17A-10, an unaudited calendar year form. In addition, the broker or dealer will file a supplementary report, covered by the opinion of an independent public accountant, on the status of the broker's or dealer's membership in SIPC. This represents a significantly streamlined procedure for the computation of assessments. Moreover, because assessments will now be based on an audited report, determinations will be more reliable.

Member Delinquencies. On page 7 of the Report, SIPC states that there are 227 persons subject to the Act who were delinquent in filing reports or in paying assessments as of December 31, 1975. As of May 27, 1976, all of these 227 delinquent cases have been resolved. In only a small percentage of the 227 cases cited were there actual failures to file in a timely manner SIPC assessments which were due in 1975.

The Commission notes that the term "delinquent" as used in these statistics might be usefully clarified. Firms which cease doing business but fail to file notices with SIPC to that effect are reported by SIPC as "delinquent" if they remain registered with the Commission. Many firms remain registered with the Commission for a temporary period during which they are not conducting a securities business for such reasons as pending administrative proceedings, pending disciplinary actions or pending withdrawal applications.

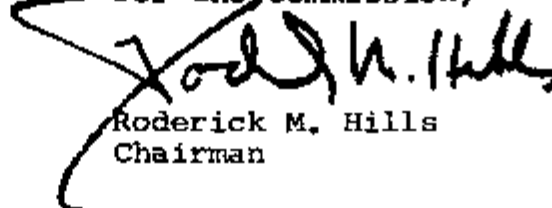
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Criminal Actions. The Report states on page 12 that Commission investigations in SIPC liquidations have resulted in 48 individuals being charged with criminal violations in federal district courts and 31 of these persons being convicted. Of the remaining individuals, the charge against one has been dismissed and the charges against the others are pending.

Conclusion. The Commission believes that the most important statistic in SIPC's Fifth Annual Report is the number of liquidations -- eight -- commenced during last year. To date this year, only one liquidation has commenced, resulting in only an insignificant claim on the SIPC fund. The Commission believes that strict enforcement of financial responsibility standards and ongoing vigilance by the self-regulatory organizations will continue to go far in assuring that firms do not conduct business in a manner which results in losses to public customers. When such losses do occur, the Commission expects that SIPC will continue to act expeditiously to provide relief to customers. The passage of the SIPC Act Amendments should aid SIPC significantly in accomplishing this task.

In transmitting SIPC's Fifth Annual Report, the Commission would like to express its appreciation to Chairman Owens and the present and past members of the SIPC Board of Directors and staff for their dedicated public service.

For the Commission,



Roderick M. Hills
Chairman

Enclosure