

*U.S. house of Representatives
Committee on Energy and Commerce
Room 2125, Rayburn house Office Building
Washington, DC 20515*

June 27, 1989

The Honorable Charles A. Bowsher
Comptroller General
General Accounting Office
441 G Street, N. W.
Washington, D. C. 20548

Dear Mr. Bowsher:

As you are aware, this Nation's financial institutions experienced problems during the 1987 stock market crash that many believe brought the entire financial system to the brink of collapse. As Chairman of the Committee on Energy and Commerce, I am concerned about what the Nation's securities and futures industries have done and are doing to correct the problems encountered during the crash.

On March 23, 1989, I introduced, along with Representative Markey, by request H.R. 1609, the Stock Market Reform Act of 1989, based on a legislative package submitted by the Securities and Exchange Commission to the 100th Congress in June, 1988. The submission contained four separate proposals relating to: (1) emergency powers for the SEC, (2) large trader reporting, (3) risk assessment for holding company systems, and (4) clearance and settlement.¹ Hearings have been held on companion legislation by the Senate Subcommittee on Securities and we anticipate hearings in our Subcommittee on Telecommunications and Finance in the near future.

A particular area of concern to the Committee is the process the securities industry uses to clear and settle trades made on the exchanges. As you know, during the week of October 19, 1987, the exchanges experienced problems in the trade resolution area, which is one of the initial steps of the clearance and settlement process. For example, it is our understanding that the New York Stock Exchange's manual process for resolving unmatched trades was inundated during the crash. As a result, the exchange

¹ On May 17, 1989, the SEC transmitted revised statutory language and legislative history for the large trader reporting and risk assessment provisions to respond to concerns raised by the staffs of the Commodity Futures Trading Commission and the Board of Governors of the Federal Reserve System, as well as by the Securities Industry Association.

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had to close early on several days to reduce the large backlog of trades that needed to be resolved.

In response to the problems encountered in the trade resolution area, the New York Stock Exchange, the American Stock Exchange, and the National Association of Securities Dealers are developing and implementing automated systems to improve their ability to resolve unmatched trades and eliminate this area as a potential chokepoint in the trading process. Given the importance of these systems, we are requesting that the GAO initiate a study to review their development and implementation. Specifically, I recommend that the study include the following: (1) the current status of these systems, including a brief description on how each operates; (2) the extent these systems have been tested to ensure they can handle increased workloads such as those experienced during the 1987 stock market crash; (3) the role the SEC has played in reviewing and approving the use of these systems; and (4) the impact these systems will have on reducing the current five-day period needed to clear and settle securities.

As you can see, these issues are critically important, and I intend to examine them more closely during the 101st Congress. In this regard, I suggest that you have your staff meet with the Committee to establish a timetable for completing the study. Thank you in advance for your assistance on this matter.

Sincerely,

JOHN D. DINGELL
CHAIRMAN

cc: The Honorable Edward J. Markey
The Honorable Norman F. Lent
The Honorable Matthew J. Rinaldo