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Text only of letters sent from the Commerce Committee Democrats.

April 13, 2000

The Honorable David M. Walker
Comptroller General
U.S. General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Walker:

I am writing with further reference to my November 16, 1999, letter asking GAO to conduct a comprehensive review of the Securities Investor Protection Corporation (SIPC).

First, I acknowledge receipt of your [letter of March 8, 2000](#) agreeing to perform this work. You state that you will assess (1) the steps that SIPC and the Securities and Exchange Commission (SEC) have taken in response to GAO's 1992 report recommendations on SIPC's operations, (2) whether SIPC follows consistent procedures to compensate investors, and (3) the impact that the Gramm-Leach-Bliley Act will have on SIPC's customer protection function. You indicate that you will brief us on GAO's findings for objective (1) by early May and complete the remainder of the design phase by July 31, 2000, after which you will provide the projected completion date for the entire study. That plan is acceptable to me and I look forward to working with you.

Second, with respect to SIPC's procedures for compensating investors, I am transmitting the [SEC's response](#) to a complaint concerning the court-supervised liquidation of the now-defunct Stratton Oakmont brokerage firm. **The SEC's answer may be correct as a matter of statutory construction but it appears to do very little to protect investors.**

Last, I am transmitting a copy of the [Inspector General's \(IG\) March 31, 2000, audit report on SEC's oversight of SIPC](#). The IG report concludes that the SEC's oversight is "generally efficient and in compliance with the Securities Investor Protection Act of 1970" (p. 3). **However, this rosy view is totally inconsistent with the report's findings which include:**

- (1) Since SIPC's inception in 1970, the SEC has inspected it only twice, in 1985 and 1994. The 1985 inspection had a limited scope and the 1994 inspection required five staff and took about two years to complete since staff had conflicting duties (p. 5).
- (2) The IG identified six important areas not addressed in past SIPC inspections that should be covered to improve oversight effectiveness. **In addition, the adequacy of the SIPC fund is not covered in SEC inspections or in independent financial statement audits (pp. 5-6, 8).**
- (3) SEC internal communications regarding SIPC "could be improved." The IG found no formal mechanism for sharing SIPC information (e.g., investor complaints, status of current liquidations, etc.) (p.6).
- (4) SEC and SIPC officials need to review the SIPC brochure, last updated in 1994, given

changes in the market that could affect coverage and the general absence of critical information. For example, the current brochure is silent about notifying the brokerage firm in a timely manner of improper account activity and documenting this notice. Without such notice and documentation, an investor will likely not be able to prove an unauthorized trade (p. 7).

Please consider this report and its recommendations in conducting your review. **This program needs a lot of work. In the current market environment, it is critical.** Thank you for your cooperation and attention to this matter.

Sincerely,

JOHN D. DINGELL
RANKING MEMBER

Enclosures

Prepared by the Committee on Energy and Commerce
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