

106TH CONGRESS  
2D SESSION

# S. 2765

To amend the securities laws to provide for regulatory parity for single stock futures, and for other purposes.

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## IN THE SENATE OF THE UNITED STATES

JUNE 21, 2000

Mr. SCHUMER introduced the following bill; which was read twice and referred to the Committee on Banking, Housing, and Urban Affairs

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## A BILL

To amend the securities laws to provide for regulatory parity for single stock futures, and for other purposes.

1       *Be it enacted by the Senate and House of Representa-*  
2       *tives of the United States of America in Congress assembled,*  
3       **SEC. 101. DEFINITIONS UNDER THE SECURITIES EX-**  
4       **CHANGE ACT OF 1934.**

5       Section 3(a) of the Securities Exchange Act of 1934  
6       (15 U.S.C. 78c(a)) is amended—

7           (1) in paragraph (10), by inserting “security  
8       future,” between “treasury stock,” and “bond”;  
9           (2) by striking paragraph (11) and inserting  
10       the following:

1           “(11) The term ‘equity security’ means any  
2 stock or similar security; or any security future; or  
3 any security convertible, with or without consider-  
4 ation, into such a security, or carrying any warrant  
5 or right to subscribe to or purchase such a security;  
6 or any such warrant or right; or any put, call, strad-  
7 dle, option, or privilege on any such security; or any  
8 other security which the Commission shall deem to  
9 be of similar nature and consider necessary or ap-  
10 propriate, by such rules and regulations as it may  
11 prescribe in the public interest or for the protection  
12 of investors, to treat as an equity security.”;

13           (3) in paragraph (13), by adding at the end the  
14 following: “For security future products, this in-  
15 cludes any contract, agreement, or transaction for  
16 future delivery.”;

17           (4) in paragraph (14), by adding at the end the  
18 following: “For security future products, this in-  
19 cludes any contract, agreement, or transaction for  
20 future delivery.”; and

21           (5) by adding at the end the following:

22           “(55)(A) The term ‘security future’ means a  
23 contract of sale for future delivery of a single secu-  
24 rity or of a narrow-based security index, including  
25 any interest therein or based on the value thereof.

1           “(B) A ‘narrow-based security index’ is an  
2        index—

3           “(i) that has 10 or fewer component secu-  
4        rities;

5           “(ii) in which the securities of a single  
6        issuer account on average, over the six-month  
7        period ending on the date equity options expire  
8        in June of each year and over the six-month pe-  
9        riod ending on the date equity options expire in  
10      December of each year, for more than 10% of  
11      the market capitalization of that index;

12        “(iii) in which the securities of a single  
13        issuer in a price-weighted (or other non-capital-  
14        ization weighted) index account on average,  
15        over the six-month period ending on the date  
16        equity options expire in June of each year and  
17        over the six-month period ending on the date  
18        equity options expire in December of each year,  
19        for more than three times their weight in the  
20        index if calculated on a market-capitalization  
21        basis;

22        “(iv) in which any component security has  
23        an average daily trading volume value of less  
24        than \$1 million or an aggregate market value

1           of the voting and non-voting common equity  
2           held by non-affiliates of less than \$150 million;

3           “(v) in which the average correlation of the  
4           securities in the index to the index itself is  
5           greater than 0.6 over the six-month period end-  
6           ing on the date equity options expire in June of  
7           each year and over the six-month period ending  
8           on the date equity options expire in December  
9           of each year; or

10           “(vi) in which the correlation of any secu-  
11           rity in the index to the index itself is greater  
12           than 0.9 over the six-month period ending on  
13           the date equity options expire in June of each  
14           year and over the six-month period ending on  
15           the date equity options expire in December of  
16           each year.

17           “(C) The term ‘security future product’ means  
18           a security future or any put, call, straddle, option,  
19           or privilege on any security future.

20           “(56)(A) The term ‘margin’, when used with  
21           respect to a security future product, means the  
22           amount, type, and form of collateral required to se-  
23           cure any extension, maintenance, or arrangement of  
24           the extension or maintenance of credit, or the  
25           amount of collateral required as a performance bond

1 related to the purchase, sale, or carrying of a secu-  
2 rity future product, and all other uses of collateral  
3 related to the purchasing, selling, or carrying of a  
4 security future product.

5 “(B) The terms ‘margin level’ and ‘level of mar-  
6 gin’, when used with respect to a security future  
7 product, mean the amount of collateral required to  
8 secure any extension, maintenance, or arrangement  
9 of the extension or maintenance of credit, or the  
10 amount of collateral required as a performance  
11 bond, related to the purchase, sale, or carrying of a  
12 security future product.

13 “(C) The terms ‘higher margin level’ and ‘high-  
14 er level of margin’, when used with respect to a se-  
15 curity future product, mean a margin level estab-  
16 lished by a national securities exchange or a national  
17 securities association that is higher than the min-  
18 imum amount established jointly by the Commission  
19 and the Commodity Futures Trading Commission  
20 pursuant to section 7(c)(1)(C)(ii).”.

21 **SEC. 102. REGULATORY RELIEF FOR MARKETS TRADING  
22 SECURITY FUTURE PRODUCTS.**

23 (a) EXPEDITED REGISTRATION AND EXEMPTION.—  
24 Section 6 of the Securities Exchange Act of 1934 (15  
25 U.S.C. 78f) is amended by adding at the end the following:

1        “(g)(1) An exchange that lists or trades security fu-  
2 ture products may be registered as a national securities  
3 exchange solely for the purposes of trading security future  
4 products if (A) it is a board of trade, as that term is de-  
5 fined by the Commodity Exchange Act (7 U.S.C. 1a(1)),  
6 that has been designated a contract market by the Com-  
7 modity Futures Trading Commission and is not subject  
8 to a suspension order by the Commodity Futures Commis-  
9 sion, and (B) such exchange does not serve as a market  
10 place for securities other than security future products,  
11 or futures on exempted securities or groups or indexes of  
12 securities that have been authorized by Commodity Fu-  
13 tures Trading Commission order or options thereon.

14       “(2)(A) An exchange required to register only be-  
15 cause it lists or trades security future products may reg-  
16 ister for purposes of this section by filing with the Com-  
17 mission a written notice in such form as the Commission,  
18 by rule, may prescribe containing the rules of the exchange  
19 and such other information and documents concerning  
20 such exchange as the Commission, by rule, may prescribe  
21 as necessary or appropriate in the public interest or for  
22 the protection of investors.

23       “(B) Such registration shall be effective immediately  
24 upon filing of the written notice with the Commission.  
25 Such registration shall not be effective if the exchange

1 were so registered, its registration would be subject to sus-  
2 pension or revocation.

3       “(C) Such registration shall be terminated imme-  
4 diately if any of the conditions for registration set forth  
5 in this subsection are no longer satisfied.

6       “(3) The Commission shall make available to the  
7 public all notices it receives under this subsection.

8       “(4)(A) An exchange that is registered under para-  
9 graph (1) of this subsection shall be exempt from and shall  
10 not be required to enforce compliance by its members with,  
11 and its members shall not, solely with respect to those  
12 transactions effected on such exchange in security future  
13 products, be required to comply with, the following provi-  
14 sions of this title and the rules thereunder:

15           “(i) subsections (b)(2), (b)(3), (b)(4), (b)(7),  
16 (b)(9), (c), (d), and (e) of section 6;

17           “(ii) section 11;

18           “(iii) subsection (d) and (f) of section 17; and

19           “(iv) subsection (a), (f), and (h) of section 19.

20       “(B) An exchange that is subject to the registration  
21 requirement of paragraph (1) of this subsection shall also  
22 be exempt from submitting proposed rule changes pursu-  
23 ant to section 19(b) of this title, except that:

24           “(i) it shall file proposed rule changes related to  
25 higher margin levels, fraud or manipulation, record-

1 keeping, reporting, listing standards of security fu-  
2 ture products, or sales practices for persons who ef-  
3 fect transactions in security future products or rules  
4 primarily related to its obligation to enforce the se-  
5 curities laws pursuant to section 19(b)(7);

6 “(ii) it shall file pursuant to sections 19(b)(1)  
7 and 19(b)(2) proposed rule changes related to mar-  
8 gin, except for changes to higher margin levels; and

9 “(iii) it shall file pursuant to section 19(b)(1)  
10 proposed rule changes that have been abrogated by  
11 the Commission pursuant to section 19(b)(7)(C).

12 “(5) No exchange that is registered under paragraph  
13 (1) of this subsection shall trade any security future prod-  
14 uct until the National Futures Association has met the  
15 requirements set forth in section 15A(k)(2) of this title.”.

16 (b) COMMISSION REVIEW OF PROPOSED RULE  
17 CHANGES.—

18 (1) EXPEDITED REVIEW.—Section 19(b) of the  
19 Securities Exchange Act of 1934 (15 U.S.C. 78s(b))  
20 is amended by adding at the end the following:

21 “(7)(A) A self-regulatory organization that is  
22 an exchange registered with the Commission pursu-  
23 ant to section 6(g) of this title or that is the Na-  
24 tional Futures Association shall file with the Com-  
25 mission, in accordance with such rules as the Com-

1 mission may prescribe, copies of any proposed rule  
2 change or any proposed change in, addition to, or  
3 deletion from the rules of such self-regulatory orga-  
4 nization (hereinafter in this subsection collectively  
5 referred to as a ‘proposed rule change’) that relates  
6 to higher margin levels, fraud or manipulation, rec-  
7 ordkeeping, reporting, listing standards of security  
8 future products, or sales practices for persons who  
9 effect transactions in security future products or  
10 rules primarily related to its obligation to enforce  
11 the securities laws. Such proposed rule change shall  
12 be accompanied by a concise general statement of  
13 the basis and purpose of such proposed rule change.  
14 The Commission shall, upon the filing of any pro-  
15 posed rule change, publish notice thereof together  
16 with the terms of substance of the proposed rule  
17 change or a description of the subjects and issues in-  
18 volved. The Commission shall give interested persons  
19 an opportunity to submit written data, views, and  
20 arguments concerning such proposed rule change.

21 “(B) A proposed rule change filed with the  
22 Commission pursuant to subparagraph (A) must be  
23 filed concurrently with the Commodity Futures  
24 Trading Commission. Such proposed rule change  
25 may take effect upon a determination by the Com-

1modity Futures Trading Commission that review of  
2the proposed rule change is not necessary or upon  
3approval of the proposed rule change by the Com-  
4modity Futures Trading Commission.

5 “(C) Any proposed rule change of a self-regu-  
6latory organization that has taken effect pursuant to  
7subparagraph (B) may be enforced by such self-reg-  
8ulatory organization to the extent it is not incon-  
9sistent with the provisions of this title, the rules and  
10regulations thereunder, and applicable Federal and  
11State law. At any time within sixty days of the date  
12the Commodity Futures Trading Commission deter-  
13mines that review of such proposed rule change is  
14not necessary or the date the Commodity Futures  
15Trading Commission approves such proposed rule  
16change, the Commission summarily may abrogate  
17the proposed rule change and require that the pro-  
18posed rule change be refiled in accordance with the  
19provisions of section 19(b)(1), if it appears to the  
20Commission that such proposed rule change unduly  
21burdens competition, conflicts with the securities  
22laws, or does not promote efficiency. Commission ac-  
23tion pursuant to the preceding sentence shall not af-  
24fect the validity or force of the rule change during  
25the period it was in effect and shall not be review-

1       able under section 25 nor deemed to be a final agen-  
2       cy action for purposes of section 704 of title 5,  
3       United States Code.

4           “(D) Within thirty-five days of the date of pub-  
5       lication of notice of the filing of a proposed rule  
6       change that is abrogated in accordance with sub-  
7       paragraph (C) and refiled in accordance with section  
8       19(b)(1), or within such longer period as the Com-  
9       mission may designate up to ninety days after such  
10       date if it finds such longer period to be appropriate  
11       and publishes its reasons for so finding or as to  
12       which the self-regulatory organization consents, the  
13       Commission shall—

14           “(i) by order approve such proposed rule  
15       change, or

16           “(ii) institute proceedings to determine  
17       whether the proposed rule change should be dis-  
18       approved. Such proceedings shall include notice  
19       of the grounds for disapproval under consider-  
20       ation and opportunity for hearing and be con-  
21       cluded within one hundred eighty days of the  
22       date of publication of notice of the filing of the  
23       proposed rule change. At the conclusion of such  
24       proceedings the Commission, by order, shall ap-  
25       prove or disapprove such proposed rule change.

1           The Commission may extend the time for con-  
2           clusion of such proceedings for up to sixty days  
3           if it finds good cause for such extension and  
4           publishes its reasons for so finding or for such  
5           longer period as to which the self-regulatory or-  
6           ganization consents.

7           The Commission shall approve a proposed rule  
8           change of a self-regulatory organization if it finds  
9           that such proposed rule change promotes efficiency,  
10          does not unduly burden competition, and does not  
11          conflict with the securities laws. The Commission  
12          shall disapprove a proposed rule change of a self-  
13          regulatory organization if it does not make such  
14          finding. The Commission shall not approve any pro-  
15          posed rule change prior to the thirtieth day after the  
16          date of publication of notice of the filing thereof, un-  
17          less the Commission finds good cause for so doing  
18          and publishes its reasons for so finding.”.

19           (2) CONSULTATION PROVISIONS.—Section 19(b)  
20          of the Securities Exchange Act of 1934 (15 U.S.C.  
21          78s(b)) is amended by adding after paragraph (7),  
22          as added by this Act, the following:

23           “(8)(A) The Commission shall consult with and  
24          consider the views of the Commodity Futures Trad-  
25          ing Commission prior to approving a proposed rule

1 change filed by a national securities association reg-  
2 istered pursuant to section 15A(a) or a national se-  
3 curities exchange subject to the provisions of section  
4 19(a) that primarily concerns conduct related to  
5 transactions in security futures products, except  
6 where the Commission determines that an emer-  
7 gency exists requiring expeditious or summary action  
8 and publishes its reasons therefore. If the Com-  
9 modity Futures Trading Commission comments in  
10 writing to the Commission on a proposed rule that  
11 has been published for comment, the Commission  
12 shall respond in writing to such written comment be-  
13 fore approving the proposed rule. If the Commodity  
14 Futures Trading Commission determines, and noti-  
15 fies the Commission, that such rule, if implemented,  
16 would, or as applied: (i) adversely affect the liquidity  
17 or efficiency of the market for security future prod-  
18 ucts; or (ii) impose any burden on competition not  
19 necessary or appropriate in furtherance of the pur-  
20 poses of this section, the Commission shall, prior to  
21 adopting the proposed rule, find that such rule is  
22 necessary and appropriate in furtherance of the pur-  
23 poses of this section notwithstanding the Commodity  
24 Futures Trading Commission's determination.

1               “(B) In approving rules described in subparagraph  
2               (A), the Commission shall consider the suffi-  
3               ciency and appropriateness of then existing laws and  
4               rules applicable to security futures products.”.

5               (c) REVIEW OF DISCIPLINARY PROCEEDINGS.—Sec-  
6               tion 19(d) of the Securities Exchange Act of 1934 (15  
7               U.S.C. 78s(d)) is amended by adding at the end the fol-  
8               lowing:

9               “(3) The provisions of section 19(d) shall apply  
10               to an exchange registered pursuant to section 6(g)  
11               of this title or the National Futures Association only  
12               to the extent that such self-regulatory organization  
13               imposes any final disciplinary sanction related to a  
14               security future product or the securities laws.”.

15 **SEC. 103. REGULATORY RELIEF FOR INTERMEDIARIES**  
16               **TRADING SECURITY FUTURE PRODUCTS.**

17               (a) EXPEDITED REGISTRATION AND EXEMPTIONS.—  
18               (1) Section 15(b) of the Securities Exchange  
19               Act of 1934 (15 U.S.C. 78o(b)) is amended by add-  
20               ing at the end the following:

21               “(11)(A)(i) A broker or dealer required to reg-  
22               ister only because it effects transactions in security  
23               future products on an exchange registered pursuant  
24               to section 6(g) may register for purposes of this sec-  
25               tion by filing with the Commission a written notice

1       in such form and containing such information con-  
2       cerning such broker or dealer and any persons asso-  
3       ciated with such broker or dealer as the Commission,  
4       by rule, may prescribe as necessary or appropriate  
5       in the public interest or for the protection of inves-  
6       tors, if that broker or dealer is a member of the  
7       National Futures Association.

8            “(ii) Such registration shall be effective imme-  
9       diately upon filing of the written notice with the  
10      Commission. Such registration shall not be effective  
11      if the applicant were so registered, its registration  
12      would be subject to suspension or revocation under  
13      paragraph (4).

14           “(iii) Such registration shall be suspended im-  
15       mediately if the National Futures Association sus-  
16       pends the membership of that broker or dealer.

17           “(iv) Such registration shall be terminated im-  
18       mediately if any of the above stated conditions for  
19       registration set forth in this paragraph are no longer  
20       satisfied.

21           “(B) A broker or dealer registered pursuant to  
22       the requirements of subparagraph (A) shall be ex-  
23       empt from the following provisions of this title and  
24       the rules thereunder with respect to transactions in  
25       security future products:

1               “(i) section 8;  
2               “(ii) subsection (a) of section 10;  
3               “(iii) section 11;  
4               “(iv) subsection (c)(3) of section 15;  
5               “(v) section 15B;  
6               “(iv) section 15C; and  
7               “(vii) subsections (d), (e), (f) (g), and (h)  
8               of section 17.

9               The Commission, by rule, regulation, or order, also  
10       may conditionally or unconditionally exempt any  
11       broker or dealer from any other requirement of this  
12       title related to security future products, to the ex-  
13       tent that such exemption is necessary or appropriate  
14       in the public interest, and is consistent with the pro-  
15       tection of investors.”; and

16               (2) Section 28(e) of the Securities Exchange  
17       Act of 1934 (15 U.S.C. 78bb(e)) is amended by add-  
18       ing at the end the following:

19               “(4) The provisions of subsection (e) shall not  
20       apply with regard to securities that are security fu-  
21       ture products.”.

22               (b) FLOOR BROKERS.—Section 15(b) of the Securi-  
23       ties Exchange Act of 1934 (15 U.S.C. 78o(b)) is amended  
24       by adding after paragraph (11), as added by this Act, the  
25       following:

1           “(12)(A) A natural person shall be exempt from  
2       the registration requirements of this section if such  
3       person:

4           “(i) is a member of a designated contract  
5       registered with the Commission as an exchange  
6       pursuant to section 6(g);

7           “(ii) only effects transactions in securities  
8       of the exchange of which he is a member; and  
9           “(iii) has no direct contact with public cus-

10       tomers.

11           “(B) A natural person exempt from registration  
12       pursuant to subparagraph (A) shall also be exempt  
13       from the following provisions of this title and the  
14       rules thereunder:

15           “(i) section 8;

16           “(ii) subsection (a) of section 10;

17           “(iii) section 11;

18           “(iv) subsection (c)(3) of section 15;

19           “(v) section 15B;

20           “(vi) section 15C; and

21           “(vii) subsections (d), (e), (f) (g), and (h)  
22       of section 17.”.

23           (c) LIMITED PURPOSE NATIONAL SECURITIES ASSO-  
24       CIATION.—Section 15A of the Securities Exchange Act of

1 1934 (15 U.S.C. 78o-3) is amended by adding at the end  
2 the following:

3 “(k)(1) The National Futures Association shall be a  
4 registered national securities association for the limited  
5 purpose of regulating the activities of members who are  
6 registered as brokers or dealers in security future products  
7 pursuant to section 15(b)(11).

8 “(2) The National Futures Association shall—

9 “(A) be so organized and have the capacity to  
10 carry out the purposes of the securities laws applica-  
11 ble to security future products and to comply, and  
12 (subject to any rule or order of the Commission pur-  
13 suant to section 19(g)(2)) to enforce compliance by  
14 its members and persons associated with members,  
15 with the provisions of the securities laws applicable  
16 to security future products, the rules and regulations  
17 thereunder, and the rules of the National Futures  
18 Association;

19 “(B) have rules that are designed to prevent  
20 fraudulent and manipulative acts and practices, to  
21 promote just and equitable principles of trade, and,  
22 in general, to protect investors and the public inter-  
23 est; and are not designed to regulate by virtue of  
24 any authority conferred by this title matters not re-

1 lated to the purposes of this title or the administra-  
2 tion of the association;

3 “(C) have rules that provide that (subject to  
4 any rule or order of the Commission pursuant to  
5 section 19(g)(2)) its members and persons associ-  
6 ated with its members shall be appropriately dis-  
7 ciplined for violation of any provision of the securi-  
8 ties laws applicable to security future products, the  
9 rules or regulations thereunder, or the rules of the  
10 association, by expulsion, suspension, limitation of  
11 activities, functions, and operations, fine, censure,  
12 being suspended or barred from being associated  
13 with a member, or any other fitting sanction;

14 “(D) have rules that ensure that members and  
15 natural persons associated with members meet such  
16 standards of training, experience, and competence  
17 necessary to effect transactions in security future  
18 products and are tested for their knowledge of secu-  
19 rities and security future products; and

20 “(E) have rules governing sales practices and  
21 the advertising of security future products com-  
22 parable to those of other national securities associa-  
23 tions registered pursuant to section 15A(a).

1       “(3) The National Futures Association shall be ex-  
2 empt from submitting proposed rule changes pursuant to  
3 section 19(b) of this title, except that:

4           “(A) it shall file proposed rule changes related  
5 to higher margin levels, fraud or manipulation, rec-  
6 ordkeeping, reporting, listing standards of security  
7 future products, or sales practices or standards of  
8 training, experience, competence, or other qualifica-  
9 tions for persons who effect transactions in security  
10 future products or rules primarily related to its obli-  
11 gation to enforce the securities laws pursuant to sec-  
12 tion 19(b)(7);

13           “(B) it shall file pursuant to sections 19(b)(1)  
14 and 19(b)(2) proposed rule changes related to mar-  
15 gin, except for changes to higher margin levels; and

16           “(C) it shall file pursuant to section 19(b)(1)  
17 proposed rule changes that have been abrogated by  
18 the Commission pursuant to section 19(b)(7)(C).

19       “(4) The National Futures Association shall be ex-  
20 empt from and shall not be required to enforce compliance  
21 by its members, and its members shall not, solely with re-  
22 spect to their transactions effected in security future prod-  
23 ucts, be required to comply, with the following provisions  
24 of this title and the rules thereunder:

1           “(A) subsections (b)(1), (b)(3), (b)(4), (b)(5),  
2           (b)(8), (b)(10), (b)(11), (b)(12), (b)(13), (c), (d),  
3           (e), (f), (g), (h), and (i) of section 15A;

4           “(B) subsections (d) and (f) of section 17; and  
5           “(C) subsections (a), (f), and (h) of section  
6           19.”.

7           “(d) EXEMPTION UNDER THE SECURITIES INVESTOR  
8 PROTECTION ACT OF 1970.—

9           (1) Section 16(14) of the Securities Investor  
10          Protection Act of 1970 (15 U.S.C. 78lll(14)) is  
11          amended by inserting “or any security future as that  
12          term is defined in Section 3(a)(55)(A) of the Securi-  
13          ties Exchange Act of 1934,” between “certificate of  
14          deposit for a security,” and “any investment con-  
15          tract or certificate of interest or participation”; and

16           (2) Section 3(a)(2) of the Securities Investor  
17          Protection Act of 1970 (15 U.S.C. 78ccc(a)(2)) is  
18          amended—

19           (A) in subparagraph (A)(i), by striking  
20          “and” after the semicolon;

21           (B) in subparagraph (A)(ii), by striking  
22          the period and inserting “; and”;

23           (C) by adding at the end the following:

24           “(iii) persons who are registered as a  
25          broker or dealer pursuant to section

1 15(b)(11)(A) of the Securities Exchange  
2 Act of 1934.”.

3 (e) OTHER PROVISION.—Section 15(i)(6)(A) of the  
4 Securities Exchange Act of 1934 (15 U.S.C. 78o(i)(6)(A))  
5 is amended—

6 (1) in subparagraph (A)(ii), by striking

7 “and”;

10 (3) by adding at the end the following:

13 SEC. 104. SPECIAL PROVISIONS FOR INTERAGENCY CO-  
14 OPERATION.

15 Section 17 of the Securities Exchange Act of 1934  
16 (15 U.S.C. 78q) is amended by striking subsection (b) and  
17 inserting the following:

18        "(b)(1) All records of persons described in subsection  
19 (a) are subject at any time, or from time to time, to such  
20 reasonable periodic, special, or other examinations by rep-  
21 resentatives of the Commission and the appropriate regu-  
22 latory agency for such persons as the Commission or the  
23 appropriate regulatory agency for such persons deems nec-  
24 essary or appropriate in the public interest, for the protec-  
25 tion of investors, or otherwise in furtherance of the pur-

1 poses of this title if the Commission, prior to conducting  
2 any such examination of a—

3                 “(A) registered clearing agency, registered  
4 transfer agent, or registered municipal securities  
5 dealer for which it is not the appropriate regulatory  
6 agency, gives notice to the appropriate regulatory  
7 agency for such clearing agency, transfer agent, or  
8 municipal securities dealer, of such proposed exam-  
9 ination and consults with the appropriate regulatory  
10 agency concerning the feasibility and desirability of  
11 coordinating such examinations conducted by the ap-  
12 propriate regulatory agency with a view to avoiding  
13 unnecessary regulatory duplication or undue regu-  
14 latory burdens for such clearing agency, transfer  
15 agent, or municipal securities dealer; or

16                 “(B) broker or dealer registered pursuant to  
17 section 15(b)(11) or exchange registered pursuant to  
18 section 6(g), gives notice to the Commodity Futures  
19 Trading Commission of such proposed examination  
20 and consults with the Commodity Futures Trading  
21 Commission concerning the feasibility and desir-  
22 ability of coordinating such examination with exami-  
23 nations conducted by the Commodity Futures Trad-  
24 ing Commission with a view to avoiding unnecessary

1       regulatory duplication or undue regulatory burdens  
2       for such broker or dealer or exchange.

3       “(2) The Commission shall notify the Commodity Fu-  
4       tures Trading Commission of any examination conducted  
5       of any broker or dealer registered pursuant to section  
6       15(b)(11) or exchange registered pursuant to section 6(g),  
7       and, upon request, furnish to the Commodity Futures  
8       Trading Commission any examination report and data  
9       supplied to the Commission in connection with such exam-  
10      ination.

11       “(3) The Commission shall, to the fullest extent pos-  
12      sible, use the reports of examinations of any broker or  
13      dealer registered pursuant to section 15(b)(11) or ex-  
14      change registered pursuant to section 6(g) made by the  
15      Commodity Futures Trading Commission, the National  
16      Futures Association, or an exchange registered pursuant  
17      to section 6(g).

18       “(4) Nothing in this subsection shall be construed to  
19      impair or limit (other than by the requirement of prior  
20      consultation) the power of the Commission under this sub-  
21      section to examine any clearing agency, transfer agent, or  
22      municipal securities dealer, broker or dealer registered  
23      pursuant to section 15(b)(11), or exchange registered pur-  
24      suant to section 6(g), or to affect in any way the power  
25      of the Commission under any other provision of this title

1 or otherwise to inspect, examine, or investigate any clear-  
2 ing agency, transfer agent, or municipal securities dealer,  
3 broker or dealer registered pursuant to section 15(b)(11),  
4 or exchange registered pursuant to section 6(g).".

5 **SEC. 105. MAINTENANCE OF MARKET INTEGRITY FOR SE-  
6 CURITY FUTURE PRODUCTS.**

7 (a) ADDITION OF SECURITY FUTURE PRODUCTS TO  
8 OPTION-SPECIFIC ENFORCEMENT PROVISIONS.—

9 (1) PROHIBITION AGAINST MANIPULATION.—  
10 Section 9(b) of the Securities Exchange Act of 1934  
11 (15 U.S.C. 78i) is amended—

12 (A) in paragraph (1), by inserting “(A)”  
13 between “acquires” and “any” and by striking  
14 “; or” and inserting “, or (B) any contract of  
15 sale of the security for future delivery; or”;

16 (B) in paragraph (2), by inserting “(A)”  
17 between “any” and “such” and by striking  
18 “; or” and inserting “or (B) such contract of  
19 sale for future delivery; or”; and

20 (C) in paragraph (3), by inserting “(A)”  
21 between “any” and “such” and inserting “or  
22 (B) contract of sale for future delivery” be-  
23 tween “security” and “with”.

24 (2) LIABILITY OF CONTROLLING PERSONS AND  
25 PERSONS WHO AID AND ABET VIOLATIONS.—Section

1       20(d) of the Securities Exchange Act of 1934 (15  
2       U.S.C. 78t) is amended by striking “or privilege”  
3       and inserting “privilege, or security future product”.

4                   (3) LIABILITY TO CONTEMPORANEOUS TRADERS  
5                   FOR INSIDER TRADING.—Section 21A(a)(1) of the  
6        Securities Exchange Act of 1934 (15 U.S.C. 78u–  
7        1(a)(1)) is amended by striking “standardized op-  
8        tions, the Commission—” and inserting “standard-  
9        ized options or security future products, the Com-  
10       mission—”.

11                  (4) ENFORCEMENT CONSULTATION.—Section  
12        21 of the Securities Exchange Act of 1934 (15  
13        U.S.C. 78u) is amended by adding at the end the  
14        following:

15                        “(i) The Commission shall file with  
16                        the Commodity Futures Trading Commis-  
17                        sion notice of the commencement of any  
18                        proceeding and a copy of any order entered  
19                        by the Commission against any broker or  
20                        dealer registered pursuant to section  
21                        15(b)(11) or any exchange registered pur-  
22                        suant to section 6(g).”.

1 **SEC. 106. SPECIAL PROVISIONS FOR THE TRADING OF SE-**2 **CURITY FUTURE PRODUCTS.**

3 (a) LISTING STANDARDS.—Section 6 of the Securi-  
4 ties Exchange Act of 1934 (15 U.S.C. 78f) is amended  
5 by inserting after subsection (g), as added by this Act,  
6 the following:

7 “(h)(1) It shall be unlawful for any person to effect  
8 transactions in security future products otherwise than on  
9 a national securities exchange or a national securities as-  
10 sociation registered pursuant to section 15A(a).

11 “(2) A national securities exchange or a national se-  
12 curities association registered pursuant to section 15A(a)  
13 may trade only security future products that conform with  
14 listing standards that such exchanges file with the Com-  
15 mission under section 19(b)(7) and the Commodity Fu-  
16 tures Trading Commission under section of the Com-  
17 modity Exchange Act (7 U.S.C. ).

18 “(3) Such listing standards must:

19 “(A) require that any security underlying the  
20 security future, including each component security of  
21 a narrow-based security index, be registered pursuant  
22 to section 12 of this title;

23 “(B) require that the security future product be  
24 cash settled;

25 “(C) be no less restrictive than comparable list-  
26 ing standards for options;

1           “(D) require that the security future be based  
2 upon common stock and such other equity securities  
3 as the Commission determines appropriate;

4           “(E) require that the security future product is  
5 guaranteed by a clearing agency that has in place  
6 provisions for linked and coordinated clearing with  
7 other clearing agencies that guarantee security fu-  
8 ture products, which permits the security future  
9 product to be purchased on a national securities ex-  
10 change or national securities association registered  
11 pursuant to section 15A(a) and offset on another  
12 national securities exchange or national securities  
13 association registered pursuant to section 15A(a);

14           “(F) require that only a broker or dealer sub-  
15 ject to suitability rules comparable to those of a na-  
16 tional securities association registered pursuant to  
17 section 15A(a) effect transactions in the security fu-  
18 ture product;

19           “(G) require that the security future product be  
20 subject to the prohibition against dual trading in  
21 section 4(j) of the Commodity Exchange Act (7  
22 U.S.C. 6j) or the provisions of section 11(a) of this  
23 title and the rules and regulations thereunder, ex-  
24 cept to the extent otherwise permitted under this  
25 title and the rules and regulations thereunder;

1           “(H) require that trading in the security future  
2       product and any security that underlies the security  
3       future product not be readily susceptible to manipu-  
4       lation;

5           “(I) require that procedures be in place for co-  
6       ordinated surveillance to detect manipulation and in-  
7       sider trading between the market trading the secu-  
8       rity future product, the market trading the securities  
9       underlying the security future product, and other  
10      markets trading related securities;

11          “(J) require that the market trading the secu-  
12       rity future product has in place audit trails nec-  
13       essary or appropriate to facilitate the coordinated  
14       surveillance required in subparagraph (I);

15          “(K) require that the market trading the secu-  
16       rity future product has in place procedures to co-  
17       ordinate trading halts between that market and mar-  
18       kets trading the securities underlying the security  
19       future product and other markets trading related se-  
20       curities; and

21          “(L) require that initial and maintenance mar-  
22       gin levels for a security future product shall not be  
23       lower than the levels of margin required on a com-  
24       parable option traded on an exchange registered pur-  
25       suant to section 6(a) of this title.

1       “(4) No person shall offer to enter into, enter into,  
2 or confirm the execution of any option on a securities fu-  
3 ture: *Provided, however,* That after 3 years from the date  
4 of enactment of this Act the Commission and the Com-  
5 modity Futures Trading Commission may by order deter-  
6 mine to permit trading of options on any security future  
7 authorized to be traded under the provisions of this Act.  
8 Before any such determination, the Commission and the  
9 Commodity Futures Trading Commission shall conduct a  
10 study of the effect of the trading of security futures on  
11 the markets for futures contracts, securities, and options  
12 and the adequacy of protections for investors and other  
13 market participants.”.

14       (b) MARGIN.—Section 7(c)(1) of the Securities Ex-  
15 change Act of 1934 (15 U.S.C. 78g) is amended—

16           (1) in subparagraph (A), by inserting “except  
17 as provided in subparagraph (C),” between “secu-  
18 rity),” and “in contravention” and by striking “and”  
19 after the semicolon;

20           (2) in subparagraph (B), by striking the period  
21 and inserting “; and”; and

22           (3) by adding at the end the following:

23           “(C) JOINT REGULATIONS.—

24           “(i) It shall be unlawful for any  
25 broker, dealer, or member of a national se-

1 securities exchange to, directly or indirectly,  
2 extend or maintain credit to or for, ar-  
3 range for the extension or maintenance of  
4 credit for, or collect margin from any cus-  
5 tomer on any security future product in  
6 contravention of the rules and regulations  
7 which the Commission and the Commodity  
8 Futures Trading Commission shall pre-  
9 scribe pursuant to subparagraph (C)(ii).

1                   parable options traded on a national secu-  
2                   rities exchange; and (IV) to ensure that  
3                   the margin requirements, other than levels  
4                   of margin, including the type, form, and  
5                   use of collateral for security future prod-  
6                   ucts, are and remain consistent with the  
7                   requirements for options traded on a na-  
8                   tional securities exchange established by  
9                   the Federal Reserve Board, pursuant to  
10                   subparagraphs (A) and (B).”.

11                   (c) INCORPORATION OF SECURITY FUTURE PROD-  
12                   UCTS INTO THE NATIONAL MARKET SYSTEM.—Section  
13                   11A of the Securities Exchange Act of 1934 (15 U.S.C.  
14                   78k–1) is amended by adding at the end the following:

15                   “(e)(1) With respect to security future products, the  
16                   Commission and the Commodity Futures Trading Com-  
17                   mission shall consult and cooperate so that, to the max-  
18                   imum extent practicable, their respective regulatory re-  
19                   sponsibilities may be fulfilled and the rules and regulations  
20                   applicable to security future products may foster a na-  
21                   tional market system for security future products if the  
22                   Commission and the Commodity Futures Trading Com-  
23                   mission determine that such a system would be consistent  
24                   with the Congressional findings in subsection (a)(1). In  
25                   accordance with this objective, the Commission shall, at

1 least fifteen days prior to the issuance for public comment  
2 of any proposed rule or regulation under this section con-  
3 cerning security future products, consult and request the  
4 views of the Commodity Futures Trading Commission.

5 “(2) No rule adopted pursuant to this section shall  
6 be applied to any person with respect to security future  
7 products traded on an exchange that is registered under  
8 section 6(g) unless the Commodity Futures Trading Com-  
9 mission has issued an order directing that such rule is ap-  
10 plicable to such persons.”.

11 (d) INCORPORATION OF SECURITY FUTURE PROD-  
12 UCTS INTO THE NATIONAL SYSTEM FOR CLEARANCE AND  
13 SETTLEMENT.—Section 17A(b) of the Securities Ex-  
14 change Act of 1934 (15 U.S.C. 78q-1(b)) is amended by  
15 adding at the end the following:

16 “(7) A clearing agency that is regulated directly  
17 or indirectly by the Commodity Futures Trading  
18 Commission through its association with a des-  
19 ignated contract market for security future products,  
20 and that only performs the functions of a clearing  
21 agency with respect to security future products and  
22 transactions in securities effected pursuant to the  
23 rules of the designated contract market with which  
24 it is associated, is exempted from the provisions of  
25 this section and the rules and regulations there-

1 under, except that any clearing agency that performs  
2 the functions of a clearing agency with respect to se-  
3 curity future products must coordinate with and de-  
4 velop fair and reasonable links with any and all  
5 other clearing agencies that perform the functions of  
6 a clearing agency with respect to security future  
7 products, which will permit security future product  
8 to be purchased on a national securities exchange or  
9 national securities association registered pursuant to  
10 section 15A(a) and offset on another national securi-  
11 ties exchange or national securities association reg-  
12 istered pursuant to section 15A(a).”.

13 (e) MARKET EMERGENCY POWERS AND CIRCUIT  
14 BREAKERS.—Section 12(k) of the Securities Exchange  
15 Act of 1934 (15 U.S.C. 78l(k)) is amended—

16 (1) in paragraph (1), by adding at the end the  
17 following: “If the actions described in subparagraph  
18 (A) or (B) involve a security future product, the  
19 Commission shall consult with and consider the  
20 views of the Commodity Futures Trading Commis-  
21 sion.”; and

22 (2) in paragraph (2)(A), by inserting between  
23 “extensions.” and “In exercising” the following: “If  
24 the actions described in subparagraph (A) involve a  
25 security future product, the Commission shall con-

1       sult with and consider the views of the Commodity  
2       Futures Trading Commission.”.

3       **SEC. 107. AMENDMENTS RELATING TO REGISTRATION AND**  
4                   **DISCLOSURE ISSUES UNDER THE SECURI-**  
5                   **TIES ACT OF 1933 AND THE SECURITIES EX-**  
6                   **CHANGE ACT OF 1934.**

7       (a) AMENDMENTS TO THE SECURITIES ACT OF  
8 1933.—

9                   (1) Section 2(a) of the Securities Act of 1933  
10                  (15 U.S.C. 77b(a)) is amended—

11                  (A) in paragraph (1), by inserting “secu-  
12                  rity future,” between “treasury stock,” and  
13                  “bond”;

14                  (B) in paragraph (3), by adding at the end  
15                  the following: “Any offer or sale of a security  
16                  future product by or on behalf of the issuer of  
17                  the securities underlying the security future  
18                  product, an affiliate of the issuer, or an under-  
19                  writer, will constitute a contract for sale of, sale  
20                  of, offer for sale, or offer to sell the issuer’s un-  
21                  derlying securities.”;

22                  (C) in paragraph (10), by adding at the  
23                  end of the following: “Any materials meeting  
24                  the requirements of section        of the Securi-  
25                  ties Exchange Act of 1934 or section        of

5 (D) by adding at the end the following:

6                   “(16)(A) The term ‘security future’ means  
7                   a contract of sale for future delivery of a single  
8                   security or of a narrow-based security index, in-  
9                   cluding any interest therein or based on the  
10                  value thereof.

11                           “(B) A ‘narrow-based security index’ is an  
12                           index—

1 on average, over the six-month period end-  
2 ing on the date equity options expire in  
3 June of each year and over the six-month  
4 period ending on the date equity options  
5 expire in December of each year, for more  
6 than three times their weight in the index  
7 if calculated on a market-capitalization  
8 basis;

1 ending on the date equity options expire in  
2 June of each year and over the six-month  
3 period ending on the date equity options  
4 expire in December of each year.

5                             “(17) The term ‘security future product’  
6                             means a security future or any put, call, strad-  
7                             dle, option, or privilege on any security fu-  
8                             ture.”.

12                     “(14) Any security future product that is (A)  
13                     guaranteed by a clearing agency registered under  
14                     section 17A of the Securities Exchange Act of 1934  
15                     or exempt from registration under paragraph (b)(4)  
16                     of section 17A of the Securities Exchange Act of  
17                     1934; and (B) traded on a national securities ex-  
18                     change or a national securities association registered  
19                     pursuant to section 15A(a) of the Securities Ex-  
20                     change Act of 1934.”.

1       (b) AMENDMENTS TO THE SECURITIES EXCHANGE

2 ACT OF 1934.—

3           (1) Section 12(a) of the Securities Exchange  
4       Act of 1934 (15 U.S.C. 78l(a)) is amended by add-  
5       ing at the end the following:

6           “(1) The provisions of this subsection shall not  
7       apply in respect of a security future product listed  
8       on a national securities exchange.”.

9           (2) Section 12(g)(5) of the Securities Exchange  
10      Act of 1934 (15 U.S.C. 78l(g)) is amended by add-  
11      ing at the end the following: “For purposes of this  
12      subsection, a security future product shall not be  
13      considered a class of equity security of the issuer of  
14      the securities underlying the security future prod-  
15      uct.”; and

16           (3) Section 16 of the Securities Exchange Act  
17      of 1934 (15 U.S.C. 78p) is amended by adding at  
18      the end the following:

19           “(f) The provisions of this section shall apply to own-  
20      ership of and transactions in security future products as  
21      if they were ownership of and transactions in the under-  
22      lying equity security. The Commission may adopt such  
23      rules and regulations as it deems necessary or appropriate  
24      in the public interest to carry out the purposes of this sec-  
25      tion.”.

1 **SEC. 108. AMENDMENTS TO THE INVESTMENT COMPANY**2 **ACT OF 1940 AND THE INVESTMENT ADVIS-**3 **ERS ACT OF 1940.**4 (a) **DEFINITIONS UNDER THE INVESTMENT COM-**  
5 **PANY ACT OF 1940 AND THE INVESTMENT ADVISERS ACT**  
6 **OF 1940.—**7 (1) Section 2(a)(36) of the Investment Com-  
8 pany Act of 1940 (15 U.S.C. 80a-2(a)(36)) is  
9 amended by inserting “security future,” between  
10 “treasury stock,” and “bond”;11 (2) Section 202(a)(18) of the Investment Advis-  
12 ers Act of 1940 (15 U.S.C. 80b-2(a)(18)) is amend-  
13 ed by inserting “security future,” between “treasury  
14 stock,” and “bond”;15 (3) Section 2(a) of the Investment Company  
16 Act of 1940 (15 U.S.C. 801-2(a)) is amended by  
17 adding at the end the following:18 “(52)(A) ‘Security future’ means a contract of  
19 sale for future delivery of a single security other  
20 than an exempted security under section 3 of the Se-  
21 curities Act of 1933 or of a narrow-based security  
22 index, including any interest therein or based on the  
23 value thereof.24 “(B) A ‘narrow-based security index’ is an  
25 index—

1                 “(i) that has 10 or fewer component secu-  
2                 rities;

3                 “(ii) in which the securities of a single  
4                 issuer account on average, over the six-month  
5                 period ending on the date equity options expire  
6                 in June of each year and over the six-month pe-  
7                 riod ending on the date equity options expire in  
8                 December of each year, for more than 10% of  
9                 the market capitalization of that index;

10                 “(iii) in which the securities of a single  
11                 issuer in a price-weighted (or other non-capital-  
12                 ization weighted) index account on average,  
13                 over the six-month period ending on the date  
14                 equity options expire in June of each year and  
15                 over the six-month period ending on the date  
16                 equity options expire in December of each year,  
17                 for more than three times their weight in the  
18                 index if calculated on a market-capitalization  
19                 basis;

20                 “(iv) in which any component security has  
21                 an average daily trading volume value of less  
22                 than \$1 million or an aggregate market value  
23                 of the voting and non-voting common equity  
24                 held by non-affiliates of less than \$150 million;

1               “(v) in which the average correlation of the  
2               securities in the index to the index itself is  
3               greater than 0.6 over the six-month period end-  
4               ing on the date equity options expire in June of  
5               each year and over the six-month period ending  
6               on the date equity options expire in December  
7               of each year; or

8               “(vi) in which the correlation of any secu-  
9               rity in the index to the index itself is greater  
10               than 0.9 over the six-month period ending on  
11               the date equity options expire in June of each  
12               year and over the six-month period ending on  
13               the date equity options expire in December of  
14               each year.”; and

15               (4) Section 202(a) of the Investment Advisers  
16               Act of 1940 (15 U.S.C. 80b-2(a)) is amended by  
17               adding at the end the following:

18               “(25)(A) ‘Security future’ means a contract of  
19               sale for future delivery of a single security or of a  
20               narrow-based security index, including any interest  
21               therein or based on the value thereof.

22               “(B) A ‘narrow-based security index’ is an  
23               index—

24               “(i) that has 10 or fewer component secu-  
25               rities;

1                 “(ii) in which the securities of a single  
2                 issuer account on average, over the six-month  
3                 period ending on the date equity options expire  
4                 in June of each year and over the six-month pe-  
5                 riod ending on the date equity options expire in  
6                 December of each year, for more than 10% of  
7                 the market capitalization of that index;

8                 “(iii) in which the securities of a single  
9                 issuer in a price-weighted (or other non-capital-  
10                 ization weighted) index account on average,  
11                 over the six-month period ending on the date  
12                 equity options expire in June of each year and  
13                 over the six-month period ending on the date  
14                 equity options expire in December of each year,  
15                 for more than three times their weight in the  
16                 index if calculated on a market-capitalization  
17                 basis;

18                 “(iv) in which any component security has  
19                 an average daily trading volume value of less  
20                 than \$1 billion or an aggregate market value of  
21                 the voting and non-voting common equity held  
22                 by non-affiliates of less than \$150 million;

23                 “(v) in which the average correlation of the  
24                 securities in the index to the index itself is  
25                 greater than 0.6 over the six-month period end-

5                     “(vi) in which the correlation of any secu-  
6                     rity in the index to the index itself is greater  
7                     than 0.9 over the six-month period ending on  
8                     the date equity options expire in June of each  
9                     year and over the six-month period ending on  
10                    the date equity options expire in December of  
11                    each year.”.

12 (b) OTHER PROVISION.—Section 203(b) of the In-  
13 vestment Advisers Act of 1940 (15 U.S.C. 80b-3(b)) is  
14 amended by adding at the end the following:

15       “(6) any investment adviser that is registered,  
16       or required to be registered, with the Commodity  
17       Futures Trading Commission as a commodity trad-  
18       ing advisor and whose business does not consist pri-  
19       marily of acting as a investment adviser, as defined  
20       in section 202(a)(11) of this title.”.

## 21 SEC. 109. EFFECTIVE DATE.

22 The amendments made by this title shall become ef-  
23 fective one year after the date of enactment of this Act.

