

MEMO# 3532

February 20, 1992

INSTITUTE TESTIFIES ON THE GOVERNMENT SECURITIES REFORM ACT OF 1991

February 20, 1992 TO: BOARD OF GOVERNORS NO. 11-92 INVESTMENT ISSUES COMMITTEE
NO. 4-92 TASK FORCE ON GOVERNMENT SECURITIES MARKETS RE: INSTITUTE TESTIFIES ON
THE GOVERNMENT SECURITIES REFORM ACT OF 1991

The Institute testified yesterday before the Subcommittee on Telecommunications and Finance of the House Committee on Energy and Commerce on H.R. 3927, the "Government Securities Reform Act of 1991," and related proposals to reform the market for government debt outlined in the Joint Report on the Government Securities Market ("Joint Report"). Copies of the Institute's written statement and oral testimony are attached. The Institute stated that liquidity in the government securities market is of crucial importance to mutual fund portfolio managers. Thus, according to the Institute's testimony, the mutual fund industry supported the decision of the Treasury Department to enlarge access to the bidding process, and the Institute also supports efforts to automate that process. The Institute expressed its support for the proposal to separate competitive and non-competitive bidding, and generally to reserve non-competitive bidding for smaller investors. The Institute emphatically endorsed the proposal to authorize the Treasury to counter short squeezes by increasing the supply of the affected issue. The Institute's testimony touched upon the role of primary dealers and proposals to change from a multiple to a single price auction system. While generally supporting the recommendations made in the Joint Report, the Institute's testimony urged caution and careful assessment in connection with implementing proposals to change the auction system. The Institute's testimony also emphasized the importance of enhancing the transparency of the government debt market, both in the interest of increasing efficiency and integrity of the market and to facilitate regulatory oversight. Thus, the Institute recommended that all relevant information available to inter-dealer brokers be made available to the investing public on a real time basis, along with the ability to capture and store such information. The Institute's testimony noted that considerable progress had already been made in increasing transparency in the trading market for government securities through voluntary actions by the private sector. However, should this progress not continue, there would be serious consequences for mutual funds and their shareholders in terms of diminished access to information necessary for transactions in government securities. The Institute, therefore, recommended that in the absence of a clear demonstration on the part of the private sector to provide such information that it would support giving the appropriate government agency "back-up" or stand-by authority with respect to transparency. On other matters, the Institute supported: the reauthorization of rulemaking authority for the Treasury Department; making it an explicit violation of the

Securities Exchange Act to submit false or misleading written statements in connection with a primary issuance of government securities; making existing NASD rules (subject to appropriate modifications) governing suitability, markups, churning and unauthorized trading applicable to government securities transactions; granting back- up authority to require reports from holders of large positions in Treasury securities; and mandating the adoption by government securities dealers of written policies and procedures to prevent violations of the government securities laws. We will keep you informed of developments.

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