Chairman's Office

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

EXECUTIVE DIRECTOR

August 19, 1988

HAND DELIVER

The Honorable John D. Dingell
Chairman
Committee on Energy and Commerce
U.S. House of Representatives
Room 2125, Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Dingell:

This is in response to your letter of July 14, 1988 to Chairman Ruder requesting budget data from the Securities and Exchange Commission to assist your committee in helping to resolve this agency's resource problems. Because the Chairman is out of town, he asked that I respond to you on his behalf. The attached table presents the agency's authorizations, appropriations, and revenues for the last ten years.

If enacted, an FY 1989 appropriation level of $135.2 million, as passed by the House, would, at a minimum, force a ten percent reduction in staffing and adversely affect each agency program. This impact assumes:

* full absorption by the Commission of a 4.1 percent federal pay increase, effective January 1989;

* continuation of EDGAR contract funding at its current level of $10 million;

* the required absorption of various mandatory cost increases, such as within-grade and merit pay increases mandated by 5 U.S.C. 5335 and 5404, respectively; and,

* the further absorption of various expenses imposed on the Commission by other federal agencies, including costs for employee health benefits resulting from OPM negotiations with health carriers pursuant to 5 U.S.C. 8902, and higher charges for long-distance telephone service over the Federal Telecommunications System and rental of space costs imposed by GSA.

Of course, any increase to the costs detailed above, or additional expenses in excess of those currently being incurred for enforcement litigation support, would heighten the impact.

The potential program impacts of a ten percent reduction in agency staffing are very difficult to estimate. In the enforcement program, as violations become more complex and more internationalized, and violators more prone to litigate, more staff is required to maintain a constant number of cases. Consequently, a ten percent reduction in staff, coupled with a need for more staff per case, would result in a greater than ten percent reduction in the enforcement caseload.

A related impact occurs in the agency's regulatory programs. Between 1981 and 1988 the number of investment companies (IC) increased 119 percent and investment advisers (IA) 263 percent. Also, the assets managed by IC's grew from $235 billion to $1.1 trillion and IA's from $440 billion to $3.5 trillion. Notwithstanding a 76 percent increase in related agency productivity during the same period, this growth in the number and complexity of IC's and IA's requires a greater number of staff to maintain a constant ratio of inspections. Any reduction in staffing would result in a disproportionately lesser ratio being accomplished.

The impact of a ten percent staffing reduction in the agency's disclosure program is perhaps the easiest to calculate as it would have a direct impact. The reduction will be concentrated in the review of annual reports. Specifically, the staff would review 68% less annual reports. The overall impact would be a 5% reduction in the number of issuers reviewed. As the number of reviews declines, so will the opportunity to uncover disclosure violations.

What cannot be addressed is the effect on the agency of another major crisis such as the October 1987 market break. The occurrence of such an event in FY 1989 would severely strain the agency's ability to perform adequately with its current level of staffing, not to mention a ten percent reduction.

The balance of your request is difficult to respond to at present. The Commission's ongoing study for the Senate Banking Committee will present various options for increasing SEC revenues and providing the agency an opportunity to use fees collected as an offsetting receipt against its appropriation. These options are still under review and have not yet been presented to the Commission for consideration. Your Committee will receive a copy immediately upon completion and transmittal of the study report to the Senate.

As always, your Committee's continuing support for the Securities and Exchange Commission and its statutory mandate is appreciated.

Sincerely,

George G. Kundahl

George G. Kundahl
Executive Director

Attachment

SECURITIES AND EXCHANGE COMMISSION
AUTHORIZATION, APPROPRIATION AND FEE REVENUE
FY's 1979 - 1988

Fiscal Year	Authorization	Appropriation	Aggregate Fee Revenue
1979	$ 69,000	$ 67,100	$ 33,048
1980	79,000	72,739	49,133
1981	85,500	80,200	65,298
1982	96,640	83,306	78,241
1983	106,610	89,690	98,616
1984	94,000*	94,000	120,982
1985	106,382*	106,382	143,702
1986	106,323*	106,323	215,356
1987	114,500*	114,500	263,914
1988	158,600	135,221	278,100(est)

* Determined through appropriations process.

NOTE: The value of disgorgements from fraud actions which were deposited by the SEC into the General Fund of the U.S. Treasury totaled $756,000 in FY-1987 and $14,450,000 in FY-1988. These values are in addition to the fee revenues detailed above. Disgorgement data for prior years are not readily available.