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Grassley says Securities and Exchange Commission should tap all available resources

WASHINGTON — Sen. Chuck Grassley has asked the Chairman of the Securities and Exchange Commission (SEC) to remedy the commission's failure to tap investigative resources provided by Self-Regulatory Organizations by coming up with a plan for the for the commission to consider such information as part of its work to safeguard the integrity of U.S. markets.

Grassley made his appeal following the completion of a new independent audit that said the securities industry reports mountains of information about suspicious transactions but SEC computer systems can't search the data.

“If investigators can't search that data, it's like working with one hand tied behind their backs. It's a no-brainer that the commission ought to be at least looking at this information and have a computer system that can spot trends and let investigators to review the data as effectively and efficiently as possible,” Grassley said. “The Securities and Exchange Commission also needs to review the internal audits that the Self-Regulatory Organizations put together to make sure they're credible and even-handed.”

The report released today by the Government Accountability Office (GAO) concerning the SEC's oversight of Self-Regulatory Organizations is the second of two reviews that Grassley requested as part of his congressional oversight work. The first report of the GAO, issued in September, criticized the SEC for failing to close cases and keeping them open for years even though there was no ongoing investigation. Both requests stemmed from allegations made by a fired SEC Enforcement Division attorney and, in both cases, the GAO findings validated those charges.

In August, Grassley and Sen. Arlen Specter released their own report on the mishandling of an insider-trading probe involving Pequot Capital Management, Inc. The Grassley-Specter report detailed the Inspector General's failure to investigate credible allegations by former SEC attorney Gary Aguirre that his supervisors pulled punches in the investigation because of one witness' political clout.

Grassley said today that the SEC's Enforcement Division and Office of Compliance,

Inspection and Examination brings important civil enforcement actions and administrative proceedings against individuals and companies who violate securities laws and regulations.

The text of the letter Grassley sent to SEC Chairman Christopher Cox is below. The new report of the GAO (GAO-08-33) is posted with this news release at <http://finance.senate.gov>.

December 13, 2007

The Honorable Christopher Cox
Chairman
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549

Dear Chairman Cox:

Last year, I requested that the Government Accountability Office (GAO) conduct reviews of the operations of the Securities and Exchange Commission (SEC). I recently received the second of two reports, GAO-08-33, entitled "Securities and Exchange Commission: Opportunities Exist to Improve Oversight of Self-Regulatory Organizations (SROs)." Reliance on SROs, such as the major stock exchanges, to police their members can work effectively only if the operations of the SROs are open and transparent. Therefore, I was disturbed to learn that the SEC does not obtain copies of internal audits and investigations conducted by SROs.

According to the GAO, it recommended four years ago that the SEC routinely use such internal audits and investigations to plan and conduct inspections of SROs. The SEC did not implement that recommendation. Recent SEC guidance calls for SROs to merely allow "on-site" access to internal documents during SEC inspections. This is not an adequate substitute for actually implementing the GAO recommendation by obtaining copies and reviewing the documents to inform the planning of SRO inspections.

I urge you to ensure that SEC staff obtain and review internal SRO audit reports on a routine basis. While the SEC told GAO that it intends to study and consider how reliable such reports may be, that does not go far enough toward implementing GAO's recommendation from four years ago. If the SEC had begun routinely obtaining these reports four years ago, it would already have an idea of how reliable they are. It should not take this long to do something so basic. Given that SROs are entrusted with direct regulation of the securities industry, there is no excuse for them being anything less than completely transparent to the SEC.

I would appreciate an explanation of why the SEC has been so slow to act on this matter and a description of your plans for ensuring that the SEC begins to routinely obtain and review internal SRO audits and investigations.

Sincerely,
Charles E. Grassley
Ranking Member

