

105TH CONGRESS

ROOM 2123
RAYBURN HOUSE OFFICE BUILDING
PHONE (202) 226-4443

JOHN B. CONNELL, SECRETARY, CHAIRMAN

RON WYCKE, OREGON
DENNIS C. CZARZ, OHIO
JIM SLATTERY, KANSAS
GARY GEORGE SCHLESLEY,
JAMES H. SCHWARTZ, NEW YORK
JAMES J. FLONO, NEW YORK
THOMAS A. LUKIN, OHIO
JOHN BRYANT, TEXAS
MURRY A. WALZMAN, CALIFORNIA
RICHARD C. EARLEY, ALABAMA

JAMES T. BROTHILL, NORTH CAROLINA
BOB WHITAKER, KANSAS
THOMAS A. GALEY, JR., VIRGINIA
MICHAEL A. GALEY, OHIO
MICHAEL BELMONT, FLORIDA
DAN SCHAPIRA, COLORADO
FRED J. SCHERT, NEW YORK

MICHAEL F. BARNETT, JR.
CHIEF COUNSEL/STAFF DIRECTOR

U.S. House of Representatives
Subcommittee on Oversight and Investigations
of the
Committee on Energy and Commerce
Washington, DC 20515

April 18, 1985

Mr. John J. Phelan, Jr.
Chairman and
Chief Executive Officer
New York Stock Exchange, Inc.
11 Wall Street
New York, New York 10005

Dear John:

Pursuant to Rules X and XI of the U.S. House of Representatives, the Subcommittee on Oversight and Investigations will conduct a hearing on the performance of the Securities and Exchange Commission in its oversight of self-regulatory organizations under Section 19 of the Securities Exchange Act of 1934. This hearing will focus on the listing standards of the New York Stock Exchange (NYSE), the other exchanges, and the National Association of Securities Dealers Inc. (NASD) relating to voting and other corporate governance matters, as well as certain recent market structure initiatives identified below. The hearing is scheduled to commence at 10:00 a.m. on June 4, 1985, in Room 2123 of the Rayburn House Office Building.

We had hoped that the Commission would exercise its authority to conduct the necessary fact findings and hearings in order to ascertain the effects of the subjects discussed below on the options market structure and the ability of the self-regulatory organizations to maintain fair and orderly markets for the protection of investors. Since that has not occurred, it has become necessary for the Subcommittee on Oversight and Investigations to schedule this hearing. These subjects merit immediate Congressional consideration because of the potentially adverse effects that the fragmented broadening of the scope of permissible options trading activities will have on our Nation's equity markets and the erosion of the protections presently afforded to investors under the current regulatory structure. Commission action on these proposals, without the opportunity for Congress to review certain fundamental policy changes inherent therein, is, at best, premature and, at worst, totally inadvisable.

Mr. John J. Pnelan, Jr.
April 18, 1985
Page 2

Under the rules of the Subcommittee, you may be accompanied by counsel of your choosing. The Subcommittee requests that you be prepared to discuss the following topics:

- 1) whether the listing standards of the NYSE relating to voting and other corporate governance matters should be relaxed, or whether similar standards should be extended to other markets;
- 2) whether the Commission should use its authority under 1934 Act Section 19(c) to prevent shareholder disenfranchisement resulting from the dual capitalization recommendations of the NYSE Subcommittee on Shareholder Participation and Qualitative Listing Standards;
- 3) Release No. 34-21583 (December 18, 1984) adopting amendments to 1934 Act Rule 11Aa2-1, lowering the standards used for determining an over-the-counter (OTC) stock's eligibility for inclusion in the NASD's National List and increasing the number of OTC securities eligible for designation as NMS securities from approximately 1,104 to 2,268. Among other things, the Commission has eliminated the trading volume requirement, removed the price per share requirement under Alternative 2, and reduced from four to two the minimum number of market makers;
- 4) the Commission's decision on the rule changes submitted by the NASD and five securities exchanges to trade options on OTC securities;
- 5) the implications of granting unlisted trading privileges to exchanges in OTC stocks, and the multiple trading of options;
- 6) the potential informational advantages and opportunities for manipulation presented by side-by-side trading of options on certain OTC stocks;
- 7) the competitive concerns, and resultant "race to the bottom," flowing from these initiatives;
- 8) the effects of these developments on the role of the auction market vs. OTC dealer market and relationship to various exchange merger proposals;
- 9) whether these initiatives are consistent with the purposes of the 1934 Act and the Commission's authority under the "qualified" securities provision of Section 11A(a)(2) thereof; and
- 10) all other matters which are relevant to an understanding of these various corporate governance and market structure issues.

Mr. John J. Phelan, Jr.
April 18, 1985
Page 3

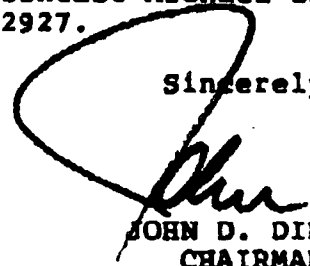
You should be aware that the Subcommittee will employ the following procedures with regard to the testimony of witnesses:

1. witnesses are required under the rules to provide sworn testimony;
2. witnesses are permitted to provide a prepared statement of any length which will be included in its entirety in the published hearing record;
3. witnesses are requested to summarize their prepared statement in not more than 10 minutes and respond to the questions of Subcommittee Members;
4. witnesses are requested to provide the Subcommittee with 30 copies of their prepared statement no later than two business days in advance of their testimony; and
5. witnesses are requested to provide the Subcommittee with an additional 70 copies of their prepared statement in advance of their testimony.

The Subcommittee will employ two panels. A panel of the Chairman, the General Counsel and the Chairman of the Division of Market Regulation, of the Securities and Exchange Commission will precede you.

Thank you for your cooperation. Should you have any questions, please contact Michael Barrett at 225-4441 or Consuela Washington at 225-2927.

Sincerely,



JOHN D. DINGELL
CHAIRMAN
Subcommittee on Oversight
and Investigations