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Media Release

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For Immediate Release:
Wednesday, May 18, 1988

SIA DIRECTORS CRITICIZE GOULD STUDY
AS "MISSING MARK AND DEFICIENT"

O'Brien Says It's Time To Stop Studying Market Crash;
Congressional Action Needed To Name SEC Key Regulator
For Equity, Equity-Related Products; Fed To Set Margin

NEW YORK, May 18 -- The study of the October market by the White House-appointed "Working Group On Financial Markets" misses the mark and is deficient, Securities Industry Association directors unanimously declared at the trade group's board meeting here late Tuesday, Edward I. O'Brien, president, and John W. Bachmann, chairman, said Wednesday.

"It is time to stop studying the market crash, and for Congress to start taking the actions necessary to alleviate similar market downturns in the future," Mr. O'Brien said in summarizing the highly critical views of the SIA board.

(more)

SEC Should Be Named Key Equity Product Regulator

Specifically, Congress should address several critical and perhaps politically unpopular proposals, such as giving the Securities and Exchange Commission regulatory responsibility for all equity and equity-related products, including those now under the jurisdiction of the Commodity Futures Trading Commission; and fixing responsibility for setting margin requirements with one regulator, most logically the Federal Reserve Board of Governors, he said.

Since securities and derivative products are intertwined, logic suggests supervision should be unified, not dispersed between regulators which may be biased toward advancing the interests of their constituencies to the possible detriment of what should be done for the national interest, Mr. O'Brien said.

While some view such a consolidation of regulatory oversight in the SEC as politically difficult, such action is necessary and can and should be done, Mr. O'Brien reported the directors said.

"The interests of any one industry or political block shouldn't and can't be placed ahead of the interests of the nation's investors, who directly and indirectly include the overwhelming majority of Americans," Mr. O'Brien said.

For similar national-interest reasons, margin requirements should be centralized with one regulator, most logically the Federal Reserve Board of Governors, which already is responsible for establishing margin requirements for securities, Mr. O'Brien said.

After studying the relationships between margin for securities and good-faith deposits for securities-related products, the Board of Governors should allow cross-margining and prescribe requirements for both kinds of instruments, Mr. O'Brien said.

Arbitrary, Automatic Circuit-Breakers Opposed By Many In SIA

Separately, Mr. O'Brien said, many in SIA are opposed to automatic circuit-breakers, noting the critical importance of human consideration on a case-by-case basis.

Setting an arbitrary series of triggering points in advance of understanding the factors causing a market swing isn't the best alternative, he said.

In fact, Mr. O'Brien said, setting specific points may actually exacerbate volatility.

"And it begs the question as to why the market is moving sharply," he said.

Directors unanimously re-affirmed SIA's stance that the objective should be to keep the securities markets and trading in securities open to the maximum extent possible, although from time-to-time there may be a need to slow things down a bit through self regulating organization-imposed trading controls, Mr. O'Brien said.

That could be achieved quickly through SRO group consultation with other regulators once regular communications mechanisms are fixed firmly in place, he said.

Greater SRO Coordination Essential

Along those lines, directors strongly urged the self-regulating organizations in each of the various marketplaces to immediately implement a process for high-level coordination and cooperation, Mr. O'Brien said.

Those concepts were included in SIA testimony before United States Senate and House of Representatives committees in April. That testimony was reaffirmed unanimously in a specific board vote Tuesday, Mr. O'Brien said.

Gould Committee Flaws Cited

The latest study by the White House Working Group on Financial Markets -- the so-called Gould Committee -- failed to make strong recommendations along these lines, he said.

Although well-intentioned, the Gould Committee failed to propose a mechanism to resolve disputes between the SEC and the CFTC, and for the SROs to take the necessary remedial action they can implement on their own, Mr. O'Brien said.

Given the October market break and several sharp aftershocks since then, investor confidence in the market has been damaged, the SIA president said.

As securities trading volume and stock prices clearly indicate the public investor, the backbone and strength of the market, is wary of the system and isn't convinced it is an orderly place for investment, he said.

Until that perception is changed, the market will continue to be weak, Mr. O'Brien said.

Although the Gould Committee had limited, if any powers to implement changes, it did take a positive step in deciding to continue to exist to discuss issues.

While that is a step in the right direction -- although not what SIA had hoped -- it is insufficient to compensate for coordinated and meaningful action by the SROs, Mr. O'Brien said.

Gould Committee Should Become "Action Group"

Nevertheless, SIA strongly urged the Gould Committee to turn itself into a continuing "action group," and to bring the SROs into the process by arranging regular consultation between the SROs and the Gould Committee.

To help achieve that interaction, Mr. O'Brien reiterated an SIA proposal made in April for the formation of a formal executive-level intermarket coordinating council composed of the top officials of stock exchanges, the National Association of Securities Dealers, the futures markets and the National Futures Association.

The council should be under the oversight of the SEC, be required to meet regularly, and come up with coordinated measures to reduce the likelihood of a recurrence of the October market break, Mr. O'Brien said.

Because of the importance of the issue to the overall strength of the United States, SIA's board will regularly examine, evaluate and comment upon progress -- or the lack of progress -- by Congress, regulators and SROs in future months, Mr. O'Brien said.

The "Gould Committee" is composed of Treasury undersecretary for finance George Gould, who served as committee chairman; Wendy Gramm, chairman, CFTC; Alan Greenspan, chairman, Federal Reserve Board of Governors; and David Ruder, chairman, SEC.

SIA is the leading securities trade association representing the business interests of nearly 575 stock brokerage and investment banking firms in the U.S. and Canada.

As a group these firms account for more than 90 percent of the securities business in North America and are members of the various stock and commodities exchanges in the U.S., Mr. O’Brien noted.

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