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COMMENT

CREDIT DIVISION
SECURITIES INDUSTRY ASSOCIATION

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December 4, 2001

Amended: December 11, 2001

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RECORDS SECTION

Mr. Jonathan G. Katz
Secretary to the Commission
Securities and Exchange Commission
450 Fifth Street
Washington DC 20549-0609

Ms. Jean A. Webb
Secretary to the Commission
Commodity Futures Trading Commission
1155 21ST Street NW
Washington DC 20581

Re: Customer Margin Rules Relating to Security Futures, 17 CFR Part 41; 17 CFR Part 242; Release No. 34-44853 SEC File No. S7-16-01

Dear Mr. Katz and Ms. Webb:

The SIA, Credit Division[1] appreciates the opportunity to comment on the proposed margin rules for Security Futures.

Specifically we recommend:

- The infrastructure for both futures accounts and security margin accounts should be enhanced to support security futures. We are not overly concerned that credit treatment will have differences depending on the account.
- A 25% initial and maintenance requirement is preferable to us. Security futures are going to be calculated daily to ensure they are "at the money". They will not expire worthless. Customers will need to have the financial wherewithal to take delivery of securities or deliver the securities at expiration of the contract. This is similar to a

[1] SIA's Divisions are composed of individuals engaged in specialized areas of activity who work together in addressing issues and problems in their spheres of expertise. They educate their constituents via meetings, conferences and various communications media throughout the year. The Divisions represent the views of these individuals rather than of SIA member firms.

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when issued position going "regular way". Customers must also be able to meet cash settlement requirements. We could accept a 20% initial and maintenance requirement since broker-dealers may increase credit thresholds to any level over minimum requirements they feel is appropriate for their customer population.

- Continuing with the current due dates for initial and maintenance obligations in a security margin account makes more business sense than having separate due date requirements.

We do not believe that a portfolio margining system is appropriate for all customers and products. The vast majority of retail customers are not margined on the cusp. Asking a retail customer to understand a volatility matrix for separate stocks would be problematic in our opinion.

It really becomes challenging when different products such as stocks, bonds, and options must be evaluated. Most customers would not be able to calculate buying power, excess, funds due, credit available, etc. On line clients would have a particularly difficult time. Frequently customers have issues with straightforward requirements.

On the other hand, we would support sophisticated clients with complex strategies and substantial equity levels utilizing a portfolio margining system. This type of system could be particularly beneficial to institutional customers with direct access to a wide array of professional support.

We recommend a flexible approach. Portfolio margining should be used where it makes sense for the customer's level of sophistication, resources and strategies. A conventional strategy based system should be used where is makes sense for the customer and his or her investment objectives.

Sincerely,

George Ruth
Chairman, Rules & Regulations Committee
SIA, Credit Division

cc: Susan DeMando, NASDR
Scott Holz, Federal Reserve
Rich Lewandowski, CBOE
Albert Lucks, New York Stock Exchange
Jim McNeil, American Stock Exchange
Ed Piscina, President, SIA, Credit Division