

MEMORANDUM

March 23, 1988

TO : Chairman Ruder
Linda Fienberg
✓ Aiden Adkins
Dan Goelzer
Richard Ketchum
Ken Lehn
Gary Lynch
Kathie McGrath
Linda Quinn

FROM : Nina Gross

Nina Gross

RE : Chairman Proxmire's new bill, the "Intermarket
Coordination Act"

We have been advised that Chairman Proxmire intends to introduce the attached bill, the "Intermarket Coordination Act" late this week or early next week. As noted in the accompanying memorandum, it is being circulated within the Senate Banking Committee for comment. It differs from the bill which Chairman Leahy of the Senate Agriculture Committee has indicated he intends to introduce, the "Intermarket Monitoring Council Act." It is rumored that Chairman Proxmire may try to attach this bill to his Glass-Steagall proposal when it comes up for floor consideration.

Steve Harris, Counsel to the Banking Committee, has advised us that our testimony before the Committee on March 31 should comment on this bill.

Attachment

cc: Phil Parker
Anne Chafer
Brandon Becker
Mark Fitterman
Caite McGuire
Howard Kramer
Mary Joan Hoene
Mary Podesta

WILLIAM PROXMIRE, WISCONSIN, CHAIRMAN

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United States Senate

COMMITTEE ON BANKING, HOUSING, AND
URBAN AFFAIRS

WASHINGTON, DC 20510-6075

MEMORANDUM

To : Members and Staff, Senate Banking Committee
From : William Proxmire
Subject: Intermarket Coordination Act of 1988
Date : March 21, 1988

Attached is a summary and copy of legislation I plan to introduce shortly following-up on the recommendations and Report of the Presidential Task Force on Market Mechanisms -- the Brady Commission.

Your comments would be most appreciated.

Summary of Intermarket Coordination Act of 1988

Findings -- The markets for equity securities, stock index futures and stock index options have become one market; there is a need for a more carefully coordinated system both domestically and internationally; a failure to develop a more coordinated system threatens to erode the confidence of investors in the integrity of our financial markets.

Purpose -- To develop a more coordinated regulatory system in order to: reduce the likelihood of a major market mechanism malfunction and provide an improved accountability structure for the future; and establish mechanisms for responding to capital market emergencies.

Intermarket Coordination Committee

There is established an Intermarket Coordination Committee consisting of the Chairmen of the Federal Reserve Board, Securities and Exchange Commission, and the Commodity Futures Trading Commission.

The Committee is directed to promptly establish: (1) improved intermarket coordination of clearance and settlement systems; (2) harmonized margin requirements across marketplaces to control excessive speculation and financial leverage; (3) circuit breaker mechanisms to protect the market system; (4) information systems adequate for market surveillance and enforcement needs to include, at a minimum, information on the trade, time of the trade, and the name of the ultimate customer in every major segment; (5) coordinated contingency planning for market emergencies; and (6) effective methods for detecting and prohibiting intermarket frontrunning.

The Chairman of the Federal Reserve Board will chair the Intermarket Coordination Committee; the Committee will meet at least quarterly; and the Committee shall make an annual report to Congress on both domestic and international intermarket coordination and include any specific recommendations for legislative or administrative actions.

The Fed, SEC and CFTC and the self-regulatory organizations are directed to cooperate with the Intermarket Coordination Committee. To the extent these organizations are able to implement the appropriate actions needed to achieve the goals of the Intermarket Coordination Committee they are directed to do so. If the Committee determines that these bodies lack the necessary legal authority to implement the decisions of the Committee, the Committee shall report that determination to the Congress together with its legislative recommendations.

The Intermarket Coordination Committee is directed to utilize the expertise of the self-regulatory organizations and the Fed, SEC and CFTC.

Administrative Provisions

The regulatory agencies shall each pay the Intermarket Coordination Committee an amount equal to one-third of the Committee's expenses as assessed by the Committee.

The Committee shall also have general power to, among other things, obtain the services of such experts and consultants as are necessary; require reports, data and other information from the regulatory agencies and self-regulatory organizations; enter into contracts; sue and be sued; use the mails in the same manner as other Federal agencies; and adopt, amend and repeal regulations relating to the conduct of its business.

MARCH 18, 1988

DISCUSSION DRAFT

MARCH 11, 1988

S. _____

IN THE SENATE OF THE UNITED STATES

MR. _____ introduced the following bill; which was read twice
and referred to the Committee on _____

A BILL

To provide for intermarket coordination

Be it enacted by the Senate and House of Representatives of
the United States of America in Congress assembled,

SECTION 1. SHORT TITLE

This Act may be cited as the "Intermarket Coordination Act of
1988".

SEC. 2. FINDINGS AND PURPOSES.

(a) FINDINGS.--The Congress finds that--

(1) the markets for equity securities, stock index
futures, and stock index options (hereafter referred to as
"equity instruments") have become one market, linked by
communications and computer technology and organized trading
strategies;

(2) the relationships between these closely linked markets has created the need for a more carefully coordinated regulatory system both domestically and internationally;

(3) our present regulatory system does not adequately reflect the close linkages that have developed among the markets for equity instruments;

(4) regulatory issues of major importance overlap the individual markets for trading equity instruments and are beyond the authority of any one regulatory agency;

(5) there is an urgent and compelling need for the Federal regulatory agencies and self-regulatory organizations to work together in a cooperative fashion to produce a more coordinated system for regulating the trading of equity instruments; and

(6) a failure to develop a more coordinated system threatens to erode the confidence of investors in the integrity of our financial markets, thereby impairing the ability of those markets to fulfill their primary functions of raising equity capital for United States business firms and providing stable investment opportunities for investors.

SEC. 3. DEFINITIONS.

As used in this Act--

(1) the term "regulatory agencies" means the Securities and Exchange Commission and the Commodity Futures Trading Commission;

(2) the term "self-regulatory organization" means a self-regulatory organization as defined in section 3(a)(26) of

the Securities Exchange Act of 1934, a contract market designated under the Commodity Exchange Act, a futures association registered under the Commodity Exchange Act, and any other self-regulatory organization operating under the oversight of the Commodity Futures Trading Commission; and

(3) the term "Committee" means the Intermarket Coordination Committee established by section 4.

SEC. 4. INTERMARKET COORDINATION COMMITTEE.

(a) ESTABLISHMENT.--There is established an Intermarket Coordination Committee (hereafter referred to as the "Committee") which shall consist of--

(1) the Chairman of the Board of Governors of the Federal Reserve System,

(2) the Chairman of the Securities and Exchange Commission, and

(3) the Chairman of the Commodity Futures Trading Commission.

(b) CHAIR.--The Chairman of the Board of Governors of the Federal Reserve System shall serve as Chairman of the Committee and shall preside at committee meetings.

(c) MEETINGS.--The Committee shall meet at least quarterly and otherwise whenever called by the Chairman or by two members of the Committee.

(d) MAJORITY VOTE REQUIRED.--The Committee may not take any action unless such action is approved by a majority vote of the members of the Committee.

W
Action

(e) RELATIONSHIP TO CERTAIN AGENCIES.--The Board of Governors of the Federal Reserve System, the Securities and Exchange Commission, the Commodity Futures Trading Commission, and the self-regulatory organizations operating under the oversight of the Securities and Exchange Commission and the Commodity Futures Trading Commission, shall cooperate with the Committee in carrying out the purposes of this Act.

SEC. 5. COMMITTEE DUTIES.

(a) IN GENERAL.--The Committee is directed to promptly establish--

(1) improved intermarket coordination of clearing and settlement systems;

(2) harmonized margin requirements across marketplaces to control excessive speculation and financial leverage;

(3) circuit breaker mechanisms that are coordinated across marketplaces to protect the market system;

(4) information systems adequate for market surveillance and enforcement needs to include, at a minimum, information on the trade, time of the trade, and the name of the ultimate customer in every major segment;

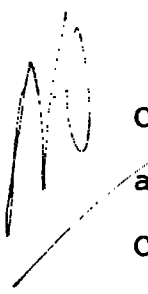
(5) coordinated contingency planning for market emergencies; and

(6) effective methods for detecting and prohibiting intermarket frontrunning as well as other trading improprieties.

(b) MANNER OF ACTING.--The Committee shall, to the maximum extent possible, utilize the expertise of the Board of Governors

of the Federal Reserve System, the regulatory agencies, and the self-regulatory organizations to determine the appropriate actions needed to achieve the goals set forth herein. The extent that such actions can be implemented through the existing authority of the Board of Governors of the Federal Reserve System, the regulatory agencies, and the self-regulatory organizations, such bodies are directed to implement the actions so determined by the Committee. If the Committee determines that these bodies lack the necessary legal authority to implement the decisions of the Committee, the Committee shall report that determination to the Congress together with its legislative recommendations designed to accomplish the purposes of this Act.

SEC. 6. ADMINISTRATIVE PROVISIONS



(a) EXPENSES.--Pursuant to assessments levied by the Committee, the regulatory agencies shall each pay the Committee an amount equal to one-third of the Committee's expenses. The Committee shall levy annual assessments based upon its projected annual budget and such additional assessments as may be necessary.

(b) GENERAL POWERS.--In addition to the powers granted to the Committee elsewhere in this Act, for purposes of carrying out the provisions of this Act, the Committee shall have power--

(1) to enter into contracts, to execute instruments, to incur liabilities, and to do any and all other acts as may be necessary and incidental to the conduct of its business;

(2) to sue and be sued, complain and defend, in any court of equity, State or Federal;

(3) to use the United States mails in the same manner and under the same conditions as other Federal agencies;

(4) to appoint and fix the compensation of such officers and employees as are necessary, subject to the provisions of title 5, United States Code, relating to the competitive service, classification, and General Schedule pay rates;

(5) to obtain the services of such experts and consultants as are necessary;

(6) to lease, purchase, or otherwise acquire, own, hold, improve, use, or otherwise deal in or with, and sell, convey, mortgage, pledge, lease, exchange or otherwise dispose of, any property, real, personal, or mixed, or any interest therein, wherever situated;

(7) to adopt, amend, and repeal regulations relating to the conduct of its business and the exercise of all rights and powers granted by this Act; and

(8) to directly require reports, data, and other information from the regulatory agencies and from the self-regulatory organizations.

(c) TEMPORARY USE OF AGENCY PERSONNEL AND FACILITIES.--In carrying out its functions under this Act, the Committee may utilize the personnel, services, and facilities of the regulatory agencies or any Federal Reserve bank with the consent of the regulatory agency or bank and with or without compensation.

SEC. 7. REPORTS TO CONGRESS.

The Committee shall report to the Congress, at least quarterly, with respect to the progress being made by the

Committee in performing the duties set forth in section 5 of this Act. After the Committee reports to Congress that such duties have been performed in substantial part, the Committee shall make an annual report to Congress on both domestic and international intermarket coordination and include any specific recommendations for legislative or administrative actions.