



THE CHAIRMAN

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

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May 25, 1990

The Honorable John Robson
Deputy Secretary of Treasury
Treasury Department
Room 3326
15th & Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Dear Mr. ~~Robson~~ *John*:

The Securities and Exchange Commission ("Commission") has worked closely with both the Department of the Treasury and the Department of State to coordinate the provision of technical assistance to Eastern Europe. Based upon the contents of a draft cable, and other A.I.D. materials which I recently received, describing a planned trip to Hungary by the Financial Services Volunteer Corps ("FSVC") under the auspices of A.I.D., I am particularly concerned that our efforts to coordinate and provide effective assistance may not be shared throughout the U.S. government.

Specifically, the A.I.D. draft cable, dated May 14, 1990, states that the FSVC team is dealing directly with Hungarian regulatory authorities and that this FSVC team "will be prepared to advise on development of regulatory framework for securities market and supervision of stock market operations." A memorandum (dated May 23, 1990) from Penny Farley, A.I.D., Bureau for Private Enterprise, Office of Project Development, to Robert Banque, Office of International Affairs, Treasury, states:

"I'd like to remind you of a point I've made in our earlier conversations; that is, that the FSVC is a private, voluntary initiative, providing a private sector point of view on financial sector matters to countries that request it."

Having only just learned of the plans for the FSVC trip to Hungary, being sponsored by A.I.D., I was surprised to see that it coincides with a visit, described below, that I had already planned, together with other senior staff of the Commission and private sector participants. The Commission was neither informed nor consulted by A.I.D. about this FSVC trip. Frankly, I am also disturbed by the potential for embarrassment, confusion and disruption to our program. I believe it would be highly appropriate if A.I.D. and the FSVC team either rescheduled their visit, or at a minimum coordinated their activities for the June 20-23 trip to Hungary with the Commission.

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The Commission is currently proceeding with a program for providing technical assistance to Eastern European nations in developing, administering and operating securities markets. We are devoting substantial time and energy to this effort at the highest levels of the Commission, and have made considerable progress in that regard. The Commission already has met with high-level finance officials of Hungary and Poland to discuss the specific and immediate assistance needs of those nations. The Hungarians have sought to formalize these arrangements, and have asked that the Commission enter into a written understanding with Hungarian regulatory authorities to provide a framework for establishing and implementing ongoing technical assistance programs. Such an agreement will assist the Commission in providing agency-to-agency advice, consultation and training in the development of market structures and systems, and in the effective regulation of markets and of market professionals. These activities would be similar to other arrangements between the SEC and our counterpart regulators in other countries.

The Commission also has formed an Emerging Markets Advisory Committee to advise it in developing an assistance program. The Commission plans to issue a press release on Tuesday, May 29, announcing the appointments to the Advisory Committee, which will include some two dozen of the most prominent U.S. securities market experts from the private sector, from self-regulatory organizations, and from the academic community. (I have enclosed a draft of the press release.)

As discussed with Larry Eagleburger, I plan, at the invitation of Hungarian regulatory authorities, to travel to Hungary to speak, together with Prime Minister Antall, at the opening ceremony for the Budapest Stock Exchange on June 21, 1990. At that time I hope to be able to finalize and sign the Understanding, as the Hungarian authorities are hoping to do. At this time, Commission staff will meet with our Hungarian counterparts to outline the Commission's initiatives to assist in the operation and administration of its securities markets and the development of its securities regulations.

A more significant structural problem is posed by the FSVC team's activities at this time. There is, I submit, substantial risk that the private interests being represented and expressed by FSVC will be interpreted by these foreign authorities as having been endorsed by the U.S. government, including the Department of State.

The potential for confusion to be caused by the FSVC's mission to Hungary is heightened all the more because the FSVC receives financial and diplomatic support from the United States through A.I.D. Such support creates the misimpression that the FSVC carries the imprimatur of our State Department. Lack of clarity

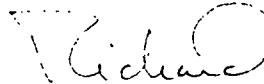
about the FSCV's authority and of its "private sector point of view" could result in grave embarrassment if the Hungarians were to rely upon FSVC views in formulating their regulatory structure, only to later find that their structures were incompatible with those which the Commission oversees.

I have no doubt that there is an important role for the FSVC to play in working with the Eastern European nations. Its members have considerable expertise in financing, valuing and securitizing companies. This expertise could most profitably be directed toward providing advice on identifying companies for privatization, developing methods for achieving privatization and securitization of companies, and obtaining financing for companies. Without question such assistance will be critical to the development of free markets in Eastern Europe. Such an effort, if coordinated through the interagency process, would provide an excellent complement to the work already underway by the Commission and other U.S. government agencies.

In my view, the FSVC should be cautioned against directly advising other countries' regulatory agencies on governmental matters such as appropriate regulatory frameworks, systems for market supervision and operation, capital levels, clearance and settlement mechanisms and related legislation or regulation. These are all matters on which the United States should speak with one voice, through the Commission, the agency whose charter and expertise qualify it to do this. In addition, these are all areas where there may be U.S. regulatory consequences depending on the actions taken by Hungary.

I hope that this letter will serve to stimulate enhanced communication and coordination among the U.S. government agencies that are involved in providing technical assistance to Eastern Europe, and will help to strengthen our ability effectively to provide such assistance. I look forward to continuing to work with you on the Eastern European Interagency Task Force.

Sincerely,



Richard C. Breeden
Chairman

Enclosure - Draft Press Release

cc: Dr. Michael Boskin
Mr. Lawrence Eagleburger