SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

OFFICE OF THE CHAIRMAN
Mail Stop 6-1

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February 25, 1983

The Honorable George Bush
The Vice President of
the United States
Washington, D.C. 20500

Dear Mr. Vice President:

Enclosed are four memoranda for the Task Group on the Regulation of Financial Institutions. Two additional memoranda are being prepared. Because the subjects of the recommendations are so diverse, we have addressed each major subtopic in a separate memorandum. We are also, however, preparing a long memorandum that follows the form indicated by the outline prepared by the Task Group staff and that incorporates the substance of each separate memoranda.

The first memorandum addresses the need for increased coordination between the Securities and Exchange Commission and the Commodity Futures Trading Commission. Because of recent developments in financial markets, the two agencies regulate competitive financial instruments as well as firms and account executives that trade in both the securities and the commodities markets. As a result, some new products compete on the basis of regulatory differences rather than economics. Duplicative regulation of firms and account executives also exists.

The jurisdictional accord between the agencies, which was recently formalized by implementing legislation, was a major step toward coordinating the agencies' activities. Additional measures should, however, be taken. One solution, consolidation of the two agencies, has serious political and practical drawbacks. Accordingly, the memorandum recommends several steps to eliminate unfair disparities in regulation of competing products, including the transfer of margin setting authority from the Federal Reserve Board to the appropriate self-regulatory organizations under the oversight of the SEC and the CFTC. The memorandum also describes how to coordinate better the agencies' enforcement activities regarding instruments the trading of which may have consequences in both the commodities and the securities markets. It also advocates the reduction of regulatory burdens arising from duplicative regulation of the same entities and individuals by both the SEC and the CFTC. Finally, the memorandum identifies measures that would lead to closer coordination between the two agencies without a merger.

The second memorandum proposes that the disclosure requirements under the Securities Exchange Act of 1934 for publicly held banks and savings and loan associations be established by the SEC rather than by the federal banking agencies. This change would make the disclosure requirements applicable to publicly held banks and S&L's, which are currently set by the banking agencies, more consistent with the disclosure requirements for bank and S&L holding companies, which are established by the SEC. This would simplify the regulatory structure and facilitate comparisons between competing investment opportunities.

The third memorandum addresses the regulatory disparities arising from the widely differing forms of regulation of investment management activities of banks and investment companies. Under present law, banks manage certain collective investment vehicles that compete, directly or indirectly, with collective investment vehicles subject to regulation under the Investment Company Act of 1940. Yet the two schemes of regulation differ widely. The result is competitive inequity and regulatory inefficiency.

The proposed solution begins with the Administration's suggested changes to the Bank Holding Company Act. Specifically, the securities activities that would be required to be transferred from a bank to a securities subsidiary under that bill would be expanded to include the management of collective investment vehicles. This activity would then be subject to a statutory scheme of regulation that would be designed to produce regulation comparable to that imposed by the Investment Company Act on securities firms. Ideally, both statutes would be administered by the same agency, either the SEC or a bank regulator.

The final memorandum transmitted today addresses the conflict of state and federal securities laws. Many provisions of state law are based on a regulatory philosophy opposed to the philosophy reflected in the federal securities laws. As a result, interstate securities transactions are often subjected to substantial regulatory burdens growing out of the need to comply with many different state laws, some of which are conflicting. This is particularly true with respect to the registration of new securities issues and with respect to tender offers. Although the problems are smaller, state regulation of brokers, dealers, and investment advisers may also impose excessive regulatory burdens.

The memorandum proposes limited preemption of state registration requirements. The states would be prohibited from requiring registration of certain high quality issues registered with the SEC and they would also be required to recognize certain federal exemptions from registration. In addition, the memorandum proposes express statutory preemption of state tender offer regulation. Finally, the memorandum recommends limited federal preemption of state regulation of securities firms. The substance of state regulation would be preserved, but states would be required to accept certain federal forms and regulatory requirements.

Sincerely,

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John S.R. Shad