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U.S. House of Representatives

Committee on Energy and Commerce

SUBCOMMITTEE ON TELECOMMUNICATIONS AND FINANCE

Washington, DC 20515

ROOM H2 316
HOUSE OFFICE BUILDING ANNEX NO. 2
PHONE (202) 226-2424

LAWRENCE R. SIDMAN
CHIEF COUNSEL AND STAFF DIRECTOR

April 12, 1988

CHAIRMAN'S OFFICE
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SEC. & EXCH. COMM.

The Honorable David S. Ruder
Chairman
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

The Honorable Wendy L. Gramm
Chairman
Commodities Futures Trading Commission
2033 K Street, N.W.
Washington, D.C. 20581

The Honorable Alan Greenspan
Chairman
Board of Governors
The Federal Reserve System
Washington, D.C. 20551

Dear Chairpersons:

Thank you for your recent correspondence responding to the February 18, 1988 letter from the ranking Members of the Energy and Commerce Committee and Telecommunications and Finance Subcommittee.

As you know, the February 18th letter was prompted by the January 26, 1988 testimony of Comptroller General Charles A. Bowsher before the Subcommittee calling for the adoption of a contingency plan to deal with emergencies such as occurred on October 19, 1987 when the Dow Jones Industrial Average fell over 500 points in a single day. General Bowsher felt that this plan should be developed absolutely as soon as possible and certainly within 60 days.

I must reluctantly inform you that I am disappointed and discouraged by your respective responses to the February 18 letter. It is now almost 60 days later and almost 6 months after the crash. The extremely vague and generalized nature of your responses convey the inescapable impression that all of you are simply not close to the level of agreement necessary on how your actions would be coordinated in the face of another disaster. Your inability to develop an emergency contingency plan for dealing with future market breaks also dims the hope of a consensus emerging from the Working Group on Financial Markets established by the Administration. After all, a contingency plan to deal with emergencies is only the first step in addressing all of the regulatory and inter-market dysfunctions identified by the Brady Commission, the General Accounting Office and the various other official examiners of the October market break.

We cannot allow inter-agency inertia to place our markets, and thereby our economy, at risk. The average investor, in other words, the average American, is waiting for us to restore his or her faith in the stock market. Business executives, concerned with capital requirements for research and development and plant and equipment needs, are worried that the institutional speculation which led to the October market break threatens the central purpose of the market: to provide for capital formation. In either case, the continued volatility of the markets gives everyone a sense that things are out of control. Americans everywhere and from every income strata are looking to you to place your imprimatur on our financial markets; a seal of approval that says, "USA approved, safe and sound."

Individual participation in the markets continues to be severely curtailed. Voices as diverse as Nicholas Brady, Duke Chapman of the CBOE and Arthur Levitt of the AMEX, have publicly stated that little has changed, that the marketplace instruments and dynamics and the regulatory gaps which contributed to the speed and depth of the market break are still in place. An emergency contingency plan is needed now, both to ensure greater soundness and stability in our financial markets and to restore investor confidence.

We in Congress have been extremely patient in waiting for you to coordinate your plans. I frankly have a hard time accepting the fact that a contingency plan in case of emergencies has not been established six months after the crash. And while I can understand and share your reluctance to tamper with complex, financial arrangements which could affect our economy, I cannot understand your inability to provide the most basic, regulatory safeguards for the financial marketplace and the many Americans who depend on its integrity.

While it is becoming increasingly evident that Congress may have to act to resolve the philosophical and jurisdictional stalemate that divides the futures and equity marketplaces, it is important that we have a clearer sense of the progress being made in developing a plan for dealing with market emergencies. Towards this goal, please tell us simply whether you, as a group or as individual agencies, have developed a contingency plan -- including any interim plan -- for dealing with the next potential market crisis, even if it is merely a recitation of internal steps you intended to take if a crisis situation develops. If you have such a plan please provide us with a copy. If you do not, please advise us of the specific areas of disagreement within your agency and among your various agencies which may have contributed to this delay.

In particular, please advise the Subcommittee of the extent of agreement or disagreement concerning the following specific issues enumerated previously in the February 18 letter:

- The method by which the SEC and the CFTC will coordinate their decision making.
- How these decisions will be communicated to the markets.
- How disagreements regarding regulatory measures and responses will be resolved.
- How much authority the marketplaces should have to act independently of the regulators in crisis circumstances.
- The establishment of a mechanism for dissemination of market information between and across all relevant markets in a timely fashion.
- Agreements on those circumstances that would call for a relaxation or interpretation of rules to facilitate market liquidity, such as the interpretations of rules associated with corporate stock repurchase plans.
- Agreements with the Fed on liquidity support mechanisms for market participants during market emergencies.
- Development of cross-market circuit-breaker mechanisms.

In addition, please advise the Subcommittee of the specific criteria which you have developed to determine whether a market emergency exists so that an emergency contingency plan would be triggered.

Please provide your responses by April 19, 1988. Six months should not pass without a meaningful public response to the conditions which arose last October. Without being presumptuous, I think it is safe to say that the American people await your reply.

Sincerely,

Edward J. Markey

Edward J. Markey
Chairman