April 4, 1991

The Honorable Donald W. Riegle, Jr.
U.S. Senate
Washington, D.C. 20510

Dear Don:

Just before the recent break, I wrote to you expressing my concerns about S. 207, the Futures Trading Practices Act, and promising a more detailed analysis of Title III of the bill. After reading the enclosed letter from Alan Greenspan to Banking Committee Chairman Donald Riegle, I felt the Fed Chairman's words themselves can put the issue -- which on its face seems very narrow -- in better perspective.

There is a problem that needs fixing: the current regulatory scheme stifles the introduction of new capital formation and risk-management tools. Far from solving the problem, S. 207 exacerbates it by creating a regulatory black hole where hybrid capital raising tools will be lost. As Chairman Greenspan has written, S. 207 "will continue to preserve impediments to innovation in hybrids and risk-management products. . ."

A solution to the problem is also outlined in the Greenspan letter:

> "[I]t would be preferable. . . to allow [hybrid] instruments to trade on markets selected by the parties. Thus, equity-related derivative products could trade on either securities or futures exchanges, and banks and other financial institutions could offer commodity derivative products where appropriate prudential and investor protection safeguards are in place. In this way, owing to different customer bases, similar products could evolve in ways that best meet the needs of those customers."

The solution, in other words, is that competitive forces, not regulation, should decide. I hope after you review the attached letter you will see the broader implications of S. 207 as currently drafted.

And I hope that you will support any effort to improve the legislation beyond its current special interest focus. Thank you in advance for your support.

Sincerely yours,

JAMES R. JONES

Attachment