

April 12, 2000

The Honorable Richard Shelby
U.S. Senate
SH-110 Hart Senate Office Building
Washington, DC 20510

Dear Senator Shelby:

We are writing to urge you to cosponsor the *Competitive Market Supervision Act* (S. 2107), a bill that would provide adequate financial resources to the Securities and Exchange Commission (SEC) and reduce the excessive transaction fees paid by investors.

We believe it is critical that Congress examine the issue of SEC fees because the facts and assumptions on which enactment of the current statutory fee structure was based have changed. Fees that were developed several years ago to fund the cost of regulating the securities markets now exceed the government's cost of regulation to such a degree that they effectively constitute a tax on capital formation, and a special tax on every American investor.

S. 2107, introduced by Banking Committee Chairman Phil Gramm and cosponsored by Senators Charles Schumer, Connie Mack, and Rod Grams, uses a dual approach that combines both a fee-rate cut and a cap on revenue generated by the transaction fees. This bipartisan bill, which also enjoys the support of SEC Chairman Levitt, represents the best way to obtain full funding of the SEC and of reducing the tax on capital caused by this excessive fee.

We know that our markets have been made better and fairer by the presence of a strong and effective Securities and Exchange Commission. And, because it is in our interest — and, more importantly, in the public interest — to have an effective SEC, we have strongly supported full funding for the agency so that it can carry out its important investor protection mission.

Today, forty-eight percent of U.S. households own stock, directly or indirectly. By the end of this year, the number of individuals who own stock is likely to exceed 80 million. Once this fee is reduced, investors will be able to see the savings immediately. The individual investor, not the broker, is paying the vast bulk of the transaction fees. The SEC has estimated that on the NYSE, investors pay 87 percent of the Section 31 fee, and they pay 82 percent on the Nasdaq.

No one anticipated the explosion of market activity that has taken place over the past several years and continues today. In 1996, when the transaction fee was first

imposed on Nasdaq transactions, the average daily volume on Nasdaq was 543.7 million shares. Today, Nasdaq's daily share volume has skyrocketed to 1.8-billion shares — a 228 percent increase since 1996, while the NYSE's daily share volume has increased from 412 million shares in 1996 to more than one billion shares this year, an increase of more than 150 percent.

In 1999, SEC fee collections exceeded \$1.7 billion, \$1.3 billion more than the \$339 million SEC appropriation for FY1999. Fee collections are projected to exceed SEC appropriations by more than \$1.4 billion in 2000 and \$1.5 billion in 2001. If the current statutory fee collection continues, that is a tax of more than \$4.2 billion on American investors over three years. A new CBO analysis of S. 2107 says it will save investors \$19.7 billion over 10 years. We do not believe it is in the interest of investors — or the nation's capital markets — for these fees to so grossly surpass the regulatory costs incurred.

The *Competitive Market Supervision Act* will better align the cost of regulation for the securities industry while assuring that the Commission has ample funding to continue its investor protection mandate. Once again, we respectfully ask you to co-sponsor S. 2107 and we thank you for your consideration of this important matter.

Sincerely,

American Stock Exchange
Bear Stearns & Co., Inc.
Boston Stock Exchange
Chicago Board Options Exchange
Chicago Stock Exchange
Cincinnati Stock Exchange
Credit Suisse First Boston
Edward Jones Investments
Fidelity Investments
Goldman, Sachs & Co.
Herzog Heine Geduld
Investment Company Institute
J. P. Morgan & Co. Incorporated
Lehman Brothers Inc.
Merrill Lynch & Co., Inc.
Morgan Stanley Dean Witter
Nasdaq Stock Market
National Securities Clearing Corporation
New York Stock Exchange
The Options Clearing Corporation
Pacific Exchange
PaineWebber Inc.
Philadelphia Stock Exchange

Prudential Securities
Charles Schwab & Co., Inc.
Securities Industry Association
Security Traders Association
The Specialist Association