

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

April 5, 1988

The Honorable Strom Thurmond
United States Senate
Washington, DC 20510

Dear Senator Thurmond:

Your letter dated January 22, 1988 to Ms. Mary McCue on behalf of your constituent, Mr. Harry Goldsmith, has been referred to me for a reply. Mr. Goldsmith has expressed his concern with respect to use of bridge loans and "junk bonds" for the financing of takeovers. He also suggests legislation that would impose obligations to existing bondholders on institutions and individuals who lend money to finance takeovers.

Under the Trust Indenture Act of 1939, bonds and other debt instruments of a corporation are generally issued pursuant to a trust indenture. The trustee under the indenture is empowered to act to protect the interests of the holders of the securities if an event of default should occur. When a corporation incurs additional debt, it must comply with the terms of existing indentures.

As you know, the Commission does not presently have the authority to regulate the manner in which takeovers of public companies are financed or to define the terms of debt securities. Rather the Commission's role is to ensure that full disclosure of the means of financing a material acquisition is provided. Within these parameters, the Commission continually reviews the rules and regulations applicable to takeover activities, including, for example, the use of "junk-bond" and "bridge" financing in tender offers, and will initiate rulemaking or propose legislative changes if appropriate.

You should note that the Board of Governors of the Federal Reserve System is the governmental entity empowered to regulate the use of credit in financing or facilitating takeovers. In addition, there have been a number of bills introduced in the current Congress which, if enacted, would restrict methods of financing takeovers.

I hope this information is of assistance.

Sincerely,

Mary E.T. Beach
Associate Director