



UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
REGIONAL OFFICE
225 BROADWAY
NEW YORK, N.Y. 10007

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copy*

CRP

July 21, 1965

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7/24/65 Judy, Budgy
copy to H Pollack*

Honorable Manuel F. Cohen
Chairman
Securities and Exchange Commission
Washington, D. C. 20549

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used CRP*

Re: Report on Cost Reduction Goals for
Fiscal Years 1966 and 1967

*going to
MUP?*

Dear Manny:

I enclose the ribbon and three carbon copies of the above report, including summary Form SEC 525, dated July 21, 1965. This is pursuant to your letter of July 7, 1965 and enclosures.

Sincerely,

LLEWELLYN P. YOUNG
Regional Administrator

Enclosures
As above

CHAIRMAN'S OFFICE
RECEIVED

JUL 23 1965

by Hand
SEC. & EXCH. COMM.

MEMORANDUM

JUL 23 1965

July 21, 1965
SEC. & EXCH. COMM.

To: Honorable Manuel F. Cohen
Chairman

From: Llewellyn P. Young, Regional Administrator, NYRO

Re: Report on Cost Reduction Goals for Fiscal Years
1966 and 1967

Pursuant to your letter of July 7, 1965 and its enclosed guideline, I set forth below our cost reduction goals for fiscal years 1966 and 1967 organized by reference to specific programs within the New York Regional Office.

I. BROKER-DEALER INSPECTIONS (222)

1. Goal, Increased Productivity

In fiscal 1965 this office completed 326 broker-dealer inspections. Without increasing allocated manpower, we project 410 inspections for fiscal 1966. It is impossible at this time to project further increased productivity in fiscal 1967. 410 inspections per year would place our inspection program on a 3 year cycle.

2. Projects

The program will be implemented immediately. The number of required test checks of principal and agency transactions will

be reduced 50% in most instances. Where this reduced test check indicates problem areas, a full check will be made. This procedure is not inconsistent with the requirements of our inspection manual, and should result in a significant time reduction per inspection without reduction in quality, and permit more inspections.

Procedure for review of subordination agreements will be streamlined. Interpretive attorneys, in addition to examining these agreements as in the past, will discuss them directly with the broker-dealers or counsel involved, rather than transmitting their comments through the broker-dealer inspector. This elimination of an intermediary should result in a substantial time saving and an improvement in work quality. There will be nothing to be lost in transmission.

Effort will be made to limit the assignment of broker-dealer inspectors to investigation cases, except in areas directly related to net capital and bookkeeping violations. This should result in a modest conservation of their time and permit a greater number of inspections.

Under a proposed realignment of office functions, overall responsibility for broker-dealer inspections would be

assigned to an Assistant Regional Administrator, who would also be responsible for interpretations and the handling of complaints. This would relieve the Assistant Regional Administrator in charge of Enforcement from direct responsibility for the work of some twenty-three of the present approximately one hundred personnel under his charge. This would also improve efficiency and morale by making an Assistant Regional Administrator more available for consultation with our broker-dealer inspectors on pressing problems.

3. Nature of Savings and Benefits

The projects discussed above should result in increased productivity in the program of broker-dealer inspections to the extent of 3.7 man years in fiscal 1966 and dollar savings in fiscal 1966 of \$35,750, which savings should recur from year to year.

4. Disposition of Savings

The above savings will be applied to production of more units of work.

5. Problem Areas

If a shift in the tempo or direction of the market were to increase the involvement of broker-dealer inspectors in the

enforcement program, it would divert man hours away from the regular inspection program. If there should be any inordinate turnover or illness rate among the broker-dealer inspectors, it might materially effect achievement of the goal. Broker-dealer inspectors and regular securities investigators are not fungible.

6. Innovations

Chiefs of our broker-dealer inspection sections are in the process of preparing a memorandum for my review covering every conceivable modification of our inspection procedures that might be utilized to reduce the number of man hours required for effective inspection. While not all of these suggestions necessarily will be feasible, it is to be hoped that some can be effectively implemented.

II. INVESTMENT ADVISER INSPECTIONS (262)

1. Goal: Increased Productivity.

In fiscal 1965 this office conducted 100 inspections of investment advisers. In fiscal 1966 we propose to conduct 120 investment adviser inspections, without reducing the quality of these inspections and without increasing manpower allocation.

2. Projects

This section consists of 1 chief and 3 inspectors, all of whom actively participate in the physical inspection work. This section was formed some three years ago and has steadily shown the results of increased experience and expertise. I believe that by virtue of this training and experience they are now able to increase their inspection quantity without diminution of work quality.

3. Nature of Savings and Benefits

The project discussed above should result in increased productivity in the program of investment adviser inspections to the extent of .9 man year saving, and a dollar saving of \$8000 in fiscal 1966. It is impossible at this time to prognosticate additional savings through increased productivity in fiscal 1967, but depending upon the actual results for fiscal 1966 we may attempt to increase our goal for fiscal 1967 by 10 to 20% without additional personnel.

4. Disposition of Savings

The above savings will be applied to production of more units of work.

5. Problem Areas

There are many unresolved questions of interpretation and application of rules under the Investment Advisers Act

of 1940. Should any significant number of these arise in the context of an administrative proceeding or equity action, there would be a diversion of manpower to this area which might prevent reaching the desired goal.

6. Innovations

I am asking the Section of Investment Adviser Inspectors to furnish me with a memorandum setting forth every revision of inspection procedure they can think of looking toward streamlining of inspections without sacrifice of quality. I am hopeful that such a memorandum will produce feasible suggestions that can be incorporated in our inspection procedures.

III. INVESTMENT COMPANY INSPECTIONS (453)

1. Goals:

(a) Increased Productivity

In fiscal 1965 this section completed 68 investment company inspections. In fiscal 1966 we project 82 investment company inspections and for fiscal 1967 we project 100 investment company inspections. We hope to accomplish this with a slight reduction in manpower devoted to this work, but without reduction in work quality. The fiscal 1965 quota of 68 inspections represented a 3 year cycle in contrast

to the overall Commission cycle of 4 years. The goal for fiscal 1966 of 82 inspections represents a 2-1/2 year cycle. The hoped for goal of 100 for fiscal 1967 represents a 2 year cycle.

(b) Net Dollar Saving

We anticipate the resignation some time during 1966 of 1 attorney who has devoted approximately half his time in the area of investment company inspections. I do not intend immediately to fill this vacancy when it occurs.

I have reassigned 1 accountant from investment company work to Chapter X matters, resulting in a 1 man year saving and a dollar saving of \$13,335. for fiscal 1966.

2. Projects

With the arrival of the inspection company report form N-1R, our inspection procedures should be greatly facilitated and simplified. Our staff of investment company inspectors, which has been built up largely from scratch during the past three years, has now developed a degree of expertise which should make more inspections possible without a reduction in quality. For many of the companies to be inspected this is the second time around, and much of the spade work that had to be done at the time of the first inspection may no longer be necessary.

I propose to create the position of Assistant Branch Chief to help supervise and edit the increased number of inspection reports which are at the present time being reviewed almost exclusively by the Branch Chief. The conclusion of the investigation of The Equity Corporation should permit the personnel involved to devote much more of their time to the routine of the investment company inspection program.

3. Nature of Savings and Benefits

The increased productivity will result in a 1.7 man year saving and a dollar saving of \$14,000 for fiscal 1966, to be followed by an additional 1.8 man year saving and a dollar saving of \$15,400 for fiscal 1967.

The elimination of the partial services of 1 attorney in this area sometime during fiscal 1966 will result in fiscal 1967 in a .5 man year saving and a dollar saving of \$4,473.

4. Disposition of Savings

The savings from increased productivity will be applied to the production of more units of work. The savings from reduction in manpower will be returned to the Commission General Fund to allocate to other programs or to place in reserve.

5. Problem Areas

The Investment Company Act of 1940 and the rules thereunder bristle with unresolved problems of policy, interpretation and practice. It is probably the thorniest road immediately facing the entire Commission. Should any significant number of these problems find their solution in enforcement actions having the effect of diverting manpower from the regular inspection program, it might prove more difficult to reach the inspection goals.

6. Innovations

I have discussed at length our inspection procedures with the branch chief and the Assistant Regional Administrator. They are in the process of attempting to integrate the use of form N-1R with our current inspection procedures to the end of reducing the number of man hours per inspection with no reduction in quality.

IV. CHAPTER X MATTERS (570-79)

1. Goals: Net Dollar Savings

There has been a substantial upsurge in the number of major Chapter X reorganizations in which the staff of this office is participating, beginning about the start of fiscal 1966. We intend to handle this additional work with no increase

in overall personnel, but with a transfer of 1 accountant from another area of the office to this work. Furthermore, as indicated above, some time during fiscal 1966 I anticipate the resignation of one attorney who has devoted approximately one-half of his time to this area. I do not intend to fill this position immediately. There will be a resulting man year and dollar saving for fiscal 1967.

2. Projects

In order to maintain the quality of our work in the major Chapter X reorganizations, it will be necessary to forego participation in reorganizations of less importance to the public in which we might have otherwise participated.

3. Nature of Savings and Benefits

The above described reduction in manpower for fiscal 1967 will result in a .5 man year saving and a dollar saving of \$4,473 for that year. This saving should recur from year to year, barring any substantial increase in the work load.

4. Disposition of Savings

The above net dollar saving will be returned to the Commission General Fund to allocate to other programs or to place in reserve.

5. Problem Areas

If the influx of major Chapter X reorganization problems should continue throughout the year at anything like the rate at which it started the year, we may have to re-evaluate our manpower situation in connection with this program. However, I am hopeful that any additional manpower that may be needed can be drawn from elsewhere within the office without effecting the quality of our other programs.

V. INVESTIGATIONS AND ENFORCEMENT (295)

1. Goals

(a) Net Dollar Savings

The resignation of the Chief Securities Investigator and the proposed transfer of the Assistant Regional Administrator to another area of the office (and his replacement by the present Special Trial Counsel) will result in a net dollar saving of \$33,240 in fiscal 1966. I propose to fill the GS-14 position of Chief Securities Investigator with some one already on our staff of the same grade. I propose to abolish the position of Special Trial Counsel and the position formerly held by the new Chief Securities Investigator. Furthermore, sometime during fiscal 1966 I anticipate 2 investigator vacancies, which vacancies I

do not intend immediately to fill. These will result in a dollar saving of \$20,380 for fiscal 1967.

(b) Increased Productivity

In this area, productivity has been measured statistically by the number of enforcement cases closed during the year. In fiscal 1965 this office closed 200 cases. In fiscal 1966 we anticipate closing 225 cases.

2. Projects

The method by which the dollar saving goal will be met has been outlined above. The goal of increased productivity will be achieved through a streamlining of our investigative procedures and of the administration of our investigations. The Assistant Regional Administrator for Enforcement will be relieved of direct responsibility for the work of the Branch of Broker-Dealer Inspections. The incoming Chief Securities Investigator will assume greater supervisory responsibilities, in conjunction with the Chief Enforcement Attorney, than his predecessor was in a position to do. Results of investigations will be reviewed orally at the highest levels in the office prior to the actual writing of definitive investigation reports with recommendations. This will avoid needless rewriting of these reports when in the judgment of superiors changes seem necessary.

Continued emphasis will be placed on elimination of unnecessary duplication of review of investigatory work. Finally, a major effort will be made to eliminate any lack of harmony between this office and personnel of the Home Office processing our investigative work for presentation to the Commission. Hopefully this will reduce the time between the making of a recommendation by this office and its transmission to the Commission, with a consequent saving of man hours at this office and an intangible boost to professional morale here.

I am hopeful that all these factors will enable us to meet our increased production goal even in face of our proposed manpower reduction.

3. Nature of Savings and Benefits

The reduction in manpower will result in a 2 man-years saving and a net dollar saving of \$33,240 for fiscal 1966, to be followed in fiscal 1967 by an additional 2 man-years saving and a net dollar saving of \$20,380.

The closing in fiscal 1966 of 225 cases as compared to 200 cases in fiscal 1965 will result in increased productivity to the extent of 5.9 man years and a dollar saving of \$58,125 in fiscal 1966.

4. Disposition of Savings

The above net dollar savings will be returned to the Commission General Fund to allocate to other programs or to place in reserve.

The savings from increased productivity will be applied to production of more units of work.

5. Problem Areas

Ever since the mid-1950s the Commission as a whole has been plagued by a lack of depth in the middle-management areas. This is as true of this office as elsewhere. Any excessive turnover among our branch chiefs or our more experienced enforcement attorneys can have a serious impact upon the achievement of the increased productivity goal.

VI. INTERPRETATION AND INFORMATION.

A. Complaints and General Correspondence (291)

1. Goal: Net Dollar Savings

The realignment of functions described below will permit the elimination of an attorney, an investigator and a records clerk from this program. This will result in a substantial man year and dollar saving in fiscal 1966.

The attorney will be reassigned to interpretive matters, the investigator to enforcement matters, and the records

clerk to the Section of Office Services.

2. Projects

Complaints, which in many instances are fundamentally requests for information, flow into this office by letter, telephone and in person. They are at the rate of about 200 letters, 250 telephone calls and 40 personal visits each month. These are in addition to inquiries involving interpretative matters. There is little that we can do to control the flow of telephone calls and personal visits. However, it is estimated that about three-quarters of the letters, which produce more than their proportionate share of the work load of this section, might be handled more expeditiously by the Washington staff with its greater facilities and more sophisticated machinery for processing this type of correspondence. These are the "complaints" which basically request information. It is therefore proposed to refer to Washington all correspondence of this nature which does not appear to be of immediate enforcement significance to this office. We estimated this might run approximately 150 letters a month. We believe that the Home Office section already providing this type of service could integrate this additional correspondence into its machinery and process it far more economically than we are now doing.

3. Nature of Savings and Benefits

The above reduction of personnel in this operation will result in the saving of 3 man years and a total dollar saving of \$24,600. This saving should recur from year to year.

4. Disposition of Savings

The savings of 2 man years and \$15,655 will be applied to other approved programs in the office. The saving of an additional 1 man year and \$8945 will be in effect returned to the Commission General Fund to allocate to other programs or to place in reserve. This results from the fact that 1 attorney from this section will be reassigned to interpretive matters to fill an already existing vacancy.

B. Interpretative Matters (187, 287 and 489)

1. Goals:

(a) Net Dollar Savings

A net dollar saving of \$6490 will result in fiscal 1966 from the replacement of a retired GS-13 attorney with a GS-11 attorney already on our staff, formerly assigned to complaints and general correspondence.

(b) Increased Management and Program Effectiveness

The proposed reassignment of responsibility for and supervision of broker-dealer inspections from the

Assistant Regional Administrator in charge of Enforcement to a proposed third Assistant Regional Administrator (who in addition will assume many of the duties formerly assigned to the Regional Counsel) will result in increased management and program effectiveness.

2. Projects

See above I-2 Broker-Dealer Inspections.

3. Nature of Savings and Benefits

See VI-B 1(a) above.

4. Disposition of Savings

The above net dollar saving will be returned to the Commission General Fund to allocate to other programs or to place in reserve.

CONCLUSION

We have carefully analyzed our other programs within the office in light of the cost reduction program and find no possibility at this time of revising them. These consist of the Branch of Small Issues, the Public Reference Unit, the Branch of Administrative Services and the Section of

Office Services. The Branch of Small Issues is now operating with a handful of personnel and I do not think any further reduction is feasible. We of course have no control over the work load.

With the increased number of filings, e.g., 12-g companies, copies of which are sent to this office, I do not think it feasible to attempt to reduce our clerical staff handling these filings. General office administration is, I believe, now at a minimum personnel level. If a vacancy should occur in this area, we will examine the situation carefully at that time to see if it should be filled. In any event, any savings that might be theoretically realized in these areas would, in my judgment, be slight.

The results of the above described cost reduction program are summarized on the attached form SEC 525. This report should be read in conjunction with my memorandum to you of July 20, 1965, and sent to you at the request of Commissioner Budge and dealing with open positions in this office.

SECURITIES AND EXCHANGE COMMISSION
SUMMARY REPORT
COST REDUCTION PROGRAM

DIVISION OR OFFICE

New York Regional Office

DATE

July 21, 1965

GOALS AND PROGRAMS, PROJECTS, OR ACTIONS TO ACHIEVE THEM	ANNUAL SAVINGS GOALS				ESTIMATED ANNUAL SAVINGS FROM ACTIONS TO DATE IN REPORTING YEAR						OTHER BENEFITS 1/	PROPOSED USE OF DOLLAR SAVINGS 2/	
	Man-Years		Dollars		Man-Years			Dollars					
	CY	NY	CY	NY	CY	NY	BNY	CY	NY	BNY			
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	
I Broker-Dealer Insp. (222) Increased Productivity	3.7	--	35,750	--									A
II Investment Adv. Insp. (262) Increased Productivity	.9	--	8,000	--									A
III Investment Co. Insp. (453)													
(a) Increased Productivity	1.7	1.8	14,000	15,400									A
(b) Net Dollar Saving	--	.5	--	4,473									D
	1	--	13,335	--									C
IV Chapter X (570-79) Net Dollar Saving	--	.5	--	4,473									D
V Investigations & Enf. (295)													
(a) Net Dollar Saving	2	2	33,240	20,380									D
(b) Increased Productivity	5.9	--	58,125	--									A
VI Interp. & Information													
A. Complaints & Corres. (291) Net Dollar Saving	2	--	15,655	--									C
B. Intrp. Mats. (187,287,489)													
(a) Net Dollar Saving	--	--	6,490	--									D
(b) Increased Mgmt. & Program Effectiveness	--	--	--	--								X	

FORM SEC 525

Savings Key:

- A - Apply to production of more units of work.
- B - Apply to raise quality of service or performance.
- C - Use to finance some other approved program or activity.
- D - Return to Commission general fund to allocate to other programs or to place in reserve.

Abbreviations:

- CY—Current fiscal year
- NY—Next fiscal year
- BNY—Beyond next year

1/ Check and explain in narrative report.

2/ Use Savings Key and explain in narrative report.