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June 11, 2001

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COMMENT

Ms. Jean A Webb
Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, D.C. 20581

Mr. Jonathan G. Katz
Secretary
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549-0609

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RECORDS SECTION

RE: Narrow-based Security Indexes; File No. S7-11-01

Dear Ms. Webb and Mr. Katz:

General Motors Investment Management Corporation (GMIMCo) appreciates the opportunity to comment on the joint proposal of the Commodity Futures Trading Commission and the Securities and Exchange Commission to implement various provisions of the Commodity Futures Modernization Act of 2000 (CFMA). GMIMCo, together with its predecessors, has nearly fifty years of experience as a fiduciary for corporate pension plans and a deep understanding of investment management in a wide variety of asset classes including equities, bonds and related markets. As a major investor in securities and as a registered investment adviser, GMIMCo will consider any new and more cost efficient methods for managing security price risks or taking a market view. New security futures products that trade in liquid, well-regulated markets with transparent prices and financial integrity could add considerable value to GMIMCo in particular and the capital markets as a whole. We therefore welcome the CFMA's lifting of the ban in the Commodity Exchange Act on the trading in the United States of what are now defined to be "security futures products." We also appreciate the time and attention spent by the Commissions and their staffs, now and in the future, in considering regulatory changes that will make new products and markets more accessible to GMIMCo.

While we look forward to being able to trade the new security futures products that are authorized under the CFMA, we are concerned about the Commissions' proposal as it relates to foreign stock indexes and the definition of a "narrow-based index." GMIMCo agrees with the Commissions that foreign and U.S. boards of trade (including securities

exchanges, contract markets, derivatives transaction execution facilities and alternative trading systems) should be treated the same. The rules therefore that define when an index of stocks is "narrow-based" (whether U.S. or foreign stocks) should be the same no matter where the futures contract on the index is traded.

We believe, however, that the standards for defining a narrow-based index should not be the same for indexes comprised primarily of stocks issued and traded in the U.S. and indexes comprised primarily of stocks issued and traded on foreign stock markets. The statutory scheme for security futures in the CFMA indicates that Congress agrees with this approach and expected the Commissions to analyze U.S. and foreign stock indexes according to different criteria.

Indeed, the statutory standards for defining the term "narrow-based index"¹ appear to have contemplated only U.S. based securities indexes and markets. For example, the statute refers to securities registered pursuant to section 12 of the Securities Exchange Act of 1934 which are among the top 750 securities in terms of market capitalization and the top 675 securities in terms of average daily trading volume.² As the Commissions themselves acknowledge in the proposal, many foreign-based securities indexes that are today the subject of futures contracts traded under the CEA would not qualify as non-narrow-based indexes under a strict application of these statutory tests. Nor would some foreign-based indexes reflecting the entire stock market in a particular country. Those unquestionably broad-based, national stock indexes would be misallocated to the "security futures" category under a strict adherence to the statutory numerical criteria. Congress foresaw this possible issue; it therefore directed the Commissions to use their administrative discretion to adjust the statutory tests for foreign-based stock indexes.³

Strong policy reasons also support developing special standards for indexes comprised of primarily foreign securities. First, futures on foreign indexes are normally traded among only sophisticated parties. The CFMA itself shows that Congress understands that derivatives traded among sophisticated counterparties need little (or no) regulation. Extending the regulation for security futures products to foreign indexes that are not likely to be traded by retail investors would be unwarranted. Second, subjecting futures on foreign indexes to complicated classification standards may discourage markets both in the U.S. and abroad from offering these products to U.S. institutional investors. That result would disadvantage U.S. investment advisers by preventing them from participating for their clients in these useful instruments, while removing from those markets the liquidity that U.S. investment advisers would provide. Third, the U.S. interest in the integrity of foreign securities trading is less than our national interest in the integrity of trading in U.S. securities. If trading futures on a foreign stock index creates new risks for the integrity of foreign securities markets those risks are the primary regulatory responsibility of the regulators in the foreign countries where those stocks are traded. Fourth, a more lenient standard for foreign securities indexes will not result in a regulatory void; those foreign index futures would still be considered broad-based and still would be subject to CFTC regulation under the CEA. In contrast, treating futures on these foreign-

¹ Section 1a(25)(A) of the Commodity Exchange Act and Section 3(a)(55)(B) of the Securities Exchange Act.

² Section 1a(25)(B) of the Commodity Exchange Act and Section 3(a)(55)(C) of the Securities Exchange Act.

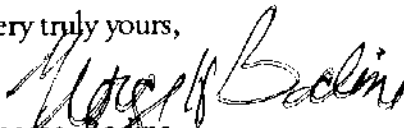
³ Section 1a(25)(A) of the Commodity Exchange Act and Section 3(a)(55)(D) of the Securities Exchange Act.

based securities indexes as security futures products will create a strong incentive for markets to offer these instruments under the exclusions from the CEA enacted as part of the CFMA, since security futures products will face far heavier regulatory burdens than other futures. In that case, futures on foreign-based indexes will be removed from all regulatory oversight, including that offered under the CEA for broad-based index futures.

GMIMCo appreciates the complexity of the undertaking Congress has set out for the Commissions and the short time frame in which the Commissions must make their decisions. However, we believe that the alternative offered by the Futures Industry Association for foreign-based stock indexes is a constructive and preferable alternative to the Commissions' approach. It would allow more foreign stock indexes to qualify as non-narrow-based indexes and therefore facilitate trading in those instruments under the regulatory standards for stock index futures trading in the CEA. We endorse the FIA alternative and urge the Commissions to give it serious consideration.

GMIMCo hopes that its comments assist the Commissions in their laudable efforts to implement the CFMA in a responsible and expeditious fashion. Should you wish to discuss our comments further, please do not hesitate to contact us.

Very truly yours,



George Boone

General Motors Investment Management Corporation