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January 31, 1996

Mr. Arthur Levitt
Chairman, Securities and Exchange Commission
450 Fifth Street, NW
Washington, DC 20549

Dear Mr. Levitt:

As a taxpayer and professor of finance in Orange County, I have been following very closely the SEC's response to the OC disaster. This is why I take the liberty to send you a copy of my recent book, "Big Bets Gone Bad: Derivatives and Bankruptcy in Orange County," which documents the OC crisis and more generally, explains derivatives in terms that the common public can understand. Merton Miller calls the book a "must-read".

Overall, I generally agree with the SEC's view that many public officials ignored warning signs and (implicitly or not) approved the investment strategy, which may not have been sufficiently documented in bond offerings in 1993-1994.

Regarding the Spring 1994 SEC meeting, I also sympathize with the SEC's remarks that "The SEC had neither the jurisdiction nor the ability to save the country from bankruptcy," especially since the situation unraveled in the ensuing months. One remaining issue, however, is the following: if these bond offerings omitted material information, how was the omission for the July 1993 $400 million issue not caught in the Spring 1994 review?

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Finally, I fully support the SEC's proposed rule for additional disclosure of derivatives risk in corporate filings, announced on December 28. One of my conclusions is that the OC disaster would most likely had been avoided had investors been told their "Value-At-Risk" in no uncertain terms. Although the SEC has no jurisdiction over local government pools, this proposal should encourage more disclosure. In fact, my next book, which is about to be finished, precisely deals with "Value-At-Risk" as a means to control financial risks.

I hope you will enjoy reading my Orange County book.

Respectfully,

Philippe Jorion