SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

OFFICE OF THE
GENERAL COUNSEL
6-6

April 25, 1984

Richard C. Breeden, Esq.
Deputy Counsel to the Vice President
Office of the Vice President
Old Executive Office Building
Washington, D.C. 20501

Dear Richard:

The following are our comments on the Draft Final Report of the Task Group dated May 16, 1984 (additions underlined, deletions in brackets). Most of the proposed revisions are self-explanatory, but, where appropriate, we have provided explanations.

1. Pages 15-16 -- As I recently discussed with you, the last sentence on page 15 and the top of page 16 about restrictions on financial competition seems overly strong, and should be changed to read:

> "And while debate over such artificial restrictions limiting entry into the insurance or investment banking fields is generally couched in arguments regarding safety and soundness or the events of 1929, such restrictions are greater than necessary to deal with [generally have little, if any] safety and soundness concerns [implications].

This revision conforms the statement to the discussion in the first full paragraph on page 16 and the second full paragraph on page 81. The latter paragraph discusses adverse financial results in a holding company or one of its nonbanking affiliates endangering the solvency of subsidiary banks.

2. Page 16, first full paragraph, third sentence, should be revised to read:

> "Many of these observers believe that the appropriate focus of government activity should be on prohibiting unsound or negative practices (such as monopolization, fraud, inadequate disclosure, inadequate capitalization, etc.) * * *." ("practices" underlined in original).

3. Page 24, first full paragraph, last sentence, should read:

> "This problem has manifested itself in recent years regarding the appropriate definition of 'bank' for purposes of the Bank Holding Company Act as administered by the FRB, with conflicting interpretations adopted by the OCC [, FRB], and FDIC."

4. Page 34, last four lines, should read:

> 2. Barriers to competition should be removed where not absolutely necessary to promote safety and soundness and investor protection, as competitive markets are necessary to achieve the public's interest in an efficient financial system.

5. Pages 35-36, last paragraph on page 35 and runover on page 36 should read:

> "Convenience for regulated firms may therefore be obtained to some extent only through greater duplication of effort among [the] government agencies" [bureaucracies]".

"Bureaucracies" has become a perjorative term, which is unnecessary in this context.

6. Page 37, footnote 16, last sentence, should read:

> "Significant regulatory differences also exist in the regulations applied to different types of pooled investment media, such as bank common and collective trust funds * * *."

7. Page 39, first full sentence, should read:

> "While some regulatory restraints may be necessary to ensure safety and soundness, provide disclosure of material financial and business information, prevent conflicts of interest, and prevent excessive concentrations of power * * *."

8. Page 39, last sentence, should read:

"Similarly, state securities laws prohibit the sale of securities if their terms are not expressly approved by state regulators [bureaucratic personnel inevitably] restrict the freedom of consumers to decide for * * *."

We believe this change is advisable in order to preserve our good working relationships with state securities regulators.

9. Page 53, third paragraph, last sentence should read:

"This would enable the deposit insurance agencies to permit institutions to engage in a wider spectrum of activities, while at the same time requiring institutions engaging in more speculative activities to pay increased premiums reflecting the added risks of such activities. [institutions]

10. Page 76, Recommendation 2.11, third through sixth lines, should read:

"an exemption should be available from the registration requirements of the Securities Act of 1933 where a new holding company is to be owned by the same individuals that previously owned the bank[(s)] to be owned by the holding company in the same proportions and with the same rights as their ownership in the bank."

Without this revision, the present formulation would allow, for example, two banks with entirely different shareholders to create a common holding company parent without registration of the securities, even though the shareholders of each bank would be offered ownership in an entity that is quite different from the one in which they held stock before. Of course, if two banks had identical share ownership, they could qualify for the exemption.

11. Page 98, Recommendation 5.2 --

(a) lines four through eight should read:

"and other requirements of the Securities Exchange Act of 1934 for bank and thrift

securities and issuers should be transferred from the bank and thrift regulatory agencies to the SEC, as is currently the case for [securities of] all other types of companies (including bank and thrift holding companies) * * *."

(b) If the Federal Home Loan Bank Board does not agree to the compromise which would give it continuing jurisdiction to review mutual-to-stock conversions of thrifts, delete the last sentence, which would recommend the preservation of such jurisdiction for three years.

12. Page 100, last two lines should read:

"Therefore, for these national market systems stocks, prices for which are published daily in newspapers * * *."

13. Page 101, second full paragraph, as we discussed, the first two sentences should read:

"Virtually all members of the Task Group also felt that [all] the FRB's remaining margin responsibilities [of the FRB] should be eliminated. [either] Some members believe that such responsibilities should be transferred to the securities exchanges, subject to SEC veto, while others believe that margin controls should be abolished. [or completely deregulated.]"

14. Page 106, last three lines, as we discussed with Chairman Shad, these should read:

"Task Group would not recommend [oppose] legislation to extend the prohibition against affiliations between banks and investment bank[s]ers to non-member banks or thrifts."

15. Appendix B, page 5, Recommendation 10, fourth sentence, ("The sale of short term notes * * *.") should be deleted, and the following should be inserted in its place:

"The sale of certain types of securities issued by foreign issuers, e.g., certificates of deposit issued by a foreign bank that is

adequately regulated under foreign law, is another case in point. Blanket exemptive authority would allow the SEC maximum flexibility in dealing with these types of situations. Sections 6(c) of the Investment Company Act and 206A of the Investment Advisers Act give the SEC such authority under those Acts. Also, Section 303 * * *."

16. Appendix B, page 8, Recommendation 22, third last line, should read:

"Legislation should be enacted to express Congressional policy to * * *."

17. Appendix B, page 8, Recommendation 23,

(a) heading should read:

"Eliminate duplicate forms of [dual] registration for [of] broker-deal[r]ers * * *."

(b) third line of text should read:

"This duplication [and double coverage] should be eliminated for SEC registered broker-dealers.

These revisions more accurately capture the gist of the recommendation, which is simply to provide a single registration form for broker-dealers and investment advisers, but not otherwise affect the regulatory structure.

18. Appendix B, page 9, Recommendation 25,

(a) third line of text should read:

"shares of broker-dealers, investment advisers, [companies], and the parent * * *."

(b) second last line should read:

"limits could be placed on the amount of broker-dealer and investment adviser shares that * * *."

(c) at the end, add the following sentence:

"In addition, to deal with conflicts of interest, acquisition of securities issued by affiliated persons could be prohibited."

The first two changes correct typographical errors, and the third change reflects the thought that it may be necessary to prohibit rather than merely limit open market purchases by an investment company of securities issued by its investment adviser, a broker-dealer affiliated with its investment adviser, or a parent holding company of such investment adviser or broker-dealer. Present law prohibits such purchases when made from those entities, unless the Commission approves the transaction.

* * *

I have enclosed two copies of each of the relevant pages marked to show these changes. Also, in accordance with your request, I have enclosed a list of Commission personnel who participated significantly in the work of the Task Group.

We shall be pleased to provide any additional assistance in these matters that you desire.

Sincerely,

Alan

Alan Rosenblat
Assistant General Counsel