

For Immediate Release
Friday, February 1, 2008

Grassley: SEC Agrees to Conduct More Aggressive Oversight of Stock Exchanges

WASHINGTON – Senator Chuck Grassley of Iowa today said the Securities and Exchange Commission (SEC) has committed to reviewing the internal audits and investigations of self-regulatory organizations such as the New York Stock Exchange.

Grassley had asked in December that the Chairman of the SEC to remedy the commission's failure to tap investigative resources provided by self-regulatory organizations by coming up with a plan for the commission to consider such information as part of its work to safeguard the integrity of U.S. markets.

“It took way too long, but now maybe the SEC is finally getting serious about its duty to oversee self-regulatory organizations,” Grassley said. “Getting their internal audits is the obvious first step to knowing where the problems are. Yet, the SEC turned a blind eye, even three years after the GAO told them to take a look.”

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

Here is a copy of the text of Grassley's December letter. The letter from SEC Chairman Christopher Cox to Grassley 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