

July 24, 2000

Chairman James Leach
United States House of Representatives
2186 RHOB
Washington, D.C. 20515

Dear Chairman Leach:

The North American Securities Administrators Association (NASAA)¹ appreciates the opportunity to provide comments on H.R. 4541, the Commodity Futures Modernization Act of 2000. We support your effort to modernize our futures laws and provide legal certainty for over-the-counter derivatives.

NASAA also supports lifting the Shad-Johnson ban on single stock futures once the regulatory oversight concerns underlying the ban are addressed. Any regulatory framework must recognize the expertise of both the SEC and the CFTC in regulating these products and the unique enforcement role played by the 20-plus states that have adopted the Model Commodity Code. Both federal agencies and state securities agencies must have the authority to carry out their core functions; there should be no barriers in their efforts to curtail fraud and manipulation.

In 1974, Congress preempted state securities agencies from applying their laws, including enforcement, to persons and transactions within the jurisdiction of the Commodity Exchange Act (CEA). Not long after, there was a proliferation of off-exchange commodities fraud. In 1978, Congress passed Section 6(d) of the CEA to provide the states with the authority to enforce state laws of general criminal application and allowed the states to enforce the CEA in federal court.

It would be unwise at this time to move ahead with legislation that lacks the elements necessary to ensure the market integrity and customer protections that investors have come to expect under the securities laws.

It is important to recognize that single stock futures will be a substitute for stocks and stock options and be sold as a retail product. While complex derivatives are sold mostly to institutional customers, futures on a single stock are the type of product that will be attractive to the retail investing public. Single stock futures must be offered to retail investors with the same protections afforded to those who now buy stocks and stock options. Americans are

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investing in our capital markets in record numbers due largely to confidence in the markets instilled by our complementary Federal/state/industry system of regulation.

Any legislation to lift the current ban on single stock futures must maintain the SEC's ability to protect investors and to maintain integrity of the markets on which they trade. The SEC should have clear and direct authority over the markets and market participants trading single stock futures.

SEC and CFTC Chairmen Arthur Levitt and Bill Rainer have made considerable progress toward reaching agreement on a regulatory regime for single stock futures. They should be given sufficient time to finalize the details of a plan to share regulation of single stock futures so each agency can utilize its expertise and create a framework that allows for effective and efficient joint regulation of these products.

NASAA appreciates the efforts of your Subcommittee to consider HR 4541 under a limited time frame. We urge you to amend the current version of the legislation and extend the protections of the securities laws to single stock and narrow-based stock index futures. American investors deserve no less.

Please do not hesitate to contact me at 317-232-6695 or Deborah Fischione, NASAA's Director of Policy, at 202-737-0900.

Sincerely,

Bradley W. Skolnik
Indiana Securities Commissioner
NASAA President

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