Peregrine Financial Group, Inc.

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5 December 2001

COMMENT

Jean A. Webb
Secretary to the Commission
Commodity Futures Trading Commission
1155 21st Street, N.W.
Washington, D.C. 20581

Jonathan G. Katz
Secretary to the Commission
Securities and Exchange Commission
450 Fifth Street
Washington, DC 20549

Re: Customer Margin Rules Relating to Security Futures 66 Fed Reg 50620 (October 4, 2001)
CFTC "Customer Margin for Securities Futures"
SEC file no. S7-16-01

Dear Ms. Web and Mr. Katz:

I am the author of five books about the futures, options and foreign currency markets and CEO and Chairman of an FCM rated among the 40 largest as measured by customer segregated funds. I also head a Broker/Dealer that is affiliated with the FCM. Both of these registered firms are focused on retail customer business and it is from the perspective of performing this service to customers that I am expressing the following opinions.

The Commodity Futures Trading Commission and the Securities Exchange Commission are given a daunting task – to jointly create regulations for products recently made permissible by the Commodity Futures Modernization Act ("CFMA"). Futures and Securities products separately have a long history of performing important economic functions.

During the last 30 years futures markets for US debt instruments, foreign currencies and stock indexes have been added to the list of traditional futures markets, which include agricultural, metals, food and fiber futures markets. The financial futures markets have seen spectacular growth in both trading volume and contract variety. It is no question that financial futures markets are the current and future volume leader for the futures industry. The high degree of curiosity among our current customer base regarding security futures is testament that these proposed markets will be popular among individual "retail" customers.

In response to the jointly proposed rules, I have the following overall suggestion. Respectfully put, "keep it simple". During the rule making process there have been similar, and yet different, rules for the futures industry and the securities industry in order to avoid a costly overhaul to the back office and operations of FCM's and B/D's, respectively. For example, FCM's that notice register as B/D's hold customer funds in customer segregated accounts. B/D's that notice register as FCM's hold customer funds in rule 15c3-3 accounts. Each of these account structures have myriad rules and policy implications that have an affect on the brokerage companies and their customer, from the way funds are collected to the manner in which accounts are created. I suggest the rules regarding customer margins should continue this theme.

I believe it is fundamentally wrong to create a body of regulations for the futures industry that forces compliance with all securities regulations in order to enable securities futures trading. Conversely to force

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the securities industry to create new infrastructure. (back, middle and front office facilities) to accommodate the same markets is equally inappropriate.

For example, if an FCM is required to create security type account classifications for each and every customer that wishes to trade security futures products then there will be a long delay in the back office and accounting implementation of security futures products. Not only will the structures need to be created but they would also need to be tested and audited to prevent rules be unintentionally violated. FCM's already have back office procedures and accounting programs to accommodate futures contract trading. Futures contract delivery procedures have facilitated the delivery of a wide variety of underlying products from pork bellies to US treasury bonds.

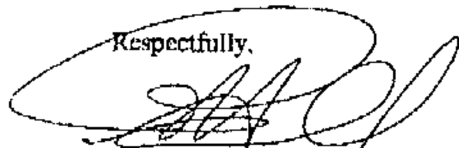
Keep it simple. The margin requirement for security futures should be 20% of the "current market value". Certain certified portfolio margin systems such as SPAN and TIMS should be used and allowed as has been suggested. It is also appropriate to allow a reduced margin requirement for "exempted borrowers."

I believe there is a need for clarification in PART 41, although. Proposed rules in PART 41 regarding customer margins appear to lack a provision to allow increasing open trade equity to cover increasing margin requirements. It does not seem clear if the open trade equity (the profit that is unrealized on an open position) is allowed to offset the increased margin requirement of a security futures product if the value of the security futures product is increasing. For example, if the value of a security futures product were to increase in value, the "current market value" would increase thereby increasing the dollar amount of the 20% margin requirement. The unrealized profit should be allowed as collateral to pay for the increased margin requirement. Logically a security futures product will not increase in risk as it becomes more valuable to its owner.

The time limits of three (3) business days or shorter is reasonable for initial and maintenance margin calls with the opportunity of extensions upon application. It is custom and practice in the "retail" futures industry for this "T+3" margin collection period to be shorten to T-1 or T+0, meaning that customer funds are often required to be in the account before a transaction will be allowed.

Thank you for the opportunity to comment.

Respectfully,



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