



SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

October 14, 1976

The Honorable William Proxmire
Chairman
Senate Committee on Banking, Housing
and Urban Affairs
United States Senate
Washington, D. C. 20510

Dear Mr. Chairman:

I reviewed your press release last evening concerning the obligation of the SEC to carry out the Congressional mandate to reduce the paperwork burden on small business firms. I, of course, quite agree that we have such a mandate and that there is much that can be done by the Commission to that end.

I was sorry, however, that your release did not recognize the major and successful effort that has been underway at the Commission this past year to do just that. My own view is that no government agency has accomplished as much.

The Commission adopted in January of 1976 Forms U-3 and U-4 as the keystone of that program. Prior to adoption of these forms, each of the 50 states, the SEC, each of the exchanges, and the National Association of Securities Dealers, had separate registration statements for broker-dealers and agents. Even the smallest firm with one office found it necessary to file as many as a dozen separate reports. Because of this enormous burden, the Commission staff developed consolidated applications (Forms U-3 and U-4) that now have been adopted by all self-regulatory agencies, the SEC, and 49 states (only New Jersey has not yet agreed to their use). As a result, literally hundreds of the smaller firms file no forms at all, and all have had their paperwork burden remarkably reduced.

Photocopy from Gerald R. Ford Library

In tandem with the Forms U-3 and U-4 the Commission has adopted a FOCUS Report which in a like manner consolidates all requirements upon broker-dealers to report to the SEC, to state regulatory agencies, and to self-regulatory organizations for such purposes as surveillance, annual audits, customer statements and economic data collection. This new uniform and simplified reporting system, as of January 1, 1976, had been adopted by the SEC, all the self-regulatory agencies, and over 40 state governments.

As in the case of the Forms U-3 and U-4, the reduction of the paperwork burden has been substantial.

It is quite clear that the savings realized by small broker-dealers as a result of these two efforts has meant a difference between an overall profit and an overall loss to many firms. The savings each year for every firm will be substantial.

In addition we now have underway a joint pilot project with the NASD and the states of Massachusetts, Virginia, Michigan and Tennessee, to establish a computerized system that will make possible a single filing place and central data base for registration of broker-dealers.

In short, I feel confident that no governmental agency has achieved so much as the SEC has in this past year in reducing the paperwork burden on small businesses. This progress was duly reported to Congress in the Commission's Annual Report.

Of even more potential significance was the effort taken at the Commission in April 1976 in creating an Advisory Committee on Disclosure Policy. Among the matters the Committee is considering is whether disclosure requirements for smaller corporations should be less extensive than those for larger ones.

In the course of our current activities, and mindful of the work of the Advisory Committee, the Commission has often specifically deferred the application of some of its rules to smaller businesses pending the final report of the Advisory Committee.

For example, in recently extending the requirement that life insurance companies report earnings quarterly in accordance with generally accepted accounting principles, the Commission noted that the Advisory Committee's report is expected by mid-1977 "and could possibly impact the filing requirements of many smaller companies."

In particular recognition of the needs of small business, the Commission created an Office of Small Business Policy to "direct and coordinate the Commission's examination of the efficacy and impact of securities regulation on small business."

During the past six months that office has spearheaded a major effort to simplify the capacity of small business to raise equity capital with a minimum of paperwork and regulatory oversight. We expect before January to begin issuing a series of rule proposals to take advantage of that work. The next effort of that office will be to coordinate a long-range effort to implement the recommendations of the Disclosure Committee which will be completed next June.

Because we are awaiting the work of that Committee and because of budgetary problems we are suspending operation of that Office until our supplemental budget has been adopted. But you may be assured that the effort will continue in the meantime in our Division of Corporation Finance and that operation of the Office of Small Business Policy will resume as soon as funds are available.

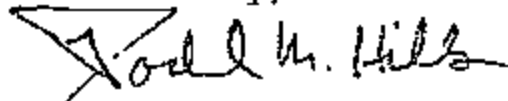
On July 21, 1976, the Commission submitted its yearly report to the Small Business Administration listing half-a-dozen initiatives that have been undertaken by the Commission to ease regulatory burdens on small business investment companies.

In sum, we appreciate the challenge to do more and you have my personal assurance and that of each of the other Commissioners, and each of the Division Directors, that our response to that challenge will be productive.

At the same time, however, the truly significant progress that has been made by the Commission staff this past year should be properly acknowledged and appreciated. Your comments are particularly discouraging to those who have worked so hard on these matters, because no Congressional staff member and no Senator or Congressman has previously discussed your concerns with us, nor has any interest previously been shown in the work we have done to reduce paperwork, notwithstanding our several public releases on the subject.

I hope that upon your return we can discuss the possibility of instituting a joint SEC and Congressional initiative to accelerate our efforts on behalf of small businesses.

Sincerely,



Roderick M. Hills
Chairman