

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20840

February 29, 2000
The Honorable Dan Burton
Chairman
Committee on Government Reform
U. S. House of Representatives
2157 Rayburn House Office Building
Washington, D. C. 20515-6143

Dear Chairman Burton:

This letter responds to yours of February 3, 2000, seeking information regarding meetings I attended with individuals from the securities industry in 1999. I welcome your interest in the future of our securities markets and I hope this letter answers your questions.

I respect and fully support the purpose of the Federal Advisory Committee Act ("FACA"): to regulate the use of advisory committees by federal government officials. I believe strongly that the public has a right to know when a federal agency repeatedly seeks a group's advice and recommendations on policy issues. I share Congress' commitment to protecting the policy-making process and ensuring that regulators are exposed to a balanced cross-section of viewpoints on issues within their preview. Mad, the genius of FACA is that it safeguards against government bias but does not regulate meetings merely designed to give a government regulator greater sensitivity to the issues in its jurisdiction from parties representing divergent and individual views. I appreciate your vigilance and attention to the important goals of FACA.

We are fully committed to ensuring that our communication with people outside of the Securities and Exchange Commission (the "Commission") are conducted in full compliance with FACA. We are familiar with FACA's requirements and regulations and are experienced with its application. In fact, since the beginning of my tenure at the Commission nearly seven years ago, we have formally chartered three advisory committees under FACA: the Advisory Committee on Technology; the Advisory Committee on the Capital Formation and Regulatory Processes; and the Consumer Affairs Advisory Committee.

The 1999 meetings about which you have inquired were not subject to FACA's requirements, however because they were not meetings with any group that could be considered an advisory committee. We did not select a particular group from which we sought advice or recommendations on a regular basis. We did not seek consensus advice or recommendations, but rather we participated in meetings as vehicles for an exchange of facts and information. In those meetings we met with a diverse array of people from every segment of the securities industry. We selected them based on their knowledge of, and wide-ranging perspectives regarding the future of, our securities markets.

Having spent almost my entire career in the financial markets, I know that to be an effective regulator,

one must remain open to ideas, proposals and criticisms from the widest possible array of market participants, self-regulatory organizations, academics, U. S. and foreign financial regulators and all other thoughtful sources that could inform and challenge a regulator's perspective. In the past six and a half years, I have rarely declined a request for a meeting. I have worked hard to make myself available to every segment of the securities community because I believe that isolated regulators produce unworkable rules and forfeit opportunities to effect positive change.

The technological and competitive changes sweeping the U. S. economy are producing profound structural changes in our securities markets. As in other areas of our economy, technology is driving much of today's changes. On-line investing has grown quickly and dramatically, displacing much of the traditional model of the broker-customer relationship. New electronic markets have emerged as real competitors to traditional markets, leading some to predict the imminent demise of centuries-old institutions. Our traditional markets are considering shedding their membership structures in order to compete with these alternative-trading systems, raising fundamental questions about the model of self-regulation that has served our markets well for more than 65 years. Foreign countries meanwhile, have developed trading systems that have accomplished extraordinary gains in efficiency and reductions in cost. The pace of change has been swift, the regulatory implications dynamic and complex, and the stakes extremely high.

This environment of rapid change presents the Commission with the most formidable challenges it has faced since 1975. Never, in my view, has a frank, direct and inclusive debate been a more essential predicate to fashioning a workable regulatory policy. We are committed to doing everything in our power to help US markets maintain their global preeminence through this period of transformation. That includes remaining vigilant in the protection of investors as our markets undergo this structural transformation. Success in that complex task demands a well informed, thoughtfully considered approach by industry and government. To that end, I have held numerous meetings throughout my term to elicit ideas and stimulate dialogue among a diverse cross-section of individuals and entities.

Last year I attended literally dozens of meetings which centered around a variety of issues affecting the future of our markets. These meetings provided opportunities to stimulate an honest and candid exchange of ideas among the very people whose views we, in government should solicit most ardently: those who have the expertise to add real market knowledge to our regulatory program, who endeavored to facilitate dialogue and debate among people whose experience and thoughtfulness as critical to our understanding of current market developments. These meetings were not conducted in a public forum in order to facilitate a frank expression of individual views about complex and technical issues.

Three issues in particular demanded significant attention and thought at the meetings: (1) the expressed desire of the NASD and the NYSE to convert to shareholder-owned and management-controlled entities rather than membership organizations (2) the question whether technology today allows us to achieve the benefits of more central markets without compromising the competitiveness and innovation that has characterized our national market system; and (3) the need to provide an inter-market linkage between our options markets to ensure that the best price in any market is accessible to customers. The second of these issues, in particular, raised some of the most difficult problems we have ever faced at the Commission. Many market participants believe that the existing market for listed securities has a high degree of centrality. And therefore produces relatively efficient prices. On the other hand, the more

central a market is, the more it may lead toward monopoly. Thus, it may become immune from competitive pressures, and lose its incentive to offer innovative improvements in its approach to executing trades. Some market participants believe that some of our traditional markets have been slow to innovate.

Attached is a list of the affiliations of participants I met with last year in an exchange of ideas regarding the future of our securities markets. As you will see I met with regional and national broker-dealers (who have substantial retail and institutional franchises) and their trade association; wholesale dealer firms mutual fund companies and their trade association; Electronic Communications Networks ("ECNs"); the NYSE, the NASD, the regional securities and options exchanges academics; foreign securities regulators: domestic regulatory agency officials; members of Congress market data vendors individual and institutional investors; and leaders from the legal community. The list is presented on a quarter-by-quarter basis and reflects our available records and our best recollections. No minutes of any of these meetings were prepared.

Your letter specifically references a Wall Street Journal report of a meeting we convened in New York City. That meeting is included on the attached list as meeting number 83 in the fourth quarter of last year. It included a broad spectrum of individuals from different market segments and viewpoints. Attendees included national broker-dealers traditional and on-line, with retail and institutional franchises, wholesalers, independent analysts or consultants familiar with market structure issues, as well as the heads of several mutual fund companies. At that meeting participants discussed their individual views regarding a variety of issues affecting the future of our securities markets.

You asked whether the Commission has taken any action regarding the subjects discussed in meetings I have described throughout 1999. SEC staff worked on generating a set of questions and issues posed by the dramatic changes in our markets. Some of the individual views expressed by the participants helped inform our thinking as well developed the concept release issued by the Commission on February 23, 2000. I enclose a copy for your review. As you know a concept release is a very preliminary step in the long process of administrative rulemaking. A concept release proceeds from rulemaking and asks members of the public to offer ideas and suggestions on basic concepts, rather than on a particular set of rules.

In this release, the Commission requests public comment on a number of issues related to market structuring including whether it is possible to garner the benefits of more central markets without compromising innovation and competition. The Commission's concept release does not dictate specific proposals. Rather, it asks for public comment on the question whether market fragmentation is a problem and sets forth six possible alternatives for dealing with fragmentation (none of which is mutually exclusive) and requests public comment on the viability of each one. The purpose of this release is to trigger a wide-ranging public debate about how best to foster competition in our national markets and to safeguard our international financial leadership.

From my perspective, there are a few more important issues to the future of our nation's economy than the vibrancy of our securities markets, their impact on investors and capital formation, and our nation's place in a global economy. As part of the continuing dialogue on those issues I plan to meet with individuals in small and large groups in the future. As always, we will comply fully with FACA's letter and spirit. I feel strongly that it is in the public interest for regulators to have the flexibility to foster

candid discussion on matters as complex and important as the future of our securities markets. I look forward to working with you and your colleagues on these vital topics in the months ahead.

Sincerely,
Arthur Levitt
Chairman

Meeting #	Affiliation of Participant(s)
First Quarter Meetings	
Meeting 1	National Association of Securities Dealers New York Stock Exchange
Meeting 2	Securities Industry Association
Meeting 3	Pacific Stock Exchange
Meeting 4	Madoff Investment Services
Meeting 5	National Association of Securities Dealers
Meeting 6	National Association of Securities Dealers
Meeting 7	National Association of Securities Dealers
Meeting 8	U. S. Department of the Treasury Federal Reserve Board
Meeting 9	Merrill Lynch
Meeting 10	The Brookings Institution
Meeting 11	Instinet Corporation
Meeting 12	International Stock Exchange
Meeting 13	Federal Reserve Board
Meeting 14	Federal Reserve Board
Meeting 15	American Stock Exchange National Association of Securities Dealers New York Stock Exchange
Meeting 16	Chicago Board Options Exchange

Meeting 17	America Online Berkshire Hathaway Columbia University Dow Jones E* Bay E-Trade House Commerce Committee Medtronic Inc. Merrill Lynch O'Molveny & Myers LLP Senate Banking Committee White House
Meeting 18	Goldman Sachs
Meeting 19	Depository Trust Corporation
Meeting 20	Securities Industry Association
Meeting 21	Allied Capital
Meeting 22	Philadelphia Stock Exchange National Association of Securities Dealers
Meeting 23	Federal Reserve Board
Meeting 24	Australian Securities Commission Brazilian Securities Commission French Securities Commission German Securities Commission Hong Kong Securities Commission Italian Securities Commission Japan Securities Commission Ontario Securities Commission UK Financial Services Authority
Meeting 25	National Association of Securities Dealers
Meeting 26	President's Working Group on Financial Markets
Meeting 27	Morgan Stanley Dean Witter Merrill Lynch
Meeting 28	Edward Jones
Meeting 29	Instinet Corporation
Meeting 30	National Organization of Securities Dealers New York Stock Exchange
Meeting 31	International Organization of Securities Commissions Technical Committee
Meeting 32	The Vanguard Group
Meeting 33	Securities Industry Association

Meeting 34	Chicago Board Options Exchange
Meeting 35	Edward Jones
Meeting 36	Boston Stock Exchange Chicago Board Options Exchange Chicago Stock Exchange Cincinnati Stock Exchange Municipal Securities Rulemaking Board National Association of Securities Dealers Options Clearing Corporation Pacific Stock Exchange Philadelphia Stock Exchange Securities Industry Automation Corporation Securities Industry Association
Meeting 37	National Association of Securities Dealers
Meeting 38	Accutrade Alston & Bird LLP Bond Market Association Eclipse Trading Instinet Corporation Island ECN North American Securities Administrators Association National Association of Securities Dealers National Discount Brokers Corp. New York Stock Exchange OptiMark Technologies Orrick, Herrington & Sutcliffe, LLP PaineWebber Incorporated Paul, Hastings, Janofsky & Walker LLP Rogers & Wells LLP Securities Industry Association SunAmerica Financial Network Waterhouse Securities Wit Capital Group
Meeting 39	National Association of Securities Dealers Regulation
Meeting 40	New York Stock Exchange

Meeting 41	<p>American Association of Individual Investors Automated Data Processing Boston Stock Exchange Charles Schwab & Co. Chicago Board Options Exchange Chicago Stock Exchange Cincinnati Stock Exchange Depository Trust Company Donaldson, Lufkin & Jenrette Eclipse Trading Goldman Sachs Hull Trading Instinct Corporation Island ECN Lehman Brothers Merrill Lynch Morgan Stanley Dean Witter National Association of Securities Dealers National Securities Clearing Corporation New York Stock Exchange Northwestern University Options Clearing Corporation Pacific Stock Exchange Paine Webber Incorporated Philadelphia Stock Exchange Prudential Securities Inc. Romano Brothers Salomon Smith Barney Securities Industry Association Spear Leeds & Kellogg LLP</p>
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Third Quarter Meetings	
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Meeting 42	National Association of Securities Dealers
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Meeting 43	Merrill Lynch
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Meeting 44	American Stock Exchange Chicago Board Options Exchange Financial Information Forum Howry & Simon International Stock Exchange Options Clearing Corporation Options Price Reporting Authority Pacific Stock Exchange Philadelphia Stock Exchange Salomon Smith Barney Schiff, Hardin & White Securities Industry Association SRI Consulting
Meeting 45	Pacific Stock Exchange
Meeting 46	Chicago Board Options Exchange
Meeting 47	Deutsche Bank
Meeting 48	Cincinnati Stock Exchange
Meeting 49	AG Edwards
Meeting 50	President's Working Group on Financial Markets
Meeting 51	Harvard University National Association of Securities Dealers
Meeting 52	National Association of Securities Dealers New York Stock Exchange
Meeting 53	Goldman Sachs
Meeting 54	Merrill Lynch Morgan Stanley Dean Witter
Meeting 55	National Association of Securities Dealers
Meeting 56	Charles Schwab & Co.
Meeting 57	Commodity Futures Trading Commission
Meeting 58	Washington University School of Law
Meeting 59	National Association of Securities Dealers
Meeting 60	Investment Company Institute Fidelity T. Rowe Price
Meeting 61	AEA Investors Inc. Capital Research and Management Co. Former U. S. Department of Treasury Official Morgan Stanley Dean Witter Bloomberg
Meeting 62	Edward Jones

Meeting 63	UK Securities Investment Board
Meeting 64	Securities Industry Association
Meeting 65	The Bond Market Association
Meeting 66	UK Financial Services Authority
Meeting 67	Hong Kong Securities Commission
Meeting 68	Italian Securities Commission
Meeting 69	New York Stock Exchange
Meeting 70	<p>Timberhill/ Interactive Brokers Instinct Corporation American Century Smith Barney Inc./ Travelers Group Charles Schwab & CO. McKinsey & Company Morgan Stanley Dean Witter Former Chair, New York Stock Exchange Former U. S. Treasury Department Official</p>
Meeting 72	JP Morgan
Meeting 73	Independent Floor Brokers
Meeting 74	<p>International Organization of Securities Commissions Technical Committee German Securities Commission</p>
Meeting 75	<p>ABN AMRO Inc. Ameritrade Bear Stearns Butler, Wick & Co. Charles Schwab & Co. Credit Suisse First Boston Dain Rauscher Donaldson, Lufkin & Jenrette Fidelity Brokerage Services First Union Capital Markets FMR Corp. Goldman Sachs JJB Hilliard Lcgg Mason Lehman Brothers Lynch, Jones & Ryan Madoff Investment Services Merrill Lynch Morgan Keegan Morgan Stanley Dean Witter National Financial Partners</p>

	<p>Parker/ Hunter Inc. Prudential Securities Inc. Ragen Mackenzie Group Securities Industry Association Spear, Leeds a Kellogg LP Spelman & Co. Stephens, Inc. The Advest Group Twenty-First Century Securities Utendahl Capital Partners Van Dar Moolen Specialists Warburg Dillion Read LLC William Blair & Co.</p>
Meeting 76	<p>American Stock Exchange Boston Stock Exchange Chicago Board of Trade Chicago Board Options Exchange Chicago Mercantile Exchange Chicago Stock Exchange Cincinnati Stock Exchange Depository Trust Company Municipal Securities- -Rulemaking Board National Association of Securities Dealers National Securities Clearing Corporation New York Stock Exchange Options Clearing Corporation Pacific Stock Exchange Philadelphia Stock Exchange Securities Industry Association</p>
Meeting 77	New York Stock Exchange
Meeting 78	Mesirow Financial Holdings
Meeting 79	Pacific Stock Exchange
Meeting 80	New York Stock Exchange
Meeting 81	International Organization of Securities- -Commissions Technical Committee
Meeting 82	Charles Schwab & Co.

Meeting 83	AIM Capital Management Bernard Madoff Investments Sccuriticr Bernstein Research Charles Schwab & Co. Citigroup Goldman Sachs Lehman Brothers Merrill Lynch Paine Webber Putnam Investment Salomon Smith Barney
Meeting 84	Federal Reserve Bank
Meeting 85	Susquehanna Options
Meeting 86	Morgan Stanley Dean Witter Goldman Sachs
Meeting 87	Credit Suisse First Boston
Meeting 88	National Association of Securities Dealers