SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

OFFICE OF
THE CHAIRMAN

September 8, 1983

BY HAND

Richard C. Breeden, Deputy Counsel
to the Vice President
Office of the Vice President
Washington, D.C. 20500

Dear Richard:

You forwarded to me a copy of the SIA's August 3rd letter (which contains 11 recommendations to the Task Group), with a request for comments.

The attached includes a brief covering memo from the SEC's General Counsel, Dan Goelzer, which summarizes the more detailed memoranda prepared by his staff. Also included are your and the SIA's letters, and my covering memorandum to Mr. Goelzer.

In the interest of time, and in order to afford the SIA an opportunity to react to any of the conclusions, I am forwarding a copy of this letter and the enclosures to Messrs. Linton and O'Brien, with the request that they respond directly to you, with copies to me and Mr. Goelzer.

A number of the SIA recommendations can be implemented directly through majority approval by the Commission. Those not so implemented and the others requiring legislation are suitable for Task Group review and action. My comments on each recommendation are as follows:

1. Consolidation of option disclosure documents:

   I agree with this recommendation which does not require legislation, nor therefore action by the Task Group. The multiple option disclosure documents are required by the Option Clearing Corporation and the option exchanges, not the SEC. While the SEC could require the OCC and the exchanges to modify their rules, it would be more politic for the SIA to work directly with the exchanges. Many SIA members are represented on the boards of such exchanges. If this effort is not effective, the Commission could take the necessary action.

2. RICO Amendment:

The SEC does not administer RICO, but I agree with this SIA proposal, which would require legislation.

3. Dual registration of broker-dealers and investment advisors:

I concur in the General Counsel's conclusion that the substance of the SIA's proposal can be implemented by the Commission integrating broker-dealer and investment advisor registration requirements. Such action would not require legislation, nor Task Group action.

4. Customers consent to compulsory arbitration:

I agree with the SIA that arbitration is far preferable to litigation. The General Counsel believes Congress might insist on intensive SEC involvement in any process under which customers waive their rights to litigate. However, the SIA and the Task Group might well conclude that this would still be preferable to the escalating volume of litigation.

5. Repeal of Section 13(f) of the 1934 Act:

I do not know whether the costs exceed the benefits of the disclosure of the holdings of those with discretion over more than $100 million. The General Counsel recommends a cost-benefit study by the SEC's Directorate of Economic and Policy Analysis, which might serve as the basis for repeal or modification of Section 13(f).

6. Amendment of Section 16(a) of the 1934 Act:

I agree with the recommendation and believe a majority of the Commissioners would support it. Since it can be implemented by the Commission directly, no Task Group action is required.

7. Granting SIPC authority to continue to operate broker-dealers in liquidation:

I agree with the SIA proposal. While the General Counsel feels that SIPC might not choose to implement this authority in most cases, I believe SIPC should be afforded the option to do so. This proposal would require legislation. Subject to SIPC's reaction, this proposal is appropriate for Task Group action.

8. ERISA Amendments:

Since this statute is exclusively administered by the Department of Labor, the SEC is not directly involved, but I agree that ERISA should be subject to a major review. While most of the SIA recommendations would require legislation, some could be implemented by the Department of Labor directly.

9. Amendment of Section 12(d)(3) of the Investment Company Act:

I agree that investment companies should be permitted to acquire shares of broker-dealers. I believe a majority of the Commissioners would concur in such action by the Commission, but if not, the Task Group could recommend such legislation.

10. Prospectus delivery:

I agree with this proposal and believe a majority of the Commissioners would support it; in which event, no action would be required by the Task Group.

11. Limitation of underwriters due diligence liability:

While I fully agree (and have so stated in open Commission meetings) that underwriters cannot effectively discharge this obligation on offerings which often occur within a matter of days after a company's decision to proceed, it is a very sensitive and controversial area. While the proposal could conceivably be implemented directly by the Commission, legislative, rather than administrative action, is indicated. Significant Congressional opposition is likely.

Please let me know if I can be of further help on these or other proposals.

Sincerely yours,

John S.R. Shad

Attachment

cc: Mr. Robert E. Linton
Mr. Edward I. O'Brien
Mr. Daniel L. Goelzer