



SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

November 15, 1976

The Honorable John Moss
Chairman
Subcommittee on Oversight
and Investigations
Committee on Interstate and
Foreign Commerce
U. S. House of Representatives
Washington, D. C. 20515

Dear Mr. Chairman:

I want to convey to you my personal appreciation for the comprehensive and probing study of "Federal Regulation and Regulatory Reform" which your Subcommittee has just completed.

While we may disagree on some specific conclusions, I think I can safely say that my fellow Commissioners join in my great admiration for what I believe will stand as a landmark examination of the Federal regulatory process. We are, of course, deeply gratified that the Subcommittee has adjudged the SEC to be perhaps the most effective of the regulatory agencies. You may be sure that we shall do all we can to continue to merit that distinction.

We at the Commission have given a great deal of attention to the conclusions and recommendations of the Subcommittee's Report. While it would not be appropriate to respond in detail at this time, I do want to at least acknowledge those areas where we may have a different perspective.

Perhaps the most serious criticism leveled against the Commission was what the Subcommittee saw as a failure to comply with the 1975 Acts Amendments in our treatment of Rule 394 of the New York Stock Exchange. In response, I must reiterate that while we recognize and respect the Subcommittee's point of view, we believe we have complied fully with both the letter and the

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spirit of the 1975 Acts amendments. This area is, however, a matter of continuing concern to us and I hope we will have the opportunity to discuss it with you further early next year.

The Subcommittee made extensive and detailed recommendations regarding the Commission's role in assuring an adequate program of corporate accountability. Perhaps the most controversial of those involve the suggestion that the SEC should establish and enforce accounting and auditing standards. As you know, it has been the Commission's firm view that we have neither the expertise, nor anywhere near the manpower, to do so, and further that such a policy would not be wise. While I continue to believe in the validity of the Commission's position, I do recognize the wide divergence of opinion on this subject and the concerns expressed by the Subcommittee.

I would, however, like to point out that encouraging progress is being made in this area. The New York Stock Exchange will, I have every reason to believe, soon adopt a requirement for listed firms to maintain strong and independent outside audit committees. In addition, as you know the Justice Department recently established a task force, which includes two SEC attorneys on a fulltime basis, to prosecute corporate officials involved in illegal payments.

One other matter of concern to the Subcommittee was the Commission's budget and staffing levels. I do very much appreciate the Subcommittee's concerns about the burden imposed on the Commission by the additional responsibilities mandated by the 1975 amendments. This is, I can assure you, a matter which is under continuous scrutiny here.

It is my hope that modernization of our facilities will enable us to greatly improve staff efficiency and thus eventually effect a small reduction in the actual number of on-board personnel. In the interim, however, it will probably be necessary to increase our staffing level somewhat. In this connection, we would certainly welcome the Subcommittee's support when we submit our anticipated request for increased appropriations for both modernization, and additional staff positions.

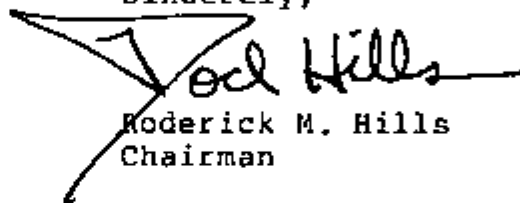
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Once again, let me express my appreciation and admiration for the broad and searching study conducted by the Subcommittee. We at the Commission appreciate both the Subcommittee's compliments, and its constructive criticisms. While we may still disagree on some specifics, I think we are in complete agreement about the broad goals toward which the Commission should work, and about their importance to the nation. I hope that the good working relationship between the Subcommittee and the Commission will in the future be continued, and strengthened.

With kind regards,

Sincerely,

A handwritten signature in cursive script that reads "Roderick M. Hills". The signature is written in dark ink and is positioned above the typed name and title. The signature is somewhat stylized, with a large initial 'R' and a long horizontal stroke at the end.

Roderick M. Hills
Chairman