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July 12, 1988

The Honorable Donald W. Riegle, Chairman
Securities Subcommittee of the Committee
on Banking, Housing and Urban Affairs
United States Senate
Washington, D.C. 20510

Dear Chairman Riegle:

Pursuant to your request, members of the Ad Hoc Legislative Committee to Define Insider Trading (Theodore Levine, John Olson and Harvey Pitt) have suggested certain fine-tuning revisions to the Reconciliation Draft of S. 1380 and proposed a legislative history to accompany the bill. This proposed legislative history consists of a committee report and a section-by-section analysis of the revised bill.

In preparing the proposed committee report, we adopted portions of the language proposed by the Securities and Exchange Commission which discussed certain of the issues addressed in the proposed legislation, reflecting the substantial consonance between the two legislative proposals.

I believe that this draft legislation, with its accompanying legislative history, achieves our mutual goal of a clear, comprehensible definition of the offenses of insider trading and tipping.

More specifically, this bill clearly extends its prohibitions to various troublesome forms of securities trading that reside in a zone of ambiguity under current law. Thus, while the application of current law to the problem of

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frontrunning is unclear and left largely to enforcement under the rules of the various self-regulatory organizations, (see Report of the Special Study of the Options Markets to the Securities and Exchange Commission 183 (Dec. 22, 1978)), this bill would clearly prohibit most forms of frontrunning, including trading ahead of customer orders and trading while in possession of market information from any source that has not specifically authorized the trader to trade for his own account.

Additionally, Congress has recently demonstrated its concern over certain trading practices in the debt instruments market. This legislation specifically prohibits such trading practices that involve wrongful trading while in possession of material, nonpublic market information concerning debt instruments.

In order to facilitate your review of the revisions to the bill, I am submitting herewith a marked copy indicating the differences between the Reconciliation Draft and the revised draft that we submit today, a clean copy of the revised draft, a proposed committee report on the legislation and a section-by-section analysis of the revised draft of the bill.

On behalf of Messrs. Levine and Olson, I would like to say that it has been a pleasure for us to work with you and Senator D'Amato, and the very able member of your staff, Steven Harris and former member Tom Lykos. We look forward to continuing to work with you toward achieving the completion of this important task.

Sincerely,



Harvey L. Pitt

HLP:vfj

Enclosures