

United States Senate
COMMITTEE ON BANKING, HOUSING, AND
URBAN AFFAIRS
WASHINGTON, DC 20510-6075

July 19, 1988

The Honorable David S. Ruder
Chairman
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20429

Dear Chairman Ruder:

The attached Wall Street Journal article dealing with allegations of Drexel Burnham Lambert Inc. employees buying National Can Corp. stock prior to a potential buyout raises to me serious concerns. In order for me to be able to assess the validity of these concerns it would be helpful to have answers to the following questions:

1. Is this story factually accurate? If there are any inaccuracies what are they?
2. If the article is substantially accurate how could a New York Stock Exchange investigation of this matter have failed to reveal potential wrongdoing?
3. Why wouldn't such a review have resulted in any actions being taken by the self-regulatory organization?
4. To what extent, if at all, was the Commission aware of the New York Stock Exchange investigation? How much information, if any, did the NYSE share with the Commission regarding this matter?
5. Why has there been no Commission action in this matter and is it correct that the SEC was not even aware of it until recently?
6. How capable is the Big Board's surveillance system and what steps should be taken to improve it?
7. Is there an inherent conflict of interest between an exchange and its members which makes effective policing by a self-regulatory organization of its membership difficult?
8. What specific changes in self-regulatory and governmental policy should be taken to detect, curtail, and sanction this type of activity?

In addition to the above matter, I am also concerned that major cases under investigation at the Commission may have become bogged down and stalled. As you know, your predecessor

John Shad told us on two separate occasions in early 1987 that additional shoes would be falling during the course of that summer. To be specific, Mr. Shad testified at a hearing on the SEC's Reauthorization, May 13, 1987 as follows:

"It's often expressed as 'when is the next shoe going to drop?' I think you will see a succession of shoes dropping through this summer. I hope it would be in everyone's interest if these major investigations could be brought, the charges made and settlements in some cases reached on cases going on to litigation by the end of the summer."

I have no reason to believe that the investigations Mr. Shad was referring to have been concluded. I would appreciate learning why not.

I would appreciate a reply to this letter by August 15, 1988. Please know, however, that I continue to recognize the serious and successful efforts you personally have been making to ensure that our markets remain the most honest, liquid and efficient in the world.

Sincerely,

William Proxmire
Chairman