



OFFICE OF
THE COMMISSIONER

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

May 29, 1981

Honorable Richard G. Lugar
Chairman
Subcommittee on Agricultural Research
and General Legislation
Senate Committee on Agriculture, Nutrition,
and Forestry
Washington, D.C. 20510

Dear Chairman Lugar:

Under cover of separate letter, the Commodities Futures Trading Commission ("CFTC") is today transmitting to you the report mandated by Public Law 96-276 concerning recent events in the silver markets. While the Securities and Exchange Commission ("SEC") participated fully in that portion of the report dealing with the silver crisis, we believe it is important for us to specify the exact nature of our involvement in the report and to separately state our views regarding certain aspects of the report.

First, as noted in the transmittal letter of the CFTC and in my letter dated April 10, 1981, to members of the House Committee on Agriculture, during the silver crisis the Commission instituted an investigation to determine whether there were violations of the federal securities laws in connection with transactions in the silver markets. We would emphasize that the information obtained by the Commission's enforcement staff in its investigation is still confidential information and therefore does not form the basis for any of the factual statements in the report. As such, the information ultimately derived from this investigation may not support, and in fact may be inconsistent with, the material contained in Part II of the report.

Second, the SEC's staff has spent considerable time and resources gathering available information regarding its actions during the silver crisis. On the basis of the information, the SEC's staff has provided the CFTC's staff with a detailed

description of the SEC's actions during the time period and has reviewed in full the CFTC's description of the events leading to the crisis and its analysis of the causes of the crisis. While we have no knowledge of events which is inconsistent with the CFTC's description, we must also point out that most of the information on which Part II of the report has been based is possessed solely by the CFTC and we have made no independent verification or analysis of this information.

In addition, there are two areas where the SEC's views differ from those expressed in this part of the report. First, as the SEC has stated on a number of occasions, the SEC believes that it may be appropriate to vest in a federal agency, such as the Federal Reserve Board or the CFTC, the authority to impose margin requirements applicable to futures transactions. Second, the SEC is not certain that the report places sufficient emphasis on the cause and effect relationship between the exchanges' regulatory actions and the decline in prices in the silver markets. While the report acknowledges (see page 12 of Part I) that the exchanges' actions "appeared to contribute to reversing the upward price movement", we believe that the exchanges' actions may have been a significant factor in the decline in the silver markets. The Commission believes that additional study of the significance of the exchanges' actions may be appropriate in order to fully understand the causes of the silver crisis.

Finally, as I indicated in my April 10, 1981, letter, the SEC believes that Part III of the report, which addresses in some detail the concerns raised by the growth of the financial futures markets generally, goes significantly beyond the scope of Public Law 97-276. Over the past year, the Commission and its staff have studied and are continuing to study the development and regulation of the financial futures markets, most recently in connection with our evaluation of proposals by several national securities exchanges to initiate options trading in securities that are also the subject of futures trading. Our ongoing study of these issues has made us aware of their complexity and difficulty and led us to conclude that it

The Honorable Richard G. Lugar
Page Three

would not be possible to achieve consensus on the difficult issues associated with the financial futures area by June 1, 1981. At such time as the Commission does complete its consideration of these issues, it will, of course, share its views with Congress and interested agencies. At this time, however, the Commission does not believe that it can join in the analysis and conclusions contained in Part III of the report.

Sincerely,

Philip A. Loomis
Philip A. Loomis, Jr.
Commissioner