A.G. Edwards & Sons, Inc.

July 5, 1990

Senator Christopher J. Dodd
Chairman
Securities Subcommittee
Room 534 - Dirksen Senate Office Building
Washington, D.C. 20510

Dear Senator Dodd:

I am Chairman of A. G. Edwards & Sons, Inc., the largest stock brokerage firm not headquartered in New York. We have 413 offices in 47 states, with 4,000 investment brokers among 8,100 total employees. We do primarily retail business, and our purpose is to act as agent for our customers.

I am sorry I shall be unable to testify before your Committee July 11, but prior travel plans that day prevent me from getting to Washington. For what it's worth, I shall comment briefly on the five questions you raised.

1. I don't believe that having a single regulator of stock and stock derivative instruments will materially affect market volatility. However, I believe such a step would be logical and seem appropriate to investors who are looking for the "level playing field." Certainly regulation should be more even-handed.

2. I believe the SEC would be the most appropriate body to perform such regulation. In addition to the obvious reason of its long experience with equities, our operations people tell me the SEC's inspectors are clearly superior to those of the CFTC and its regulated exchanges.

3. Low margin requirements allow little speculators to play big and big speculators to put up less of their money. Higher margin requirements would make less index arbitrage viable. Markets containing lots of borrowed money are riskier because sharp moves could force liquidations to meet margin calls, acts which would exacerbate the downward market move. The same would be true if one were short and the market moved up, triggering purchases to cover the short position.

The 50% margin requirement on stocks set back on January 3, 1974 by the Federal Reserve has proved prudent over a long period of time, and everyone knows what to expect. Margin changes made by the Chicago Mercantile Exchange have always been after the fact or event. If higher margins are appropriate <u>after</u> a devastating market drop, wouldn't they be even more appropriate <u>before</u> the drop? I respectfully suggest that margins on index options be set at the levels judged prudent by the Chicago Mercantile Exchange after the crash.

4. Oversight on stock index futures margins is appropriate at the federal level, and margins should be set at a level consistent with an acceptable amount of speculation and then left there.

5. I don't feel qualified to comment on needs to modify the "exclusivity clause" of the CEA, but it just doesn't seem right to me that both stocks and their futures should be traded side-by-side.

I might add that a rule to prevent a firm from doing program trading both for customers and for its own account would do more good than harm. It may not be fair, but it would remove a potential for abuse and be applauded by investors throughout the land. After all, most firms voluntarily stopped program trading for their own accounts after the major market breaks in 1987 and 1989. They must have had a reason, and that reason should still exist.

Respectfully submitted,

BFE:ct