



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

THE CHAIRMAN

December 17, 1999

The Honorable John D. Dingell
Ranking Member
Committee on Commerce
U.S. House of Representatives
2322 Rayburn House Office Building
Washington, D.C. 20515-6115

Dear Congressman Dingell:

Thank you for your letter of November 8, 1999, in which you asked for additional information regarding Year 2000 preparations by segments of the securities industry and public company disclosure.

Broker-Dealers. You asked about the results of our reviews of the Year 2000 preparations of the 38 largest broker-dealers. These reviews have been completed. The reviews were conducted in collaboration with the New York Stock Exchange (NYSE) and the National Association of Securities Dealers (NASD). In the reviews, our goal was to look behind the broker-dealers' public disclosures in their Forms BD-Y2K regarding the status of their readiness. We sought to determine whether the broker-dealers' management efforts, project systems, and internal controls were sufficiently rigorous that we could have confidence in the accuracy of their public disclosures. Whenever we encountered an issue that gave rise to any concern, we held the review open, and worked with the firm to resolve the problem. For example, we found that one firm lacked adequate documentation of its internal testing. That review was held open until a significant sample of its mission critical systems had been successfully re-tested. Another firm had conducted no integrated testing. Again, that review was held open until the firm provided us with test results showing that it had successfully completed integrated testing. At the time of our previous letter, a few of these reviews were still open. Since that time, all have been successfully closed.

You also asked about the attestation requirements of exchanges other than the NYSE, and, in particular, the Chicago Board Options Exchange (CBOE). The CBOE has required all of its member firms to certify their Year 2000 compliance. All CBOE member firms have complied with this certification requirement.

In addition, all of the Self-Regulatory Organizations (SROs) that serve as Designated Examining Authorities (DEAs) for broker-dealers have confirmed to the staff that they have successfully concluded their member oversight programs. The DEAs are: American Stock Exchange, Boston Stock Exchange, CBOE, Chicago Stock Exchange, NASD, NYSE, Pacific

Exchange, and Philadelphia Stock Exchange. Specifically, these SROs have confirmed that their members have successfully completed all SRO mandated Year 2000 testing and have successfully resolved any issues that gave rise to heightened or special monitoring.

Non-bank Transfer Agents. You asked for additional information regarding our reviews of non-bank transfer agents. Our reviews of non-bank transfer agents have been completed. As noted in our previous letters, we reviewed non-bank transfer agents throughout 1999. Our reviews included both a special program to follow-up on the information reported in the Forms TA-Y2K and a Year 2000 component in our regular examinations. Throughout our reviews, we found two leading sources of concern: poor internal controls and delays in contingency planning. In each case, we did not conclude our review until the firm provided us with adequate assurances that it was addressing our concerns.

Disclosure. Finally, you asked for further information regarding public company disclosure. Under the Securities Act of 1933 and the Securities Exchange Act of 1934, the Commission is authorized to adopt rules requiring disclosure of material matters that investors need to know in order to make informed investment or voting decisions. One of the most significant disclosure requirements, in the context of Y2K readiness, is Item 303 of Regulation S-K, "Management's Discussion and Analysis of Financial Condition and Results of Operations." Among other things, this provision requires a discussion of trends, demands, commitments, events, or uncertainties that will enhance the investor's understanding of the company's operating results and financial condition. In an interpretive release issued July 29, 1998, the Commission addressed in detail the kind of Y2K disclosure required under that provision, as well as under a number of other rules.

This information is important to shareholders because they need to know the impact on the company's financial condition caused by costs for Y2K preparation, as well as the possible impact if the preparations are not adequate, or if parties with whom the company deals (such as customers or suppliers) experience Y2K difficulties that could affect the company. We will consider enforcement action against companies that fail to meet their disclosure obligations under the federal securities laws. These actions could result in, for example, fines, cease and desist orders, or injunctions.

I thank you again for your continued interest in this important issue.

Sincerely,

A handwritten signature in black ink, appearing to read 'A. Levitt', written over a light blue horizontal line.

Arthur Levitt
Chairman