



Securities Industry Association



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### **SIA, FIA Commend SEC and CFTC for Final Rules for Security Futures Products**

**Washington, D.C.—July 24, 2002**—The Futures Industry Association and the Securities Industry Association today applauded the Securities and Exchange Commission and the Commodity Futures Trading Commission for their work in finalizing customer margin rules for security futures products—the last major government rule-making that had to be completed before trading can begin in these products.

“I commend Jim Newsome and Harvey Pitt and their staffs for taking two very different approaches to regulation and blending them into a workable and balanced set of rules,” says FIA President John M. Damgard. “We believe these products will be a valuable addition to equity portfolios and we expect them to be an enormous success.”

“While we have yet to see the final details, the fact that the agencies were able to achieve a sensible and balanced set of rules governing these products is testament to how seriously they went about their work, and the dedication and expertise they brought to the table,” said SIA President Marc E. Lackritz.

After months of negotiations between the SEC and CFTC, the CFTC approved its version of the final rules on July 2 which was followed today by the SEC. The final rules are designed to preserve the financial integrity of security futures markets by establishing minimum levels of margin that customers will have to post for their positions in security futures. The rules also seek to prevent regulatory arbitrage between security futures and security options by establishing "comparable" margin requirements for both classes of derivative instruments.

The final rules appear to be substantially more workable than the proposed rules issued last fall. They incorporate a number of suggestions put forward by the joint FIA/SIA Security Futures Steering Committee and other market participants, and do not include certain provisions in the proposed rules that were viewed as particularly burdensome.

Lackritz and Damgard also commended the members of the FIA/SIA joint committee and its Chairman, Jonathan Barton, Morgan Stanley, for their considerable work with the regulators over the past year to ensure a smooth introduction for security futures products.

While the SEC's approval of margin rules for security futures is a major event in the introduction of security futures, several things remain to be done, including having the self-regulatory organizations provide additional guidance to securities firms that will be engaged in trading these products. The FIA/SIA steering committee will monitor the progress being made in creating a suitable regulatory framework for these products and assist government and industry regulators in that effort.

With the publication of the margin rules, the SEC and CFTC have completed their portion of the regulatory framework necessary to permit these products to be traded. The final rules will take effect 30 days after publication in the *Federal Register*. If the SRO rules are also in place, the exchanges could be free to trade these products in September.

## **Background**

The *Commodity Futures Modernization Act of 2000* for the first time permitted the trading of futures on narrow based indices and single stocks which are products that straddle the traditional categories of "securities" and "futures." Because single stock futures don't easily fit into either of the pre-existing categories, the CFMA directed that these products be treated as both "securities" and "futures" and, accordingly, subject to regulation by both the SEC and the CFTC. The two regulatory regimes have evolved over decades, and while they are broadly similar in some respects, they differ in many details, and often achieve conceptually similar regulatory goals through very different mechanisms.

## **Securities Industry Association**

The Securities Industry Association brings together the shared interests of more than 600 securities firms to accomplish common goals. SIA member-firms (including investment banks, broker-dealers, and mutual fund companies) are active in all U.S. and foreign markets and in all phases of corporate and public finance. The U.S. securities industry manages the accounts of nearly 93 million investors directly and indirectly through corporate, thrift, and pension plans. In the year 2001, the industry generated \$198 billion in U.S. revenue and \$358 billion in global revenues. Securities firms employ approximately 750,000 individuals in the United States.

## **Futures Industry Association**

The Futures Industry Association is the international trade organization for the futures industry. Its membership includes more than 40 of the largest futures commission merchants. FIA estimates that its members are responsible for more than 80 percent of all public customer business executed on U.S. contract markets. FIA membership also includes more than 40 international futures and options exchanges and clearinghouses in North and South America, Europe, Africa, Asia and Australia.