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**U.S. House of Representatives**  
**Committee on Energy and Commerce**  
Room 2125, Rayburn House Office Building  
Washington, DC 20515

November 26, 1986

WM MICHAEL KITTENHILL, STAFF DIRECTOR  
THOMAS M. RYAN, CHIEF COUNSEL

Honorable Paul A. Volcker  
Chairman  
Board of Governors of the  
Federal Reserve System  
20th and C Streets, N. W.  
Washington, D. C. 20551

Dear Chairman Volcker:

Thank you for your letter of October 27, 1986, and the accompanying staff memorandum. I am pleased to learn that the Board formally will review Security Pacific's proposal to form a government securities options exchange. I would appreciate receiving prior notice of the Board's scheduled meeting on the Security Pacific proposal in order to allow me and my staff to monitor the Board's consideration of this matter.

Enclosed for your information is a copy of a letter I have sent to Securities and Exchange Commission Chairman John S. R. Shad on the Security Pacific proposal. As you will see, I have great reservations about the policy and legal ramifications of the SEC's conclusion that Security Pacific is not proposing to operate an exchange as defined by Section 3(a)(1) of the Securities Exchange Act of 1934. Since your staff memorandum concerning my letter refers to the SEC's position, I thought the Board might want to have a more complete record on this issue before exercising its independent judgment on the banking law issues raised by the Security Pacific proposal. I am also enclosing a recent Bond Buyer article on a letter from the Office of the Comptroller of the Currency warning banks of the risks inherent in covered call-writing programs on government securities.

I look forward to hearing from you.

Sincerely,



JOHN D. DINGELL  
CHAIRMAN

cc: Honorable Fernand J. St Germain  
Honorable Norman F. Lent  
Honorable John S. R. Shad