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United States Senate

COMMITTEE ON BANKING, HOUSING, AND
URBAN AFFAIRS

WASHINGTON, D.C. 20510

CHAIRMAN'S OFFICE

RECEIVED

October 23, 1984

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SEC. & EXCH. COMM.

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Pls prepare a response.

The Honorable John S. R. Shad
Chairman
Securities & Exchange Commission
450 5th Street, N.W.
Washington, D.C. 20549

Dear Mr. Chairman:

In your letter dated September 27, 1984 you asked me whether there are any important areas I feel the SEC should address during the coming year.

My first reaction is the obvious one that the Commission should continue to plug away and aggressively place a primary emphasis on investor protection, full and fair disclosure, orderly markets, and rigorous enforcement of the securities laws so as to ensure, as you put it in your Harvard Business School Club speech, October 2, 1984 that the United States continues to have "the best securities markets, the world has ever known - the broadest, the most active and efficient - and the fairest." These are basic prerequisites to such a market which should not be overlooked in the pursuit of new activities.

I am also struck by a number of the issues that are raised in the SEC's publication of its Major Issues Conference, June 28 - 29, 1984. Among those that certainly deserve continued and focused attention include the increased institutionalization of the securities markets with its concomitant increase in reliance upon market professionals and how this effects the individual investor and his or her confidence in the markets and our capital raising mechanisms; the harmonizing of regulations in the financial services industries so as to create a sense of competitive fairness among depository and nondepository financial institutions; the integrity, desirability, and regulation of new products; exchange listing requirements; and disclosure requirements for municipal issuers, especially with respect to industrial revenue bonds.

But another issue is being brought to my attention with increasing frequency and urgency which I believe also requires immediate attention plus long-range planning on the part of the Commission. This issue, which has been recognized by the Commission, involves the internationalization of the securities markets and the rapidly evolving global nature of our world trading system -- in other words, planning for the world trading system of the future and United States involvement and leadership in that system in an ever increasingly competitive international arena.

I am more convinced than ever that an irreversible trend is underway as a result of telecommunications technology in this information age that will accelerate the trading of stocks and other instruments internationally.

It is already possible to identify over 200 stocks that are regularly bought and sold outside of their country of origin and all signs appear to be pointing toward more. A number of responsible commentators suggest that a world trading system is currently in the process of being, and will in the foreseeable future be, created. The result, according to some, will be that this new market will take many of the most attractive securities off the floors of national stock exchanges and draw them into an entirely different arena, and that as this process takes place, traditional structures will come tumbling down. What is projected by some is a fight for control of the benefits that will flow from this international market as British, Japanese, American, and other nations' securities firms wrestle to become the dominant market-makers and information purveyors in the new system.

It has been suggested to me that it is time to begin viewing exchanges more as communications and information systems than as trading systems and to begin to prepare for the heightened competition between nations for control of this international communications and trading network which many project will ultimately take place in a telephone market away from the floor of any exchange and without the charging of any commission.

It has also been suggested to me that now is the time to think about the establishment of a domestic advisory committee followed by an international committee, under American leadership, to plan for the global trading system of the future.

In 1983 the Commission, under your leadership, established a Tender Offer Advisory Panel to make recommendations for changes in our laws and regulations regarding change of control situations.

I believe that consideration must now be given to the formation of a new broadly constituted Advisory Committee on Trading Systems. This Committee would, among other things, consider the following topics:

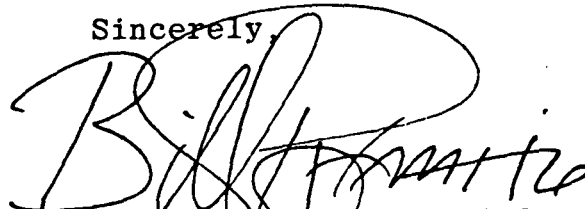
- (1) Automation and current trading practices.
- (2) Developments in communications and computer technology and their effects on off-the-floor trading.
- (3) The move from national trading systems to global trading systems and the role and appropriate regulation of United States participants.
- (4) The shift of domestic pension assets into non-American securities.
- (5) The preservation and creation of quality domestic/international trading systems.
- (6) Surveillance systems in a global trading system and the need for cooperative international oversight systems, exchanges of information, and greater international enforcement cooperation.
- (7) Listing and disclosure requirements.
- (8) Appropriate regulation of distributions of securities which may be issued in different countries.
- (9) Design of a world-wide contemporaneous clearing and settlements system.
- (10) The future role of the SEC in a world trading system.
- (11) The formalization of adequate institutional mechanisms for international cooperation and the appropriate role of the United States in developing and interacting with other countries in the emerging global trading system.

These are obviously very general suggestions dealing with an extraordinarily complex situation, but they are the

thoughts of one Senator who has spent a career overseeing the Securities and Exchange Commission and who is deeply committed to preserving the leadership of the United States in the capital systems of the world.

Since I consider the emerging global trading system to be vital to America's national interest I would be delighted to lend my support to the type of broad-based effort I have recommended.

Sincerely,



William Proxmire, U.S.S.