

From DAVID L. RATNER

To MFC

EXCHANGE COMMISSION

DATE: August 24, 1967

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For your records. Copies have been distributed to MFCUG. Becker advises that there is nothing new here as far as our cost reduction report is concerned.

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CHAIRMAN'S OFFICE
RECEIVED

Office Memorandum • AUG 29 1967
SECURITIES AND EXCHANGE COMMISSION

SEC. & EXCH. COMM.

DATE: August 24, 1967

TO : Honorable Manuel F. Cohen
Chairman

FROM : Mahlon M. Frankhauser, Administrator
New York Regional Office

SUBJECT: Report on Cost Reduction Goals for Fiscal 1968 and 1969.

Pursuant to the criteria established in the Guidelines for the Cost Reduction Program for fiscal years 1968 and 1969, the following report to specific programs in the New York Regional Office is submitted.

I. Examination of Regulation A Filings.

a. Goal

In fiscal 1967 this office completed 121 examinations of Regulation A Filings, and conducted 4 investigations. From current market trends, it appears that the number of filings in 1968 will be the same as in 1967, and as a minimum, the same number of filings will be examined as in fiscal 1967.

b. Projects

This Branch is staffed by a chief (attorney), one (1) attorney, two (2) staff accountants and three (3) clericals. On the assumption that there will be a considerable number of theatrical filings made in fiscal 1968 as in fiscal 1967, and because of the examining procedure of such filings developed by the branch chief to expedite the processing of them, it is anticipated to accomplish this goal objective readily.

c. Nature of Savings or Benefits

I believe that the attorney assigned to this Branch will not return to duty from maternity leave. I intend to assign one of the attorney's in the Branch of Enforcement No. 4 to assist with the processing of Regulation A Filings by devoting approximately half his time to the examination of such filings. This will be a savings of .5 man year in this program. However if the rate of filings increases this attorney will devote full time to this Branch. If this should occur a savings will be accomplished through the processing of an increased number of filings.

d. Use of Savings

The savings of .5 man year and a dollar saving of \$4837 will be used to implement the Enforcement and Investigative Program. Likewise the position recovered from the Regulation A Program will be reassigned to the Enforcement and Investigative Program. Therefore, the savings will be applied to the production of more work units in other areas.

e. Problem areas:

As noted above if the market situation should change and there is an increased number of Regulation A Filings, we may have to re-evaluate our manpower allocation in connection with this program. This would affect the productivity of the E & I program.

II Investment Adviser Inspections

a. Goal

In fiscal 1967 this office completed 122 Investment Adviser Inspections, which fell about 2.5% below our object of 125 inspections. In accordance with the criteria set forth in the guidelines of the operating budget, the inspections to be conducted by this branch will be for "cause" only. While we are projecting 125 inspections to be completed in fiscal 1968, this figure can be sharply reduced because of the number of man hours which can be expended in a "cause" inspection. Likewise, any investigation and/or proceeding developed as a result of a "cause" inspection which will require the assignment of an investigator from this Branch will decrease its inspection quota.

b. Projects:

This Branch consists of the chief and three (3) investigators all of whom have good "street" experience. Based on past performance, it has been able to accomplish its goal objective, surpassed it three years ago, and missed for the past two (2) years only by a slight percentage. In fiscal 1966 it fell short of its objective by 9% although the Branch Chief was absent for .5 man years. It is conceivable that 125 inspections is within the performance potential of the Branch.

c. Nature of Savings or Benefits:

In view of foregoing it does not appear that there will be any tangible savings from this program.

e. **Problem Areas**

Because "cause" inspections are more detailed and if any actions should develop and proceedings ordered as a result thereof, it is conceivable that this program project will not be accomplished. Further, there are still many questions of interpretation and compliance which are processed by the Branch and any considerable number of these reduce the efficiency and productivity of the Branch.

III Broker-Dealer Inspection:

a. **Goal**

The 189 Broker-Dealer inspections completed in fiscal 1967 fell short of any figure projected by this office. Two of the best qualified investigators were assigned to participate in the "interpositioning" investigations conducted by this office. Considerable man hours were expended before the proper procedure was developed to make the investigation meaningful with regard to the Commission's position in this area. These two investigators were not available for the broker-dealer inspection program or the examination of financial reports for approximately a total of 1.3 man years.

The Guidelines for fiscal 1968 states that "SECO" and "cause" only inspections will be conducted by the Broker Dealer branches. It is proposed to conduct approximately 200 inspections in fiscal 1968, of which about 160 will be "SECO" inspections. Since more time is expended in a "cause" inspection and considering (1) the depth and scope of the inspection, (2) the size of the firm to be inspected, and (3) since investigations are to be conducted on a "selective basis," any of these factors or a combination may contribute to reducing the projected goal for fiscal 1968.

b. **Projects**

Each branch consists of a branch chief, a group leader, secretary, record and control clerk and six investigators. One of the branches has a trainee who has not as yet developed to the point of conducting inspections as an individual journeyman.

It is contemplated to conduct conferences with the branch chiefs and my Assistants Administrator (Enforcement) to develop procedures in "cause" inspections that would help to expedite them.

c. **Nature of savings or benefits**

On the assumption that one broker-dealer investigator will not

be available for participation in any of the broker-dealer programs, there will be a savings of approximately one (1) man year.

d. Use of savings

The savings of 1 man year will be used to implement the Enforcement and Investigative Program in the area of "interpositioning". Therefore, the savings will be applied to the production of more work units in other areas.

e. Problem Areas

An understanding and interpretation of the Commission's bookkeeping requirements demands the time of the investigators. Questions with regard to the bookkeeping requirements, procedures and interpretation of the rules are posed to the investigators of the branches by registrants, their representatives, cashiers, accountants and members of the legal profession, and from Regional Office staff members. The emphasis on SECO inspections will greatly increase this type of "service" requests and decrease the efficiency and productivity of the branches, by reason of an educational program. "Cause" inspections involving a number of moderately large or large firms will decrease the productivity of the inspection program of this office.

IV Investment Company Inspection

a. Projects

This branch accomplished 70 inspections in fiscal 1967 which was 12½% short of its 1967 objective of 80 inspections. In consideration of the fact that this branch was short 2 investigators during fiscal 1967, its accomplishment was beyond its projection. It is contemplated to perform the same number of inspections in fiscal 1968 with the emphasis on new registrants and "cause" inspections.

b. Projects

This primarily concerns with developing some procedure to expedite the inspection of new registrants. This will be pursued with the Assistant Regional Administrator and the Branch Chief.

c. Nature of Savings or Benefits

It does not appear that there will be any savings or benefits derived from this program.

e. Problem areas

Should any significant change be made in the Investment Company Act of 1940 because of impending legislation, the projection made for fiscal 1968 may not be accomplished. There will be many problems arising on policy, interpretation and procedure to be resolved. Also, in consideration that a number of inspections will be for "cause" only, it will be necessary to diverting some man years to enforcement actions should any develop from "cause" inspections.

V Enforcement and Investigative Program

a. Goals

This office completed 93 investigations during fiscal 1967. Of significance it reduced its backlog by 10 although authorized personnel was never at ceiling level at any time during fiscal 1967. It is contemplated to endeavor to fill all legal and investigative positions requested in order that we can accomplish our program objectives for fiscal 1968.

In compliance with the Program Guidelines this office will concentrate its investigative and enforcement program on a more "selective basis". The concentrating on these type of cases will not reduce the number of personnel required for this program. It can reduce the number of investigations opened and in all probability reduce the number of cases completed in fiscal 1968. By being more selective as to the cases we investigate, we should produce more enforcement actions, and these will be of a more complex and contested nature. This, of course, will involve the expenditure of considerably more time on the part of attorneys and investigators in administrative, civil and criminal proceedings.

The Branch of Over-the-Counter Regulation was established to pursue preliminary investigations of trading in those securities, which were selected by the computer, screened by the Division of Trading and Markets and referred to this office. Currently, there

is a substantial backlog in the referrals made to this office which have not been preliminarily investigated to determine whether a full investigation should be initiated. In order to reduce this backlog I intend to assign an additional financial analyst to this Branch. The regulation of the over-the-counter markets and the surveillance by the use of the computer are meaningless if the trading in those securities which are selected by the computer are not currently followed up.

Although this office has expended a considerable amount of manpower during the past fiscal year in the litigation of administrative proceedings, a number of these are still in the trial stage. It is anticipated that the number of both administrative and civil proceedings which have not been tried will be set down for trial during fiscal 1968. This, of course, is in addition to what will probably be an increased number of civil and administrative proceedings which will be initiated as a result of a more "selective" investigative program, and also anticipating that a larger number of civil and administrative proceedings should result from increased emphasis on "cause" inspections. I propose to appoint a Special Trial Attorney, a candidate with good trial experience, to conduct and direct the conduct of these proceedings.

b. Projects

A closer working relationship has been developed with the United States Attorney's Office for the Southern District of New York. As a result we have been conducting more "joint" investigations, thus avoiding the double stage of investigation which has occurred in many matters referred to the Southern District of New York. By conducting joint investigations we not only avoid a duplication but the investigation is facilitated by the use of grand jury subpoenas which seem to reduce the delaying tactics employed by persons under investigation and as a result reduce the amount of time that elapses during an investigation.

c. Nature of Savings and Benefits

It is not contemplated to derive much savings from this program in light of the staffing requirement in order to accomplish its objectives. It is anticipated that the program will require the services of 4 Attorneys, 2 Investigators, 1 Financial Analyst, 1 Complaint Processor, 3 Clerk-Typists and 1 Stenographer. These are not additional positions above the 185 ceiling but should be reestablished within that ceiling.

Additional positions are not requested because personnel from other branches will be utilized to implement the work of this program.

In order to utilize our investigators more effectively, it is contemplated that we will utilize the computer in several of our investigations to assemble voluminous information on trading in securities which are subject to investigation. This information is being obtained from broker-dealers by questionnaire. It will be forwarded to the ADP Unit in Washington which will feed the raw data into the computer and the computer will reconstruct the market with emphasis on concentration of particular brokers or customers trading in these securities. It is contemplated that this will form the primary basis for criminal prosecution involving manipulation of the market price of securities. Currently, this type of information, is hand scheduled. Recently, a similar investigation resulted in a criminal indictment. In that case the information was hand scheduled to reconstruct the market. Three investigators spent approximately 814 man hours on this schedule. It is not known as of this time the cost of the computer project, but these should save approximately .4 man years per case.

d. Use of Savings

The savings by utilizing personnel from other programs: Reg A - 1 ½ MY, B/D - 1 MY, and .4 MY per criminal investigation, for a total of 2.9 MY will be applied to the production of more work units in this program.

e. **Problem Areas**

Currently 14 investigators and 2 attorneys working at the U. S. Attorney's Office, SDNY, on either cases referred by this office pending indictment, awaiting trial or joint investigations. If this should be continued throughout fiscal 1968, and if referrals during fiscal 1968 require that additional investigators and attorney should be assigned to work at the U. S. Attorney's Office, it will reduce the efficiency and productivity of this program.

Any significant number of investigations initiated for "cause" will likewise reduce the productivity of this program.

VI Interpretative Matters

a. **Goal**

The functions of the Branch will remain the same in fiscal 1968 as in fiscal 1967. This will not result in a substantial man year or dollar saving in fiscal 1968.

VII Corporate Reorganization

a. **Goals:**

It is contemplated that the participation in Chapter X matters will be the same in fiscal 1968 as in fiscal 1967. Recently, one of the senior financial analysts retired. It is proposed to fill this vacancy at a lower grade level with a dollar saving of approximately \$4,500.

c. **Nature of savings and benefits**

The dollar savings described above should recur for approximately six years.

d. **Use of savings**

The above savings will be returned to the Commission to be placed in reserve, or applied to finance increased costs or finance some other approved program.

e. Problem Areas

Any developments in Chapter X reorganization matters which would be of major importance would necessitate the re-evaluation of the personnel needs for this program.

VIII Other Programs

a. Goals

The functions under the Branch of Administrative Services propose to remain the same in the Section of Administrative Services and the Section of Public Reference. However, it is anticipated that the Section of Office Services will entail more work and services in fiscal 1968 and will require the services of two additional file clerks. Both of these positions are to be re-established under the ceiling of 185 for fiscal 1967. It is contemplated that the consolidation of two (2) file rooms during fiscal 1968 will require a clerk to bring this additional work load current. It is also contemplated that a change over in duplicating and reproduction services will require additional manpower.

During fiscal 1967 a total of 20 telephone instruments were removed at a savings of approximately \$3,600. The cost of long lines service has been reduced in the past year. During fiscal 1967 emphasis was placed on the utilization of FTS rather than commercial long lines. I shall continue to emphasize the use of the FTS lines for calls outside metropolitan New York area. It is contemplated to keep moves of instruments to a minimum after we are located in the new Federal Office Building.

There will be additional telephone costs in connection with the relocation of the office. It is contemplated to add 5 Call Directors and 2 Key Chief Sets and to expand the inter-com dialing system between Administrators and Branch Chiefs, Office Heads and other Administrative Personnel.