UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

THE CHAIRMAN

October 12, 2004

The Honorable Barney Frank
Ranking Member
Committee on Financial Services
U.S. House of Representatives
2252 Rayburn House Office Building
Washington, DC 20515

The Honorable Paul E. Kanjorski
Ranking Member
Subcommittee on Capital Markets,
Insurance and Government Sponsored
Enterprises
Committee on Financial Services
U.S. House of Representatives
2353 Rayburn House Office Building
Washington, DC 20515

The Honorable John D. Dingell
Ranking Member
Committee on Energy and Commerce
U.S. House of Representatives
2328 Rayburn House Office Building
Washington, DC 20515

Dear Congressmen Frank, Kanjorski, and Dingell:

August 9

I am writing in response to your July 19 letter regarding the GAO's follow-up report on its recommendations concerning SIPC (GAO-04-848R, July 9, 2004). As you may know, in 2001 the GAO issued a report on SIPC that focused on how SIPC and the SEC could better disclose to investors the scope of SIPC protection (GAO-01-653, May 25, 2001). The 2001 report included a number of recommendations to SIPC and the SEC. In 2003, the GAO issued a second report on the progress being made by SIPC and the SEC with respect to the recommendations (GAO-03-811, July 11, 2003). The 2004 report is a further update. The latter reports demonstrate that the SEC has substantially improved the quality of investor information about SIPC protection.

As you note in your letter, two of the GAO's recommendations are still being implemented. The first is that the SEC, in conjunction with the SROs, require broker-dealers to provide a notice on their customer account statements that any discrepancy in the statement (e.g., an unauthorized trade) be brought to the firm's attention in writing.

We believe this is a worthwhile recommendation and are glad to report that the NYSE and NASD have agreed to propose such a rule. We expect them to propose the rule no later than next spring.

The second recommendation is that broker-dealers be required to send the SIPC brochure to all customers opening new accounts. The NYSE and NASD have indicated that they believe the costs of such a requirement may outweigh the benefits. Accordingly, the GAO has recommended an alternative, namely, that broker-dealers be encouraged to provide SIPC's telephone number and website address on new account documentation. The NYSE and NASD currently are considering this alternative. I would note that SIPC recently adopted membership rules, which require broker-dealers advertising their SIPC membership on the internet to include a hyperlink to SIPC's website. The new membership rules also require broker-dealers choosing to use the official explanatory statement of SIPC coverage to include a reference to SIPC's website address in the statement.

Your letter also notes that the SEC staff is conducting a follow-up to its recent examination of SIPC. The review is focusing on SIPC's implementation of SEC recommendations with respect to how it conducts broker-dealer liquidation proceedings and informs investors about SIPC coverage. As you request, we will advise you if any serious unresolved issues remain at the close of the review.

Sincerely,

Bill Donaldson

William H. Donaldson
Chairman

cc: The Honorable Michael G. Oxley, Chairman
Committee on Financial Services

The Honorable Richard H. Baker, Chairman
Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises

The Honorable Joe Barton, Chairman
Committee on Energy and Commerce

The Honorable David M. Walker, Comptroller General
Government Accountability Office

Mr. Stephen P. Harbeck, President
Securities Investor Protection Corporation