

MEMO# 3787

May 18, 1992

HOUSE SUBCOMMITTEE FAVORABLY REPORTS THE "GOVERNMENT SECURITIES REFORM ACT OF 1992"

May 18, 1992 TO: BOARD OF GOVERNORS NO. 34-92 INVESTMENT ISSUES COMMITTEE NO. 7-92 TASK FORCE ON GOVERNMENT SECURITIES MARKETS RE: HOUSE SUBCOMMITTEE FAVORABLY REPORTS THE "GOVERNMENT SECURITIES REFORM ACT OF 1992"

The Subcommittee on Telecommunications and Finance of House Energy and Commerce Committee has favorably reported H.R. 3927, the "Government Securities Reform Act of 1992" to the full Committee. Copies of the bill as reported by the Subcommittee and Chairman Markey's supporting statements are attached. As you know, in February the Institute testified before the Telecommunications and Finance Subcommittee on an earlier version of this proposed legislation and related matters. (See Memorandum to Board of Governors No. 11-92, Investment Issues Committee No. 4-92 and Task Force on Government Securities Markets, dated February 20, 1992.) The reported bill still contains many of the provisions the Institute supported in its February testimony. For example, with respect to price transparency, the bill would give the SEC back-up authority to assure that price information reported through government securities information systems, taken as a whole, is publicly available and meets certain content and other specific requirements. The bill authorizes the SEC to adopt rules applicable to such information systems if it finds that the above objectives are not being met. In addition, the bill would empower the SEC to act if the Treasury Department found that publicly available market information were no longer sufficient to allow investors to determine the prevailing market price of government securities or were no longer representative of the market for a class or category of government securities. In its February testimony, the Institute emphasized the importance of price transparency for mutual funds and their shareholders. The Institute noted that private sector efforts to increase price transparency had made some progress, but recommended the granting of back-up authority to federal regulators in the absence of a clear demonstration that such progress would continue. The bill as reported would authorize the SEC to prescribe rules requiring government securities brokers or dealers to maintain certain records with respect to transactions in government securities, and to make such records available to appropriate regulatory authorities for inspection upon request. Another section of the bill provides authority for the Secretary of the Treasury Department to adopt rules requiring reporting of large positions in recently issued or to-be-issued Treasury securities to the Federal Reserve Bank of New York. (The earlier version of the bill would have given the SEC rulemaking authority over large trader reporting in government securities.) The legislation would extend the Treasury Department's rulemaking authority over government securities until October 1, 1997. In addition, it would add new provisions

to the Securities Exchange Act of 1934 specifically prohibiting fraudulent or manipulative acts or practices in connection with transactions in government securities; require government securities brokers and dealers to establish and maintain written policies and procedures to prevent and detect fraud and manipulation in connections with the purchase or sale of government securities; and give the NASD rulemaking authority over the sales practices of government securities brokers and dealers. The Institute testified in favor of these provisions in connection with the earlier bill. We will keep you informed of further developments. Frances M. Stadler Assistant General Counsel Attachment

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