

**MEMO# 5624**

February 28, 1994

## **CONGRESSMAN LEACH INTRODUCES DERIVATIVES LEGISLATION**

February 28, 1994 TO: INVESTMENT ISSUES COMMITTEE NO. 4-94 SEC RULES COMMITTEE  
NO. 23-94 RE: CONGRESSMAN LEACH INTRODUCES DERIVATIVES LEGISLATION

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Congressman James Leach (R-IA) recently introduced H.R. 3748, the "Derivatives Supervision Act of 1994." The bill calls for the formation of a Federal Derivatives Commission ("Commission"), to establish principles and standards with respect to capital, accounting, disclosure, suitability, or other areas deemed appropriate for the supervision of "financial institutions" engaged in derivatives activities. (Financial institutions are defined in the bill to include, among other things, any type of end-user of derivatives, as determined by the Commission.) A copy of the bill is attached. The bill specifies that the Commission would be chaired by the Chairman of the Board of Governors of the Federal Reserve System, and in addition would consist of the Comptroller of the Currency, the Chairman of the Board of the FDIC, the Director of the Office of Thrift Supervision, the Chairman of the CFTC, the Chairman of the SEC and the Secretary of the Treasury. Under the bill, each appropriate regulatory agency would be required to adopt "substantially similar" regulations to implement the principles and standards established by the Commission, absent a finding that such adoption is not necessary or appropriate in the public interest. The bill would direct the Commission to consider the need to make recommendations for comparable regulatory action on several related matters including, among others, enhanced risk disclosures to investors in mutual funds that invest in derivatives. Other functions of the Commission would include, for example, the following: (1) encouraging foreign governments, central banks and regulatory authorities to work toward maintaining or adopting comparable supervisory standards and regulations for financial institutions engaged in derivatives activities; (2) developing uniform systems for reporting derivatives activities; (3) sponsoring training programs on derivatives for certain regulatory agency employees; and (4) developing seminars on risk management techniques related to derivatives activities for employees of both regulatory agencies and financial institutions. H.R. 3748 is the first legislative proposal concerning derivatives to emerge since the recent heightened focus by Congress, regulatory agencies and the press on potential risks associated with derivatives activities. A few weeks before the bill was introduced, Treasury Secretary Lloyd Bentsen had called for the interagency Working Group on Financial Markets (which was formed to study the 1987 stock market crash) to coordinate federal regulatory policy on the over-the-counter derivatives markets. Congressman Leach's bill seeks more formalized coordination of such regulation. No action on the bill is anticipated in the near future. We will keep you informed of any further developments. Frances M. Stadler Associate Counsel Attachment

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