

MEMO# 1989

June 26, 1990

HOUSE APPROVES H.R. 3657, THE "SECURITIES MARKETS REFORM ACT OF 1990"

June 26, 1990 TO: BOARD OF GOVERNORS NO. 45-90 RE: HOUSE APPROVES H.R. 3657, THE
"SECURITIES MARKETS REFORM ACT OF 1990"

_____ The U.S. House of
Representatives has approved by voice vote H.R. 3657, the "Securities Markets Reform Act of 1990". A copy of the bill as passed by the House is attached. The proposed legislation is intended to alleviate problems caused by disruption in the securities markets by giving the SEC broader power to regulate practices that may contribute to market volatility. As you may recall, last October George Bissell, Chairman of the Institute's Task Force on Market Reform, testified before the House Telecommunications and Finance Subcommittee on an earlier version of the bill. (See Memorandum to Board of Governors No. 65-89, dated October 27, 1989.) The House-approved bill covers four main areas. First, it would authorize the SEC, after notifying the president and subject to his veto, to close down the stock markets. Second, the bill includes broker-dealer reporting requirements with respect to large traders, to assist the SEC in analyzing the impact on the markets of significant market moves. Third, the bill would authorize the SEC (in coordination with federal banking agencies where appropriate) to obtain information regarding certain broker-dealer holding companies, to enable the SEC to assess the possible impact of risk-taking activities of such companies on the affiliated broker-dealers. Finally, the bill would permit the SEC, during periods of extraordinary market volatility, to prohibit or constrain any activity (such as program trading) that it determines has previously caused volatility and disruption of the markets and is likely to do so again if not constrained. We will keep you informed of developments. Frances M. Stadler Assistant General Counsel Attachment