

MEMORANDUM

DATE : July 14, 1988  
TO : Chairman Ruder  
FROM : Rusty Dillman *Rusty*  
RE : Felix Rohatyn's July 14 testimony

As you requested, attached is a copy of Felix Rohatyn's testimony which he gave at today's hearing before the Telecommunications & Finance Subcommittee on the Markey/Cooper legislative proposal-- Securities Market Reform Act of 1988 (H.R. 4997)--which was introduced on July 7. Should you wish to review any of the other witnesses' testimony (witness list attached), please let me know.

Chairman Markey, in his opening remarks, made reference to the studies he requested the SEC and the CFTC to conduct analyzing the 101 point drop in the Dow which occurred on April 14. Copies of both studies and the transmittal letters were given out to the press and the audience this morning. He stated that, "the SEC study calculated that a very disturbing 20 percent of all stock sales related to index arbitrage were short sales on April 14. I will ask the SEC to determine if such short sales were conducted in reliance on the SEC's Merrill Lynch no-action letter which allowed firms to unwind existing arbitrage positions by selling short on a down tick." (See, pp. 1-2, paragraphs 3-4).

Chairman Rinaldo commented that, of all the recommendations for change that have been put forth, the Markey/Cooper bill is the most ambitious with respect to change. He stated that, although the SEC has endorsed the legislative package, it is controversial. He applauded their courage in taking on the House Agriculture Committee over giving regulatory responsibility for stock index futures contracts and options on such contracts to the SEC. Rinaldo also stated that he is personally convinced that derivative products make markets more versatile; that they are an important investment tool and are here to stay.

Attachments

cc - Linda Fienberg  
Alden Adkins  
Nina Gross  
Dan Goelzer  
Rick Ketchum  
Brandon Becker  
Mark Fitterman