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Office Memorandum • SECURITIES AND EXCHANGE COMMISSION

DATE: July 23, 1965

TO : Mr. Manuel F. Cohen, Chairman

FROM : Mr. Alexander J. Brown, Jr., Administrator
Washington Regional Office



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etc

SUBJECT: WASHINGTON REGIONAL OFFICE
COST REDUCTION GOALS AND ACCOMPLISHMENTS
FOR FISCAL YEARS 1966 and 1967

A review and analysis of operating procedures in the Washington Regional Office have been made for the purpose of preparing and effectuating a cost reduction program and improving the effectiveness of the office as requested in the Commission's Cost Reduction Program of July 7, 1965. The results follow:

A. INCREASED PRODUCTIVITY AND EFFICIENCY

Broker-Dealer Inspection Program. There are over 400 registered broker-dealers in the territory of the Washington Regional Office at this time. Due to the influx of many marginal dealers into the territory in the period 1959-62 and the limited Washington Regional Office broker-dealer inspection staff, it has not been possible to maintain a cycle of inspections deemed completely adequate for the protection of the investing public. As a result of the above review, it is believed that the present level of protection of the public can be maintained and perhaps increased with approximately the same manpower.

This can be accomplished by emphasizing attention to questionable broker-dealers and suspected boiler room and other types of marginal broker-dealers and minimizing the routine broker-dealer inspection program as presently constituted. It can be further implemented by requesting dealers other than known marginal dealers otherwise scheduled for routine inspections to submit in writing certain information concerning their operations preliminary to the conduct of such broker-dealer inspections. 1/ Such requested information would include a trial balance and inventory list as of

1/ Another regional office has submitted to the suggestion committee a suggestion pertaining to the use of questionnaires by broker-dealers and prior thereto, this office had discussed the possibility of their use with the Division of Trading and Markets but nothing had been formalized concerning their use as far as is known by this office.

the last month end prior to the sending of the request, a list of approximately 50 principal transactions executed during the previous six-month period including all details of both sides of such transactions, a list of the securities in which the dealer makes a market and details of any participation in distributions during the previous twelve-month period including full registrations, Regulation A filings and so-called private offerings. From the information received it could then be determined if routine inspections should be made immediately or deferred.

This program should result in actual net dollar savings in travel funds and man hours which otherwise would be spent in making routine broker-dealer inspections where information received from the dealer through the medium of the questionnaires indicates that no immediate inspection is necessary.

With respect to the large number of complaints against broker-dealers in this region, savings are being, and will continue to be effected by requiring broker-dealers in appropriate cases to furnish information by letter and over the telephone concerning specific complaints received from members of the public. If warranted by the replies received, of course, inspection is made. This method has and will continue to save a considerable amount of time of the inspection personnel as well as travel funds. It also expedites the handling of complaints and thus benefits the investing public.

Investigations and Proceedings Program. With respect to investigations, a higher priority of such cases heretofore in effect, has been set up in this office in order to utilize our manpower more efficiently. While this will mean that some cases will not be investigated, there does not appear to be any alternative since the staff is much too small to handle the workload in this region. Consequently, only a very cursory inspection of some cases will be made, that is, merely for the purpose of determining if they meet the standards of high priority cases to be fully investigated. In certain of these cases where the subjects are located in cities other than Washington, D. C., an attempt will be made to obtain the minimum information by mail or telephone. This procedure will result in the freeing up of manpower to be utilized in the high priority cases. There is a calculated risk in this method of operation, but again, there appears to be no alternative.

With respect to proceedings, civil cases and criminal matters an attempt is being made to effect savings by limiting the number of attorneys and investigators assigned thereto.

With respect to investigations and trials, an even closer surveillance by the Administrator will be kept over travel, transcripts and witnesses in order to establish maximum assurance of economic operations.

Records. A review has been made of the office procedure for the preparation and distribution of duplicate copies of material. As a result, it has been possible to eliminate extra copies of various documents heretofore prepared. Also, in regard to Regulation A files it is proposed to eliminate extra copies no longer needed in an effort to reduce filing space.

Investment Company Inspection Program under the 1940 Act. At the present time inspection of investment companies is conducted with substantial assistance from the Division of Corporate Regulation. This assistance must be continued in the foreseeable future due to the shortage of manpower in this office. It is difficult to see how economies can be effected with respect to this program but an effort to effect some cost savings will be made.

Processing of Filings under Regulation A. A review has been made of the procedure now used in processing Regulation A filings in this office. In this regard it is proposed that greater use will be made of the "bed bug" system of handling filings which do not adequately comply with Regulation A and the disclosure requirements under the Securities Act. Pre-filing conferences are and will be limited to discussions of the requirements of Regulation A and the Securities Act and the problems to be faced in a particular filing rather than a complete review of a proposed filing. In addition, pre-clearance and post-clearance investigations are conducted only on a highly selective basis. This has and will continue to result in savings of time of attorneys and accountants which time will, of course, be used in higher priority matters.

B. ELIMINATION OF LOWER PRIORITY ACTIVITIES;
SUBSTITUTION OF LESS COSTLY ACTIVITIES.

The proposed action to substitute questionnaires on a limited basis for actual broker-dealer inspections will amount to a program curtailment and to a limited extent a substitution of a less costly procedure.

The establishment of high priority cases to be investigated will amount to a program curtailment since in meeting the high priority standards many cases will not be investigated. With respect to the broker-dealer inspection program it is also proposed to handle complaints concerning a particular broker-dealer by telephone call or letter to the dealer asking for a report on the specific complaint of a customer rather than cause a personal visit by securities investigators to be made. This use on a continuing basis of this alternative program will reduce cost since it will, in many instances, result in a saving in time and travel of broker-dealer inspectors in conducting limited inspections involving these instances.

The limitation of pre-clearance and post-clearance investigations of Regulation A filings will also amount to a program curtailment since sometime ago it had been the policy of this office to conduct such investigations more frequently.

C. INCREASED MANAGEMENT AND PROGRAM EFFECTIVENESS

The handling of complaints against broker-dealers by letters and telephone calls instead of actual inspections on the premises in proper cases will be beneficial to the public, particularly those members of the public who have complained.

Major management improvement also is sought by the elimination of certain levels of supervision so that only one supervisor reviews an employee's work product. This, except in unusual cases, is the plan which is in effect in the Washington Regional Office at the present time.

ANNUAL GOALS

A. Narrative Description

By the adoption of the suggestions relative to the broker-dealer inspection program it is anticipated that it will be possible to complete 130 broker-dealer inspections in fiscal 1966, an increase of 5 over the number completed in fiscal 1965. In fiscal 1967 the total number completed will be at least 135.

Work reports for the period June 21, 1964 through June 19, 1965 reflect that the Washington Regional Office expended \$31,430.00

on the broker-dealer inspection program. Taking into consideration an additional 10% for overhead direction and a further increase of 15% for other expenses, the total expended for 125 inspections was \$39,758. On the basis of 125 inspections the cost per inspection was approximately \$318.00. The completion of 130 inspections in fiscal 1966 for approximately the same money would reduce the cost per inspection to \$305.00 and the completion of 135 inspections for approximately the same cost in fiscal 1967 would reduce the cost still further to approximately \$293.00 per inspection.

It is believed that further economies can be effected not only in the Washington Regional Office but on a nationwide basis if a re-examination is made of the broker-dealer inspection program and procedures and the coordination of such inspection program with those conducted by National Securities Exchanges, the NASD, and certain states is re-examined. A memorandum on this subject is being prepared for the consideration of the Division of Trading and Markets.

It is not deemed possible other than in the broker-dealer inspection program to estimate savings since any substantial economies developed in one program will be utilized in higher priority matters. Needless to say, there is and will continue to be a tightening of procedures in order to assure maximum performance at minimum cost.