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James R. Jones  
Chairman of the Board

American  
Stock Exchange

March 14, 1991

The Honorable Richard G. Darman  
Director  
Office of Management & Budget  
725 17th Street, N.W.  
Washington D.C. 20502

Dear Dick:

On Wednesday, March 6, 1991, the Senate Agriculture Committee reported S. 207 to the Senate. During markup of the bill, the Committee adopted an amendment that dramatically expands the jurisdiction of the Commodity Futures Trading Commission and undermines the ability of securities exchanges to introduce innovative products.

Indeed, whether intended or not, the bill as amended has the potential for forcing a fundamental shift in the way corporate America goes about managing its capital needs and the result could well be a significant reduction in our ability to remain competitive in the world financial arena. Financial products which have helped immensely in providing liquidity and versatility in our capital markets are in danger of being outlawed; innovation in the creation of new financial tools, which is progressing at an ever increasing rate abroad, is likely to come to a resounding halt here at home; and our securities industry, which has long been the envy of most other world markets but which is now under severe economic pressure, will be dealt a new blow from which it will take years to recover.

Equally disquieting, the bill would add uncertainty as to the status of many trillions of dollars worth of securities already in the hands of the public. For example, it raises a cloud over the entire stock options market which has grown over the last 15 years or so into a major complement to the trading of common equities and amounts to \$40 - 50 billion annually. This, notwithstanding the fact that Congress eight years ago enacted legislation specifically aimed at putting any such uncertainty to rest.

In the case of the American Stock Exchange, in addition to foreclosing the opportunity to bring to market several new trading vehicles we have developed which offer issuers new ways to raise capital and investors greater flexibility in managing portfolios, the bill as amended calls into question the viability of existing warrants on international indices, as well as contingent value rights, instruments which allow companies to avoid large debt commitments in friendly takeovers and mergers.

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For the past couple of years we have strongly supported efforts to harmonize jurisdiction over securities and stock index futures, foster intermarket coordination and provide coherent oversight of margins on futures and securities trading.

While S. 207, as reported, goes a long way toward rationalizing margin-setting authority, it is silent on intermarket coordination, and, as stated above, devastating on the subject of proper jurisdiction.

The S.E.C. has reviewed S. 207 and drafted substitute language. It is critical to the securities markets' ability to continue serving issuers in their quest for new capital sources and investors in managing their portfolios that the SEC's language be adopted.

The American Stock Exchange has established a reputation in recent years as the most aggressive marketplace for new investment tools. We take great pride in that reputation, and we welcome competition from all quarters, domestic or foreign. Our thrust has been to develop new financing vehicles which will ultimately lead American companies away from their recent reliance on debt as the preferred capital raising mechanism. Flexibility and ingenuity are the two most important ingredients in achieving success in this area. We have assembled the ingenuity; S. 207 takes away the flexibility. That, quite simply, is anti-competitive, and will have the effect of reversing a growing trend toward re-equitization.

I hope you will join us in opposing the committee's action and supporting the revisions made by the SEC.

Thank you in advance for your assistance.

With best wishes,

Sincerely,



James R. Jones