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United States Senate

COMMITTEE ON BANKING, HOUSING, AND
URBAN AFFAIRS

WASHINGTON, DC 20510-6075

CHAIRMAN'S OFFICE
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SEC. & EXCH. COMM.

October 27, 1987

The Honorable David S. Ruder
Chairman
Securities and Exchange Commission
450 5th Street, N.W.
Washington D.C. 20549

Dear Mr. Ruder:

On Thursday, November 5, 1987 at 10:00 am the Senate Banking Committee will hold hearings on recent developments related to the excessive stock market volatility in recent weeks.

In your testimony and in discussion we would ask that you address the following questions in your written statement.

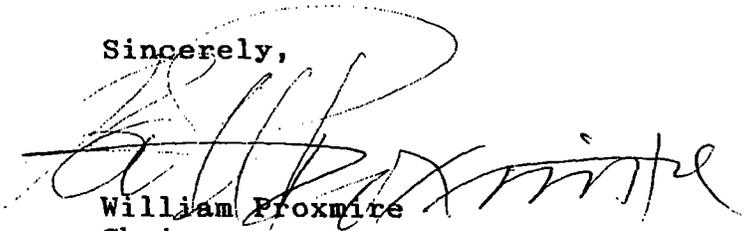
The Financial System and the Stock Market Crash

1. What economic fundamentals changed on or around October 19th that could explain the size of the stock market decline?
2. Did computer trading arbitrage techniques and portfolio insurance cause, deepen and/or speed the decline in stock
3. What improvements may be necessary in the clearance and settlements system?
4. Did the margin requirements in the markets for derivative instruments, which are significantly below those required for purchasing common stocks, exacerbate the stock market's decline? Would it be advisable to institute higher margin requirements and stricter position limits in these markets after the crisis subsides?

5. Does the performance of the specialist system used by exchanges compare favorably with dealer systems used on the over-the-counter market? Did the crash affect the two types of market making differently? How were small investors served relative to the large investors by these two systems of market making? Is the capital of the specialists adequate?
6. What were the reasons for the prolonged interruption of trading in the Hong Kong market last week? Are domestic securities markets disrupted by malfunctions or protracted interruptions in foreign markets?
7. Would it be advantageous to have all regulation of securities-related instruments focused in the Securities and Exchange Commission?
8. Have the OTC, and other indices of market behavior performed significantly differently than the Dow Jones Average since Monday, October 19th. Does this suggest that there has been widespread support of the Blue Chip firms by Wall Street in an attempt to arrest the panic psychology?

Your testimony will be very valuable to the members of this committee as we assess these startling recent developments and their implications for the future.

Sincerely,



William Proxmire
Chairman

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M. DANNY WALL, MINORITY STAFF DIRECTOR

GUIDELINES FOR WITNESSES

These guidelines apply to all hearings of the Senate Committee on Banking, Housing, and Urban Affairs and its subcommittees.

1. All hearings will begin at 10:00 a.m. in Room SD-538 Dirksen Senate Office Building unless otherwise indicated.
2. Committee rules require that all witnesses submit at least 100 copies of their written statements 24 hours prior to their appearance (Sundays and holidays not included in determining this 24-hour period). If witness desires copies to be distributed to press and public, more copies are needed.

In order to minimize duplicating costs for the witness and printing costs for the Committee, it is requested that these statements be single-spaced. Statements should be delivered to Room SD-534 Dirksen Senate Office Building, Washington, D.C. 20510.

Strict adherence to the 24-hour rule is essential in order that Committee Members may review the statements before the hearing, thus enabling the participants to more thoroughly discuss the issues involved. Statements will not be released to anyone except Senators and staff prior to the day of your testimony.

3. Witnesses not complying with the 24-hour rule will not be allowed to testify unless specifically permitted by the Chairman.
4. Oral presentations must be limited to a brief summary not to exceed 10 minutes. Your complete statement will be printed in the hearing record.
5. Please complete the attached card and bring it to Room SD-534 Dirksen Senate Office Building prior to the hearing. You will be given copies of the statements of those testifying with you at that time.

Your cooperation is appreciated.

William Proxmire
Chairman