



THE CHAIRMAN

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

February 4, 1999

The Honorable Thomas J. Bliley  
Chairman  
Committee on Commerce  
U. S. House of Representatives  
2125 Rayburn House Office Building  
Washington, DC 20515

The Honorable John D. Dingell  
Ranking Member  
Committee on Commerce  
U. S. House of Representatives  
2322 Rayburn House Office Building  
Washington, DC 20515

Dear Chairman Bliley and Congressman Dingell:

I am writing to share the Commission's views on financial services modernization as the Congress begins to consider pending legislation.

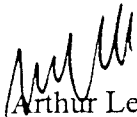
Last year, Commission staff worked with Congress in an effort to develop legislation that would preserve principles that are fundamental to effective oversight of the securities markets. Unfortunately, the extended negotiations so eroded these basic principles that the Commission cannot support the latest version of H.R. 10, as introduced in the 106<sup>th</sup> Congress.

Rather than attempt to address all the specific provisions in this particular bill, I believe it would be more useful, at this time, to step back and outline the broader concepts we feel should be incorporated in any financial modernization bill. I have attached a brief discussion of the Commission's overall objectives for financial services reform. My staff and I are readily available to discuss these objectives further with you or your staff.

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I applaud the Congress' efforts to advance financial services modernization and look forward to working with you and the Committee on this important legislation.

Sincerely,

  
Arthur Levitt  
Chairman

Enclosure

c.c. The Honorable Michael G. Oxley  
Chairman, Subcommittee on Finance and Hazardous Materials

The Honorable Edolphus Towns  
Ranking Member, Subcommittee on Finance and Hazardous Materials

## SEC Objectives for Financial Modernization

The SEC's mandate is to protect investors and ensure the integrity of the U.S. securities markets. In order to keep our markets the fairest, safest, most transparent and most liquid in the world, the SEC must oversee all U.S. securities activities, irrespective of location, and continue to determine how they are defined.

Focusing on market integrity and investor protection, the SEC will work with the Congress to include the following key safeguards in any financial modernization legislation:

- Maintain aggressive SEC policing and oversight of all securities activities.  
Public confidence in our securities markets hinges on their integrity. The SEC has an active enforcement program committed to fighting securities fraud. Banking regulators have a different mandate--protecting the safety and soundness of institutions and their deposits--which does not consider the interests of defrauded investors. To continue its effective policing of the markets, the SEC must be able to monitor securities activities through regular examinations and inspections, including access to books and records of all activities.
- Safeguard customers by enabling the SEC to set net capital rules for all securities businesses.  
Securities positions are generally more volatile than banking activities. The SEC's capital and segregation requirements recognize this fact and are more rigorous in addressing market risk than those imposed by bank regulators. During recent turmoil in the financial markets, SEC-regulated entities were well-collateralized and none was ever at risk of failure. We must continue to protect our markets from systemic risk by ensuring that there is enough capital backing securities transactions to protect customers.
- Protect investors by applying the SEC sales practice rules to all securities activities.  
All investors deserve the same protections when buying securities, regardless of where they choose to do so, but gaps in the current scheme leave investors at risk. For example, banks are not required to recommend only suitable investments or provide a system for arbitrating customer disputes. The high, uniform standard of the Federal securities laws should apply to all sales of securities.
- Protect mutual fund investors with uniform adviser regulations and conflict-of-interest rules.  
Mutual fund investors should always receive the protections of the federal securities laws. Accordingly, all parties that provide investment advice to mutual funds should be subject to the same oversight, including SEC inspections and examinations. In addition, any type of entity that has a relationship with a mutual fund should be subject to the SEC conflict-of-interest rules.
- Enhance global competitiveness through voluntary broker-dealer holding companies.  
U.S. broker-dealers are at a competitive disadvantage overseas because they lack the global, consolidated supervision that foreign regulators often require. To address this concern, a U.S. broker-dealer predominantly in the securities business should have the option of SEC holding company supervision. This structure would impose risk-based supervision, consistent with the firm's principal business, and would help protect market integrity by overseeing the entire corporate entity, not just an isolated domestic unit.