

1 tures Trading Commission should, as part of its international
2 activities, continue to coordinate with foreign regulatory
3 authorities, to participate in international regulatory
4 organizations and forums, and to provide technical assistance
5 to foreign government authorities, in order to encourage—

6 (1) the facilitation of cross-border transactions through
7 the removal or lessening of any unnecessary legal or practical
8 obstacles;

9 (2) the development of internationally accepted
10 regulatory standards of best practice;

11 (3) the enhancement of international supervisory
12 cooperation and emergency procedures;

13 (4) the strengthening of international cooperation for
14 customer and market protection; and

15 (5) improvements in the quality and timeliness of
16 international information sharing.

17 **TITLE II—SECURITIES ACTS**
18 **AMENDMENTS**

19 **Subtitle A—Amendments**

20 **SEC. 201. DEFINITIONS UNDER THE SECURITIES**

21 **EXCHANGE ACT OF 1934.**

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

1 (1) in paragraph (10), by inserting "security
2 future," after "treasury stock,";

3 (2) by striking paragraph (11) and inserting
4 the following:

5 "(11) The term 'equity security' means any stock or
6 similar security; or any security future; or any security
7 convertible, with or without consideration, into such a security,
8 or carrying any warrant or right to subscribe to or purchase
9 such a security; or any such warrant or right; or any put, call,
10 straddle, option, or privilege on any such security; or any other
11 security which the Commission shall deem to be of similar
12 nature and consider necessary or appropriate, by such rules
13 and regulations as it may prescribe in the public interest or for
14 the protection of investors, to treat as an equity security.";

15 (3) in paragraph (13), by adding at the end the following:
16 "For security futures products, such term includes any contract,
17 agreement, or transaction for future delivery.";

18 (4) in paragraph (14), by adding at the end the following:
19 "For security futures products, such term includes any contract,
20 agreement, or transaction for future
21 delivery."; and

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

1 "(55)(A) The term 'security future' means a contract of
2 sale for future delivery of a single security or of a narrow-based
3 security index, including any interest therein or based on the
4 value thereof, except an exempted security under section
5 3(a)(12) of the Securities Exchange Act of 1934 as in effect on
6 the date of enactment of the Futures Trading Act of 1982 (other
7 than any municipal security as defined in section 3(a)(29) as in
8 effect on the date of enactment of the Futures Trading Act of
9 1982). The term 'security future' does not include any
10 agreement, contract, or transaction excluded under subsection
11 (c), (d), or (f) of section 2 of the Commodity Exchange Act as in
12 effect on the date of enactment of the Commodity Futures
13 Modernization Act of 2000.

14 "(B)(1) The term "narrow-based security index" means
15 an index—

16 "(a) that has 9 or fewer component
17 securities;

18 "(b) in which a component security
19 comprises more than 30% of the index's
20 weighting;

21 "(c) in which the 5 highest weighted
22 component securities in the aggregate comprise
23 more than 60% of the index's weighting; or

1 "(d) in which any one or combination of
2 securities, in the aggregate, has a dollar value of
3 average daily trading volume of less than \$50
4 million (or in the case of an index with 15 or more
5 component securities, \$30 million) and has an
6 aggregate index weight in excess of 25%.

7 "(2) Notwithstanding clause (1) of this
8 subparagraph, an index is not a narrow-based security
9 index if:

10 "(a)(i) it has at least 9 component
11 securities;

12 "(ii) no component security comprises
13 more than 30% of the index's weighting; and

14 "(iii) each component security is:

15 "(I) registered pursuant to section 12
16 of this title;

17 "(II) one of 750 securities with the
18 largest market capitalization; and

19 "(III) one of 675 securities with the
20 largest dollar value of average daily trading
21 volume;

22 "(b) it is a contract of sale for future
23 delivery with respect to which a board of trade

1 was designated as a contract market by the
2 Commodity Futures Trading Commission prior to
3 the date of enactment of the Commodity Futures
4 Modernization Act of 2000; or

5 "(c)(i) it traded on a designated contract
6 market for at least 30 days as a contract of sale
7 for future delivery that was not a narrow-based
8 security index; and

9 "(ii) it has been a narrow-based security
10 index for no more than 45 business days over
11 three consecutive calendar months.

12 "(3) An index that is a narrow-based security
13 index solely because it was a narrow-based security
14 index for more than 45 business days over three
15 consecutive calendar months pursuant to subclause (c)
16 of clause (2) of this subparagraph shall not be a narrow-
17 based security index for the 3 following calendar months.

18 "(4) For purposes of clauses (1) and (2) of this
19 subparagraph, the dollar value of average daily trading
20 volume and the market capitalization shall be calculated
21 as of the preceding six full calendar months.

22 "(5) For purposes of clauses (1) and (2) of this
23 subparagraph, the Commission and the Commodity

1 Futures Trading Commission shall, by rule, regulation or
2 order, jointly specify the method to be used to determine
3 market capitalization and dollar value of average daily
4 trading volume.¹

5 "(C) The term 'security futures product' means a security
6 future or any put, call, straddle, option, or privilege on any
7 security future.

8 "(56)(A) The term 'margin', when used with respect to a
9 security futures product, means the amount, type, and form of
10 collateral required to secure any extension or maintenance of
11 credit, or the amount, type, and form of collateral required as a
12 performance bond related to the purchase, sale, or carrying of
13 a security futures product, and all other uses of collateral
14 related to the purchasing, selling, or carrying of a security
15 futures product.

16 "(B) The terms 'margin level' and 'level of margin', when
17 used with respect to a security futures product, mean the
18 amount of margin required to secure any extension or
19 maintenance of credit, or the amount of margin required as a

¹ Need to make conforming change to the CEA definition in Title I of
the Commerce version of the bill.

1 performance bond related to the purchase, sale, or carrying of
2 a security futures product.

3 "(C) The terms 'higher margin level' and 'higher level of
4 margin', when used with respect to a security futures product,
5 mean a margin level established by a national securities
6 exchange registered pursuant to section 6(g) that is higher than
7 the minimum amount jointly established by the Commission
8 and the Commodity Futures Trading Commission pursuant to
9 section 7(c)(2)(B)."²

10 **SEC. 202. REGULATORY RELIEF FOR MARKETS**

11 **TRADING SECURITY FUTURES PRODUCTS.**

12 (a) EXPEDITED REGISTRATION AND EXEMPTION.—
13 Section 6 of the Securities Exchange Act of 1934 (15 U.S.C.
14 78f) is amended by adding at the end the following:

15 "(g) NOTICE REGISTRATION OF SECURITY
16 FUTURES PRODUCT EXCHANGES.—

17 "(1) REGISTRATION REQUIRED.—An exchange
18 that lists or trades security futures products may be
19 registered as a national securities exchange solely for
20 the purposes of trading security futures products if—

² Need to make conforming change to the CEA definition in Title I of
the Commerce version of the bill.

1 "(A) the exchange is a board of trade, as
2 that term is defined by the Commodity Exchange
3 Act (7 U.S.C. 1a(1)), that has been designated a
4 contract market by the Commodity Futures
5 Trading Commission and such designation is not
6 suspended by order of the Commodity Futures
7 Trading Commission; and

8 "(B) such exchange does not serve as a
9 market place for transactions in securities other
10 than—

11 "(i) security futures products; or

12 "(ii) futures on exempted securities
13 or groups or indexes of securities or
14 options thereon that have been authorized
15 under section 2(a)(1)(C) of the Commodity
16 Exchange Act by Commodity Futures
17 Trading Commission order.

18 "(2) REGISTRATION BY NOTICE FILING.—

19 "(A) FORM AND CONTENT.—An
20 exchange required to register only because such
21 exchange lists or trades security futures products
22 may register for purposes of this section by filing
23 with the Commission a written notice in such form

1 as the Commission, by rule, may prescribe
2 containing the rules of the exchange and such
3 other information and documents concerning such
4 exchange, required for national securities
5 exchanges under section 6(a), as the
6 Commission, by rule, may prescribe as necessary
7 or appropriate in the public interest or for the
8 protection of investors. If such exchange has filed
9 documents with the Commodity Futures Trading
10 Commission, to the extent that such documents
11 contain information satisfying the Commission's
12 informational requirements, copies of such
13 documents may be filed with the Commission in
14 lieu of the required written notice.

15 "(B) IMMEDIATE EFFECTIVENESS.—
16 Such registration shall be effective immediately
17 upon filing of the written notice with the
18 Commission, except that such registration shall
19 not be effective if such registration would be
20 subject to suspension or revocation.

21 "(C) TERMINATION.—Such registration
22 shall be terminated immediately if any of the

1 conditions for registration set forth in this
2 subsection are no longer satisfied.

3 "(3) PUBLIC AVAILABILITY.—The Commission
4 shall make available to the public all notices it receives
5 under this subsection.

6 "(4) EXEMPTION OF EXCHANGES FROM
7 SPECIFIED PROVISIONS.—

8 "(A) TRANSACTION EXEMPTIONS.—An
9 exchange that is registered under paragraph (1)
10 of this subsection shall be exempt from, and shall
11 not be required to enforce compliance by its
12 members with, and its members shall not, solely
13 with respect to those transactions effected on
14 such exchange in security futures products, be
15 required to comply with, the following provisions
16 of this title and the rules thereunder:

17 "(i) Subsections (b)(2), (b)(3), (b)(4),
18 (b)(7), (b)(9), (c), (d), and (e) of this
19 section.

20 "(ii) Section 8

21 "(iii) Section 11.

22 "(iv) Subsections (d), (f), and (k) of
23 section 17.

1 obligation to enforce the securities laws
2 pursuant to section 19(b)(7);

3 "(ii) such exchange shall file
4 pursuant to sections 19(b)(1) and 19(b)(2)
5 proposed rule changes related to margin,
6 except for changes resulting in higher
7 margin levels; and

8 "(iii) such exchange shall file
9 pursuant to section 19(b)(1) proposed rule
10 changes that have been abrogated by the
11 Commission pursuant to section
12 19(b)(7)(C).

13 "(5) TRADING IN SECURITY FUTURES PROD-
14 UCTS.—

15 "(A) It shall be unlawful for any person to
16 execute or trade a security futures product until
17 the later of—

18 "(i) one year after the date of
19 enactment of the Commodity Futures
20 Modernization Act of 2000;

21 "(ii) such date as the Secretary of
22 the Treasury, in consultation with the
23 Commission and the Commodity Futures

1 Trading Commission certifies that the
2 Federal income tax treatment applicable to
3 the security futures products permitted
4 under this title is equivalent to the Federal
5 income tax treatment of equity options
6 traded on a national securities exchange;
7 or

8 "(iii) such date that a futures
9 association registered under section 17 of
10 the Commodity Exchange Act has met the
11 requirements set forth in section 15A(k)(2)
12 of this title.

13 "(B) Notwithstanding clause (ii) of
14 subparagraph (A), execution of or trading in a
15 security futures product may commence on
16 January 2, 2003, except that, unless the
17 Secretary of the Treasury, in consultation with the
18 Commission and the Commodity Futures Trading
19 Commission certifies that the Federal income tax
20 treatment applicable to the security futures
21 products permitted under this title is equivalent to
22 the Federal income tax treatment of equity

1 options traded on a national securities exchange,
2 it shall be unlawful to—

3 "(i) list new security futures products
4 or commence trading in new delivery
5 months or contract series of listed security
6 futures products after December 31, 2004;
7 or

8 "(ii) execute or trade security futures
9 products after March 4, 2005, except—

10 "(I) for security futures
11 products that have a delivery date or
12 an expiration date on or before July
13 1, 2005; and

14 "(II) to liquidate any open
15 interest in other security futures
16 products.

17 "(C) It shall be unlawful for a national
18 securities exchange registered pursuant to
19 section 6(g) of this title to begin trading security
20 futures products unless the margin required for
21 such products at the outset of trading are set at
22 the higher of—

1 proposed rule change or any proposed change in,
2 addition to, or deletion from the rules of such self-
3 regulatory organization (hereinafter in this
4 paragraph collectively referred to as a 'proposed
5 rule change') that relates to higher margin levels,
6 fraud or manipulation, recordkeeping, reporting,
7 listing standards, or decimal pricing for security
8 futures products, sales practices for security
9 futures products for persons who effect
10 transactions in security futures products, or rules
11 effectuating such self-regulatory organization's
12 obligation to enforce the securities laws. Such
13 proposed rule change shall be accompanied by a
14 concise general statement of the basis and
15 purpose of such proposed rule change. The
16 Commission shall, upon the filing of any proposed
17 rule change, publish notice thereof together with
18 the terms of substance of the proposed rule
19 change or a description of the subjects and issues
20 involved. The Commission shall give interested
21 persons an opportunity to submit written data,
22 views, and arguments concerning such proposed
23 rule change.

1 "(B) FILING WITH CFTC.—A proposed
2 rule change filed with the Commission pursuant to
3 subparagraph (A) shall be filed concurrently with
4 the Commodity Futures Trading Commission.
5 Such proposed rule change may take effect upon
6 filing of a written certification with the Commodity
7 Futures Trading Commission under section 5c(c)
8 of the Commodity Exchange Act, upon a
9 determination by the Commodity Futures Trading
10 Commission that review of the proposed rule
11 change is not necessary, or upon approval of the
12 proposed rule change by the Commodity Futures
13 Trading Commission.

14 "(C) ABROGATION OF RULE
15 CHANGES.— Any proposed rule change of a
16 self-regulatory organization that has taken effect
17 pursuant to subparagraph (B) may be enforced by
18 such self-regulatory organization to the extent
19 such rule is not inconsistent with the provisions of
20 this title, the rules and regulations thereunder,
21 and applicable Federal law. At any time within 60
22 days of the date of the filing of a written
23 certification with the Commodity Futures Trading

1 Commission under section 5c(c) of the
2 Commodity Exchange Act, the date the
3 Commodity Futures Trading Commission
4 determines that review of such proposed rule
5 change is not necessary, or the date the
6 Commodity Futures Trading Commission
7 approves such proposed rule change, the
8 Commission, after consultation with the
9 Commodity Futures Trading Commission,
10 summarily may abrogate the proposed rule
11 change and require that the proposed rule change
12 be refiled in accordance with the provisions of
13 paragraph (1), if it appears to the Commission
14 that such proposed rule change unduly burdens
15 competition or efficiency, conflicts with the
16 securities laws, or is inconsistent with the public
17 interest and the protection of investors.
18 Commission action pursuant to the preceding
19 sentence shall not affect the validity or force of
20 the rule change during the period it was in effect
21 and shall not be reviewable under section 25 nor
22 deemed to be a final agency action for purposes
23 of section 704 of title 5, United States Code.

1 within 180 days after the date of
2 publication of notice of the filing of the
3 proposed rule change. At the conclusion of
4 such proceedings, the Commission, by
5 order, shall approve or disapprove such
6 proposed rule change. The Commission
7 may extend the time for conclusion of such
8 proceedings for up to 60 days if it finds
9 good cause for such extension and
10 publishes its reasons for so finding or for
11 such longer period as to which the self-
12 regulatory organization consents.

13 "(ii) GROUNDS FOR
14 APPROVAL.—The Commission shall
15 approve a proposed rule change of a self-
16 regulatory organization under this
17 subparagraph if it finds that such proposed
18 rule change does not unduly burden
19 competition or efficiency, does not conflict
20 with the securities laws, and is not
21 inconsistent with the public interest or the
22 protection of investors. The Commission
23 shall disapprove such a proposed rule

1 change of a self-regulatory organization if it
2 does not make such finding. The
3 Commission shall not approve any
4 proposed rule change prior to the 30th day
5 after the date of publication of notice of the
6 filing thereof, unless the Commission finds
7 good cause for so doing and publishes its
8 reasons for so finding."

9 (2) DECIMAL PRICING PROVISIONS.—Section
10 19(b) of the Securities Exchange Act of 1934 (15 U.S.C.
11 78s(b)) is amended by inserting after paragraph (7), as
12 added by paragraph (1), the following:

13 "(8) DECIMAL PRICING.—Not later than 9
14 months after the date on which trading in any security
15 futures product commences under this title, all self-
16 regulatory organizations listing or trading security futures
17 products shall file proposed rule changes necessary to
18 implement decimal pricing of security futures products."

19 (3) CONSULTATION PROVISIONS.—Section
20 19(b) of the Securities Exchange Act of 1934 (15 U.S.C.
21 78s(b)) is amended by inserting after paragraph (8), as
22 added by paragraph (2), the following:

1 "(9) CONSULTATION WITH CFTC.—

2 "(A) CONSULTATION REQUIRED.—The
3 Commission shall consult with and consider the
4 views of the Commodity Futures Trading
5 Commission prior to approving a proposed rule
6 change filed by a national securities association
7 registered pursuant to section 15A(a) or a
8 national securities exchange subject to the
9 provisions of subsection (a) that primarily
10 concerns conduct related to transactions in
11 security futures products, except where the
12 Commission determines that an emergency exists
13 requiring expeditious or summary action and
14 publishes its reasons therefor.

15 "(B) RESPONSES TO CFTC COMMENTS
16 AND FINDINGS.—If the Commodity Futures
17 Trading Commission comments in writing to the
18 Commission on a proposed rule that has been
19 published for comment, the Commission shall
20 respond in writing to such written comment before
21 approving the proposed rule. If the Commodity
22 Futures Trading Commission determines, and

1 notifies the Commission, that such rule, if
2 implemented or as applied, would—

3 "(i) adversely affect the liquidity or
4 efficiency of the market for security futures
5 products; or

6 "(ii) impose any burden on
7 competition not necessary or appropriate in
8 furtherance of the purposes of this section,
9 the Commission shall, prior to approving
10 the proposed rule, find that such rule is
11 necessary and appropriate in furtherance
12 of the purposes of this section
13 notwithstanding the Commodity Futures
14 Trading Commission's determination."

15 (c) REVIEW OF DISCIPLINARY PROCEEDINGS.—

16 Section 19(d) of the Securities Exchange Act of 1934 (15
17 U.S.C. 78s(d)) is amended by adding at the end the following:

18 "(3) The provisions of this subsection shall apply to an
19 exchange registered pursuant to section 6(g) of this title or a
20 national securities association registered pursuant to section
21 15A(k) of this title only to the extent that such exchange or
22 association imposes any final disciplinary sanction for—

1 "(A) a violation of the federal securities laws or
2 the rules and regulations thereunder; or

3 "(B) a violation of a rule of such exchange or
4 association, as to which a proposed change would be
5 required to be filed under section 19 of this title, except
6 that, to the extent that the exchange or association rule
7 violation relates to any account, agreement, or
8 transaction, this subsection shall apply only to the extent
9 such violation involves a security futures product."

10 **SEC. 203. REGULATORY RELIEF FOR INTERMEDIARIES**

11 **TRADING SECURITY FUTURES PRODUCTS.**

12 (a) EXPEDITED REGISTRATION AND
13 EXEMPTIONS.—

14 (1) AMENDMENT.—Section 15(b) of the
15 Securities Exchange Act of 1934 (15 U.S.C. 78o(b)) is
16 amended by adding at the end the following:

17 "(11) BROKER/DEALER REGISTRATION WITH
18 RESPECT TO TRANSACTIONS IN SECURITY FUTURES
19 PRODUCTS.—

20 "(A) NOTICE REGISTRATION.—

21 "(i) CONTENTS OF NOTICE.—Notwithstanding
22 paragraphs (1) and (2), a broker or dealer required to
23 register only because it effects transactions in security

1 futures products on an exchange registered pursuant to
2 section 6(g) may register for purposes of this section by
3 filing with the Commission a written notice in such form
4 and containing such information concerning such broker
5 or dealer and any persons associated with such broker
6 or dealer as the Commission, by rule, may prescribe as
7 necessary or appropriate in the public interest or for the
8 protection of investors. A broker or dealer may not
9 register under this paragraph unless that broker or
10 dealer is a member of a national securities association
11 registered under section 15A(k).

12 "(ii) IMMEDIATE EFFECTIVENESS.—

13 Such registration shall be effective immediately upon
14 filing of the written notice with the Commission, except
15 that such registration shall not be effective if the
16 registration would be subject to suspension or revocation
17 under paragraph (4).

18 "(iii) SUSPENSION.—Such registration shall be
19 suspended immediately if a national securities
20 association registered pursuant to section 15A(k) of this
21 title suspends the membership of that broker or dealer.

22 "(iv) TERMINATION.—Such registration shall be
23 terminated immediately if any of the above stated

1 conditions for registration set forth in this paragraph are
2 no longer satisfied.

3 "(B) EXEMPTIONS FOR REGISTERED BRO-
4 KERS AND DEALERS.—A broker or dealer registered
5 pursuant to the requirements of subparagraph (A) shall
6 be exempt from the following provisions of this title and
7 the rules thereunder with respect to transactions in
8 security futures products:

9 "(i) Section 8.

10 "(ii) Section 11.

11 "(iii) Subsections (c)(3) and (c)(5) of this
12 section.

13 "(iv) Section 15B.

14 "(v) Section 15C.

15 "(vi) Subsections (d), (e), (f), (g), (h), and
16 (i) of section 17.

17 "RULE OF CONSTRUCTION.—No inference should be
18 drawn that any section that is not enumerated on this list
19 applies to a broker or dealer registered pursuant to
20 section 15(b)(11) of this title with respect to the trading of
21 security futures products if such section does not apply
22 by its terms."

1 (2) CONFORMING AMENDMENT.—Section
2 28(e) of the Securities Exchange Act of 1934 (15 U.S.C.
3 78bb(e)) is amended by adding at the end the following:

4 "(4) The provisions of this subsection shall not apply with
5 regard to securities that are security futures products."

6 (b) FLOOR BROKERS AND FLOOR TRADERS.—
7 Section 15(b) of the Securities Exchange Act of 1934 (15
8 U.S.C. 78o(b)) is amended by inserting after paragraph (11), as
9 added by subsection (a), the following:

10 "(12) EXEMPTION FOR SECURITY FUTURES
11 PRODUCT EXCHANGE MEMBERS.—

12 "(A) REGISTRATION EXEMPTION.—A
13 natural person shall be exempt from the
14 registration requirements of this section if such
15 person—

16 (i) is a member of a designated
17 contract market registered with the
18 Commission as an exchange pursuant to
19 section 6(g);

20 (ii) effects transactions only in
21 securities on the exchange of which such
22 person is a member; and

1 "(iii) has no direct contact with public
2 customers.

3 "(B) OTHER EXEMPTIONS.—A natural person
4 exempt from registration pursuant to subparagraph (A)
5 shall also be exempt from the following provisions of this
6 title and the rules thereunder:

7 "(i) Section 8.

8 "(ii) Section 11.

9 "(iii) Subsections (c)(3), (c)(5), and (e) of
10 this section.

11 "(iv) Section 15B.

12 "(v) Section 15C.

13 "(vi) Subsections (d), (e), (f), (g), (h), and
14 (i) of section 17.

15 "RULE OF CONSTRUCTION.—No inference should be
16 drawn that any section that is not enumerated on this list
17 applies to a broker or dealer exempt from registration
18 pursuant to section 15(b)(12)(A) of this title with respect
19 to the trading of security futures products if such section
20 does not apply by its terms."

21 (c) LIMITED PURPOSE NATIONAL SECURITIES
22 ASSOCIATION.—Section 15A of the Securities Exchange Act

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

3 "(k) LIMITED PURPOSE NATIONAL SECURITIES AS-
4 SOCIATION.—

5 "(1) REGULATION OF MEMBERS WITH
6 RESPECT TO SECURITY FUTURES PRODUCTS.—A
7 futures association registered under section 17 of the
8 Commodity Exchange Act shall be a registered national
9 securities association for the limited purpose of
10 regulating the activities of members who are registered
11 as brokers or dealers in security futures products
12 pursuant to section 15(b)(11).

13 "(2) REQUIREMENTS FOR REGISTRATION.—
14 Such a securities association shall—

15 "(A) be so organized and have the capacity
16 to carry out the purposes of the securities laws
17 applicable to security futures products and to
18 comply, and (subject to any rule or order of the
19 Commission pursuant to section 19(g)(2)) to
20 enforce compliance by its members and persons
21 associated with its members, with the provisions
22 of the securities laws applicable to security

1 futures products, the rules and regulations
2 thereunder, and its rules;

3 "(B) have rules that—

4 "(i) are designed to prevent
5 fraudulent and manipulative acts and
6 practices, to promote just and equitable
7 principles of trade, and, in general, to
8 protect investors and the public interest,
9 including rules governing sales practices
10 and the advertising of security futures
11 products comparable to those of other
12 national securities associations registered
13 pursuant to subsection (a); and

14 "(ii) are not designed to regulate by
15 virtue of any authority conferred by this title
16 matters not related to the purposes of this
17 title or the administration of the
18 association;

19 "(C) have rules that provide that (subject to
20 any rule or order of the Commission pursuant to
21 section 19(g)(2)) its members and persons
22 associated with its members shall be
23 appropriately disciplined for violation of any

1 provision of the securities laws applicable to
2 security futures products, the rules or regulations
3 thereunder, or the rules of the association, by
4 expulsion, suspension, limitation of activities,
5 functions, and operations, fine, censure, being
6 suspended or barred from being associated with a
7 member, or any other fitting sanction; and

8 "(D) have rules that ensure that members
9 and natural persons associated with members
10 meet such standards of training, experience, and
11 competence necessary to effect transactions in
12 security futures products and are tested for their
13 knowledge of securities and security futures
14 products.

15 "(3) EXEMPTION FROM RULE CHANGE
16 SUBMISSION.—Such a securities association shall be
17 exempt from submitting proposed rule changes pursuant
18 to section 19(b) of this title, except that—

19 "(A) the association shall file proposed rule
20 changes related to higher margin levels, fraud or
21 manipulation, recordkeeping, reporting, listing
22 standards, or decimal pricing for security futures
23 products, sales practices for, advertising of, or

1 standards of training, experience, competence, or
2 other qualifications for security futures products
3 for persons who effect transactions in security
4 futures products, or rules effectuating the
5 association's obligation to enforce the securities
6 laws pursuant to section 19(b)(7);

7 "(B) the association shall file pursuant to
8 sections 19(b)(1) and 19(b)(2) proposed rule
9 changes related to margin, except for changes
10 resulting in higher margin levels; and

11 "(C) the association shall file pursuant to
12 section 19(b)(1) proposed rule changes that have
13 been abrogated by the Commission pursuant to
14 section 19(b)(7)(C).

15 "(4) OTHER EXEMPTIONS.—Such a securities
16 association shall be exempt from and shall not be
17 required to enforce compliance by its members, and its
18 members shall not, solely with respect to their
19 transactions effected in security futures products, be
20 required to comply, with the following provisions of this
21 title and the rules thereunder:

22 "(A) Section 8

1 "(B) Subsections (b)(1), (b)(3), (b)(4),
2 (b)(5), (b)(8), (b)(10), (b)(11), (b)(12), (b)(13), (c),
3 (d), (e), (f), (g), (h), and (i) of this section.

4 "(C) Subsections (d), (f), and (k) of section
5 17.

6 "(D) Subsections (a), (f), and (h) of section
7 19.

8 "RULE OF CONSTRUCTION.—No inference should be
9 drawn that any section that is not enumerated on this list
10 applies to an association that is a registered national
11 securities association pursuant to section 15A(k) of this
12 title with respect to the trading of security futures
13 products if such section does not apply by its terms."

14 (d) EXEMPTION UNDER THE SECURITIES INVESTOR
15 PROTECTION ACT OF 1970.—

16 (1) Section 16(14) of the Securities Investor
17 Protection Act of 1970 (15 U.S.C. 78lll(14)) is amended
18 by inserting "or any security future as that term is
19 defined in section 3(a)(55)(A) of the Securities Exchange
20 Act of 1934," after "certificate of deposit for a security,".

21 (2) Section 3(a)(2)(A) of the Securities Investor
22 Protection Act of 1970 (15 U.S.C. 78ccc(a)(2)(A)) is
23 amended—

1 (A) in clause (i), by striking "and" after the
2 semicolon;

3 (B) in clause (ii), by striking the period and
4 inserting "; and";

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

6 "(iii) persons who are registered as
7 a broker or dealer pursuant to section
8 15(b)(11)(A) of the Securities Exchange
9 Act of 1934."

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

13 (1) in clause (ii), by striking "and" after the
14 semicolon;

15 (2) in clause (iii), by striking the period and
16 inserting "; and"; and

17 (3) by adding at the end the following: "(iv) is not
18 a security futures product."

19 **SEC. 204. SPECIAL PROVISIONS FOR INTERAGENCY CO-**
20 **OPERATION.**

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

1 "(b) RECORDS SUBJECT TO EXAMINATION.—

2 "(1) PROCEDURES FOR COOPERATION WITH
3 OTHER AGENCIES.—All records of persons described
4 in subsection (a) are subject at any time, or from time to
5 time, to such reasonable periodic, special, or other
6 examinations by representatives of the Commission and
7 the appropriate regulatory agency for such persons as
8 the Commission or the appropriate regulatory agency for
9 such persons deems necessary or appropriate in the
10 public interest, for the protection of investors, or
11 otherwise in furtherance of the purposes of this title if the
12 Commission, prior to conducting any such examination
13 of a—

14 "(A) registered clearing agency, registered
15 transfer agent, or registered municipal securities
16 dealer for which it is not the appropriate
17 regulatory agency, gives notice to the appropriate
18 regulatory agency for such clearing agency,
19 transfer agent, or municipal securities dealer, of
20 such proposed examination and consults with the
21 appropriate regulatory agency concerning the
22 feasibility and desirability of coordinating such
23 examinations conducted by the appropriate

1 regulatory agency with a view to avoiding
2 unnecessary regulatory duplication or undue
3 regulatory burdens for such clearing agency,
4 transfer agent, or municipal securities dealer; or

5 "(B) broker or dealer registered pursuant to
6 section 15(b)(11), exchange registered pursuant
7 to section 6(g), or national securities association
8 registered pursuant to section 15A(k) gives notice
9 to the Commodity Futures Trading Commission of
10 such proposed examination and consults with the
11 Commodity Futures Trading Commission
12 concerning the feasibility and desirability of
13 coordinating such examination with examinations
14 conducted by the Commodity Futures Trading
15 Commission with a view to avoiding unnecessary
16 regulatory duplication or undue regulatory
17 burdens for such broker or dealer or exchange.

18 "(2) FURNISHING DATA AND REPORTS TO
19 CFTC.—The Commission shall notify the Commodity
20 Futures Trading Commission of any examination
21 conducted of any broker or dealer registered pursuant to
22 section 15(b)(11), exchange registered pursuant to
23 section 6(g), or national securities association registered

1 pursuant to section 15A(k) and, upon request, furnish to
2 the Commodity Futures Trading Commission any
3 examination report and data supplied to the Commission
4 in connection with such examination.

5 "(3) USE OF CFTC REPORTS.—The
6 Commission shall, to the fullest extent possible, use the
7 reports of examinations of any broker or dealer
8 registered pursuant to section 15(b)(11), exchange
9 registered pursuant to section 6(g), or national securities
10 association registered pursuant to section 15A(k) made
11 by the Commodity Futures Trading Commission, a
12 national securities association registered pursuant to
13 section 15A(k), or an exchange registered pursuant to
14 section 6(g).

15 "(4) RULES OF CONSTRUCTION.—

16 "(A) Notwithstanding any other provision of
17 this subsection, the records of a broker or dealer
18 registered pursuant to section 15(b)(11), an
19 exchange registered pursuant to section 6(g), or a
20 national securities association registered pursuant
21 to section 15A(k) described in this subparagraph
22 shall not be subject to routine periodic
23 examinations by the Commission.

1 "(B) Any recordkeeping rules adopted
2 under this subsection for a broker or dealer
3 registered pursuant to section 15(b)(11), an
4 exchange registered pursuant to section 6(g), or a
5 national securities association registered pursuant
6 to section 15A(k) shall be limited to records with
7 respect to persons, accounts, agreements, and
8 transactions involving security futures products.

9 "(C) Nothing in this subsection shall be
10 construed to impair or limit (other than by the
11 requirement of prior consultation and the
12 requirement in subparagraph (A)) the power of
13 the Commission under this subsection to examine
14 any clearing agency, transfer agent, or municipal
15 securities dealer, broker or dealer registered
16 pursuant to section 15(b)(11), exchange
17 registered pursuant to section 6(g), or national
18 securities association registered pursuant to
19 section 15A(k), or to affect in any way the power
20 of the Commission under any other provision of
21 this title or otherwise to inspect, examine, or
22 investigate any clearing agency, transfer agent, or
23 municipal securities dealer, broker or dealer

1 registered pursuant to section 15(b)(11),
2 exchange registered pursuant to section 6(g), or
3 national securities association registered pursuant
4 to section 15A(k)."

5 **SEC. 205. MAINTENANCE OF MARKET INTEGRITY FOR**
6 **SECURITY FUTURES PRODUCTS.**

7 (a) ADDITION OF SECURITY FUTURES PRODUCTS
8 TO 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(b)) is amended—

12 (A) in paragraph (1)—

13 (i) by inserting "(A)" after "acquires"; and

14 (ii) by striking "; or" and inserting ", or (B)
15 any security futures product on the security; or";

16 (B) in paragraph (2)—

17 (i) by inserting "(A)" after "interest in any";

18 and

19 (ii) by striking "; or" and inserting ", or (B)
20 such security futures product; or"; and

21 (C) in paragraph (3)—

22 (i) by inserting "(A)" after "interest in any";

23 and

1 (ii) by inserting ", or (B) such security
2 futures product" after "privilege".

3 (2) MANIPULATION IN OPTIONS AND OTHER
4 DERIVATIVE PRODUCTS.—Section 9(g) of the
5 Securities Exchange Act of 1934 (15 U.S.C. 78i(g)) is
6 amended—

7 (A) by inserting "(1)" after "(g)";

8 (B) by inserting "other than a security
9 futures product" after "future delivery"; and

10 (C) by adding at the end following:

11 "(2) Notwithstanding the Commodity Exchange Act, the
12 Commission shall have the authority to regulate the
13 trading of any security futures product to the extent provided in
14 the securities laws."

15 (3) LIABILITY OF CONTROLLING PERSONS
16 AND PERSONS WHO AID AND ABET VIOLATIONS.—
17 Section 20(d) of the Securities Exchange Act of 1934 (15
18 U.S.C. 78t(d)) is amended by striking "or privilege" and
19 inserting ", privilege, or security futures product".

20 (4) LIABILITY TO CONTEMPORANEOUS
21 TRADERS FOR INSIDER TRADING.—Section
22 21A(a)(1) of the Securities Exchange Act of 1934 (15
23 U.S.C. 78u– 1(a)(1)) is amended by striking

1 "standardized options, the Commission—" and inserting
2 "standardized options or security futures products, the
3 Commission—".

4 (5) ENFORCEMENT CONSULTATION.—Section
5 21 of the Securities Exchange Act of 1934 (15 U.S.C.
6 78u) is amended by adding at the end the following:

7 "(i) INFORMATION TO CFTC.—The Commission shall
8 provide the Commodity Futures Trading Commission with
9 notice of the commencement of any proceeding and a copy of
10 any order entered by the Commission against any broker or
11 dealer registered pursuant to section 15(b)(11), any exchange
12 registered pursuant to section 6(g), or any national securities
13 association registered pursuant to section 15A(k)."

14 **SEC. 206. SPECIAL PROVISIONS FOR THE TRADING OF**
15 **SECURITY FUTURES PRODUCTS.**

16 (a) LISTING STANDARDS AND CONDITIONS FOR
17 TRADING.—Section 6 of the Securities Exchange Act of 1934
18 (15 U.S.C. 78f) is amended by inserting after subsection (g), as
19 added by section 202, the following:

20 "(h) TRADING IN SECURITY FUTURES PRODUCTS.—
21 "(1) TRADING ON EXCHANGE OR
22 ASSOCIATION REQUIRED.—It shall be unlawful for
23 any person to effect transactions in security futures

1 products that are not traded on a national securities
2 exchange or a national securities association registered
3 pursuant to section 15A(a).

4 "(2) LISTING STANDARDS REQUIRED.—Except
5 as otherwise provided in paragraph (6), a national
6 securities exchange or a national securities association
7 registered pursuant to section 15A(a) may trade only
8 security futures products that (A) conform with listing
9 standards that such exchange or association files with
10 the Commission under section 19(b) and (B) meet the
11 criteria specified in section 2(a)(1)(D)(i) of the
12 Commodity Exchange Act.

13 "(3) REQUIREMENTS FOR LISTING STAND-
14 ARDS AND CONDITIONS FOR TRADING.—Such
15 listing standards shall—

16 "(A) except as otherwise provided in a rule,
17 regulation, or order issued pursuant to paragraph
18 (4), require that any security underlying the
19 security future, including each component security
20 of a narrow-based security index, be registered
21 pursuant to section 12 of this title;

22 "(B) require that if the security futures
23 product is not cash settled, the market on which

1 the security futures product is traded have
2 arrangements in place with a registered clearing
3 agency for the payment and delivery of the
4 securities underlying the security futures product;

5 "(C) be no less restrictive than comparable
6 listing standards for options traded on a national
7 securities exchange or national securities
8 association registered pursuant to section 15A(a)
9 of this title;

10 "(D) except as otherwise provided in a rule,
11 regulation, or order issued pursuant to paragraph
12 (4), require that the security future be based upon
13 common stock and such other equity securities as
14 the Commission and the Commodity Futures
15 Trading Commission jointly determine
16 appropriate;

17 "(E) require that the security futures
18 product is cleared by a clearing agency that has
19 in place provisions for linked and coordinated
20 clearing with other clearing agencies that clear
21 security futures products, which permits the
22 security futures product to be purchased on a
23 national securities exchange or national securities

1 association registered pursuant to section 15A(a)
2 and offset on another national securities
3 exchange or national securities association
4 registered pursuant to section 15A(a);

5 "(F) require that only a broker or dealer
6 subject to suitability rules comparable to those of
7 a national securities association registered
8 pursuant to section 15A(a) effect transactions in
9 the security futures product;

10 "(G) require that the security futures
11 product be subject to the prohibition against dual
12 trading in section 4j of the Commodity Exchange
13 Act (7 U.S.C. 6j) and the rules and regulations
14 thereunder or the provisions of section 11(a) of
15 this title and the rules and regulations thereunder,
16 except to the extent otherwise permitted under
17 this title and the rules and regulations thereunder;

18 "(H) require that trading in the security
19 futures product not be readily susceptible to
20 manipulation of the price of such security futures
21 product, nor to causing or being used in the
22 manipulation of the price of any underlying

1 security, option on such security, or option on a
2 group or index including such securities;

3 "(I) require that procedures be in place for
4 coordinated surveillance among the market on
5 which the security futures product is traded, any
6 market on which any security underlying the
7 security futures product is traded, and other
8 markets on which any related security is traded to
9 detect manipulation and insider trading;

10 "(J) require that the market on which the
11 security futures product is traded has in place
12 audit trails necessary or appropriate to facilitate
13 the coordinated surveillance required in
14 subparagraph (I);

15 "(K) require that the market on which the
16 security futures product is traded has in place
17 procedures to coordinate trading halts between
18 such market and any market on which any
19 security underlying the security futures product is
20 traded and other markets on which any related
21 security is traded; and

22 "(L) require that the margin requirements
23 for a security futures product be consistent with

1 the margin requirements for comparable option
2 contracts traded on an exchange registered
3 pursuant to section 6(a) of this title, except that
4 nothing in this subparagraph shall be construed to
5 prevent a national securities exchange or national
6 securities association from requiring higher
7 margin levels for a security futures product when
8 it deems such action to be necessary or
9 appropriate.

10 "(4) AUTHORITY TO MODIFY CERTAIN
11 LISTING STANDARD REQUIREMENTS.—

12 "(A) The Commission and the Commodity
13 Futures Trading Commission, by rule, regulation,
14 or order, may jointly modify the listing standard
15 requirements specified in subparagraph (A) or (D)
16 of paragraph (3) to the extent such modification
17 fosters the development of fair and orderly
18 markets in security futures products, is necessary
19 or appropriate in the public interest, and is
20 consistent with the protection of investors.

21 "(B) AUTHORITY TO GRANT
22 EXEMPTIONS.—The Commission and the
23 Commodity Futures Trading Commission, by

1 order, may jointly exempt any person from
2 compliance with the listing standard requirement
3 specified in subparagraph (E) of paragraph (3) to
4 the extent such exemption fosters the
5 development of fair and orderly markets in
6 security futures products, is necessary or
7 appropriate in the public interest, and is
8 consistent with the protection of investors.

9 "(5) DEFERRAL OF OPTIONS ON SECURITY
10 FUTURES TRADING.—No person shall offer to enter
11 into, enter into, or confirm the execution of any put, call,
12 straddle, option, or privilege on a security future, except
13 that, after 3 years after the date of enactment of this
14 subsection, the Commission and the Commodity Futures
15 Trading Commission may by order jointly determine to
16 permit trading of puts, calls, straddles, options, or
17 privileges on any security future authorized to be traded
18 under the provisions of this Act and the Commodity
19 Exchange Act. Before any such determination, the
20 Commission and the Commodity Futures Trading
21 Commission shall conduct a study of the effect of the
22 trading of security futures on the markets for futures

1 contracts, securities, and options and the adequacy of
2 protections for investors and other market participants.

3 "(6) DEFERRAL OF LINKED AND
4 COORDINATED CLEARING.—

5 "(A) Notwithstanding paragraph (2), until
6 the compliance date, a national securities
7 exchange or national securities association
8 registered pursuant to section 15A(a) may trade a
9 security futures product that does not—

10 "(i) conform with any listing standard
11 promulgated to meet the requirement
12 specified in subparagraph (E) of paragraph
13 (3); or

14 "(ii) meet the criterion specified in
15 section 2(a)(1)(D)(i)(V) of the Commodity
16 Exchange Act.

17 "(B) The Commission and the Commodity
18 Futures Trading Commission shall jointly publish
19 in the Federal Register a notice of the compliance
20 date no later than 165 days before the
21 compliance date.

22 "(C) For purposes of this paragraph, the
23 term "compliance date" means the later of—

1 "(i) 180 days after the end of the first
2 full calendar month period in which the
3 average aggregate comparable share
4 volume for all security futures products
5 based on single equity securities traded on
6 all national securities exchanges and any
7 national securities associations registered
8 pursuant to section 15A(a) equals or
9 exceeds 10% of the average aggregate
10 comparable share volume of options on
11 single equity securities traded on all
12 national securities exchanges and any
13 national securities associations registered
14 pursuant to section 15A(a); or

15 "(ii) two years after the date on
16 which trading in any security futures
17 product commences under this title."

18 "(7) TRADING OF SECURITY FUTURES
19 PRODUCTS ON TRADING SYSTEMS OPERATED BY
20 BROKERS OR DEALERS.—

21 "(A) Three years after the date on which
22 trading in any security futures product
23 commences under this title, the Commission and

1 the Commodity Futures Trading Commission shall
2 jointly determine whether, based on their
3 experience in overseeing the trading of such
4 products, it is necessary or appropriate in the
5 public interest or to remove unnecessary burdens
6 on competition, and consistent with the protection
7 of investors, to permit any organization,
8 association, or group of persons that is registered
9 as a broker or dealer pursuant to section 15(b) of
10 this title (except paragraph (11) thereof) and that
11 performs the functions commonly performed by
12 an exchange, to trade security futures products.

13 "(B) If, pursuant to subparagraph (A), the
14 Commission and the Commodity Futures Trading
15 Commission determine to permit any
16 organization, association, or group of persons that
17 is registered as a broker or dealer pursuant to
18 section 15(b) of this title (except paragraph (11)
19 thereof) and that performs the functions
20 commonly performed by an exchange, to trade
21 security futures products, the Commission, by
22 rule, as it deems necessary or appropriate in the
23 public interest and for the protection of investors

1 or to maintain fair and orderly markets, may
2 require any organization, association, or group of
3 persons not otherwise required to register under
4 section 6(a) of this title to comply with any
5 provision of this title (other than section 6(a)) or
6 the rules or regulations thereunder which by its
7 terms regulates or prohibits any act, practice, or
8 course of business by a national securities
9 exchange or a national securities association
10 trading security futures products."

11 (b) MARGIN.—Section 7 of the Securities Exchange Act
12 of 1934 (15 U.S.C. 78g) is amended—

13 (1) in subsection (a), by inserting "or a security
14 futures product" after "exempted security";

15 (2) in subsection (c)(1)(A), by inserting "except as
16 provided in paragraph (2)," after "security),";

17 (3) by redesignating paragraph (2) of subsection
18 (c) as paragraph (3) of such subsection; and

19 (4) by inserting after paragraph (1) of such
20 subsection the following:

21 "(2) MARGIN REGULATIONS.—

22 "(A) COMPLIANCE WITH MARGIN
23 RULES REQUIRED.—It shall be unlawful for any

1 broker, dealer, or member of a national securities
2 exchange to, directly or indirectly, extend or
3 maintain credit to or for, or collect margin from
4 any customer on, any security futures product
5 unless such activities comply with the rules and
6 regulations which the Commission and the
7 Commodity Futures Trading Commission shall
8 jointly prescribe pursuant to subparagraph (B).

9 "(B) CRITERIA FOR ISSUANCE OF
10 RULES.—The Commission and the Commodity
11 Futures Trading Commission shall jointly issue
12 such regulations to establish margin
13 requirements, including the establishment of
14 levels of margin (initial and maintenance) and use
15 of collateral for security futures products under
16 such terms, and at such levels, as the
17 Commission and the Commodity Futures Trading
18 Commission jointly deem appropriate—

19 "(i) to preserve the financial integrity of
20 markets trading security futures products;

21 "(ii) to prevent systemic risk;

22 "(iii) to make consistent the margin levels
23 (initial and maintenance) and other margin

1 requirements between security futures products
2 and comparable options contracts traded on a
3 national securities exchange; and

4 "(iv) to ensure that the margin
5 requirements (other than levels of margin),
6 including the type, form, and use of collateral for
7 security futures products, are and remain
8 consistent with the requirements established by
9 the Federal Reserve Board, pursuant to
10 subparagraphs (A) and (B) of paragraph (1).".

11 (c) INCORPORATION OF SECURITY FUTURES
12 PRODUCTS INTO THE NATIONAL MARKET SYSTEM.—
13 Section 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) NATIONAL MARKETS SYSTEM FOR SECURITY
16 FUTURES PRODUCTS.—

17 "(1) CONSULTATION AND COOPERATION
18 REQUIRED.—With respect to security futures products,
19 the Commission and the Commodity Futures Trading
20 Commission shall consult and cooperate so that, to the
21 maximum extent practicable, their respective regulatory
22 responsibilities may be fulfilled and the rules and
23 regulations applicable to security futures products may

1 foster a national market system for security futures
2 products if the Commission and the Commodity Futures
3 Trading Commission jointly determine that such a
4 system would be consistent with the congressional
5 findings in subsection (a)(1). In accordance with this
6 objective, the Commission shall, at least 15 days prior to
7 the issuance for public comment of any proposed rule or
8 regulation under this section concerning security futures
9 products, consult and request the views of the
10 Commodity Futures Trading Commission.

11 "(2) APPLICATION OF RULES BY ORDER OF
12 CFTC.—No rule adopted pursuant to this section shall
13 be applied to any person with respect to the trading of
14 security futures products on an exchange that is
15 registered under section 6(g) unless the Commodity
16 Futures Trading Commission has issued an order
17 directing that such rule is applicable to such persons."

18 (d) INCORPORATION OF SECURITY FUTURES
19 PROD- UCTS INTO THE NATIONAL SYSTEM FOR
20 CLEARANCE AND SETTLEMENT.—Section 17A(b) of the
21 Securities Exchange Act of 1934 (15 U.S.C. 78q-1(b)) is
22 amended by adding at the end the following:

1 "(7)(A) A clearing agency that is regulated directly or
2 indirectly by the Commodity Futures Trading Commission
3 through its association with a designated contract market for
4 security futures products that is a national securities exchange
5 registered pursuant to section 6(g), and that would be required
6 to register pursuant to paragraph (1) of this subsection only
7 because it performs the functions of a clearing agency with
8 respect to security futures products effected pursuant to the
9 rules of the designated contract market with which such agency
10 is associated, is exempted from the provisions of this section
11 and the rules and regulations thereunder, except that if such a
12 clearing agency performs the functions of a clearing agency
13 with respect to a security futures product that is not cash
14 settled, it must have arrangements in place with a registered
15 clearing agency to effect the payment and delivery of the
16 securities underlying the security futures product.

17 "(B) Any clearing agency that performs the functions of a
18 clearing agency with respect to security futures products must
19 coordinate with and develop fair and reasonable links with any
20 and all other clearing agencies that perform the functions of a
21 clearing agency with respect to security futures products, in
22 order to permit, as of the compliance date (as defined in section
23 6(h)(6)(C)), security futures products to be purchased on a

1 national securities exchange or national securities association
2 registered pursuant to section 15A(a) and offset on another
3 national securities exchange or national securities association
4 registered pursuant to section 15A(a)."

5 (e) MARKET EMERGENCY POWERS AND CIRCUIT
6 BREAKERS.—Section 12(k) of the Securities Exchange Act of
7 1934 (15 U.S.C. 78l(k)) is amended—

8 (1) in paragraph (1), by adding at the end the
9 following: "If the actions described in subparagraph (A)
10 or (B) involve a security futures product, the Commission
11 shall consult with and consider the views of the
12 Commodity Futures Trading Commission."; and

13 (2) in paragraph (2)(B), by inserting after the first
14 sentence the following: "If the actions described in
15 subparagraph (A) involve a security futures product, the
16 Commission shall consult with and consider the views of
17 the Commodity Futures Trading Commission."

18 (f) EXEMPTION FROM TRANSACTION FEES.—
19 Section 31 of the Securities Exchange Act of 1934 (15 U.S.C.
20 ____) is amended—

21 (1) in subsection (b), by striking "and other
22 evidences of indebtedness" and inserting "other

1 evidences of indebtedness, and security futures
2 products";

3 (2) in subsection (c), by striking "and other
4 evidences of indebtedness" and inserting "other
5 evidences of indebtedness, and security futures
6 products"; and

7 (3) in paragraph (1) of subsection (d), by striking
8 "and other evidences of indebtedness" and inserting
9 "other evidences of indebtedness, and security futures
10 products".

11 (g) EXEMPTION FROM SHORT SALE PROVISIONS.—

12 Section 10(a) of the Securities Exchange Act of 1934 (15
13 U.S.C. ___(a)) is amended—

14 (1) by inserting "(1)" after "(a)"; and

15 (2) by adding at the end the following:

16 "(2) Paragraph (1) of this subsection shall not apply to
17 security futures products."

18 (h) RULEMAKING AUTHORITY TO ADDRESS
19 DUPLICATIVE REGULATION OF DUAL REGISTRANTS.—

20 Section 15(c)(3) of the Securities Exchange Act of 1934 (15
21 U.S.C. ___(c)(3)) is amended—

22 (1) by inserting "(A)" after "(3)"; and

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

1 "(B) To the extent necessary or appropriate in the public
2 interest, to remove unnecessary burdens on competition, and
3 consistent with the protection of investors, the Commission, in
4 consultation with the Commodity Futures Trading Commission,
5 shall issue such rules, regulations, or orders as are necessary
6 to avoid duplicative or conflicting regulations applicable to any
7 broker or dealer registered with the Commission pursuant to
8 section 15(b) (except paragraph (11) thereof), that is also
9 registered with the Commodity Futures Trading Commission
10 pursuant to section 4f(a) of the Commodity Exchange Act
11 (except paragraph (2) thereof), with respect to the application of
12 (i) the provisions of section 8, section 15(c)(3), and section 17
13 of this title and the rules and regulations thereunder related to
14 the treatment of customer funds, securities, or property,
15 maintenance of books and records, financial reporting, or other
16 financial responsibility rules, involving security futures products
17 and (ii) similar provisions of the Commodity Exchange Act and
18 rules and regulations thereunder involving security futures
19 products."

20 (i) OBLIGATION TO ADDRESS DUPLICATIVE
21 REGULATION OF DUAL REGISTRANTS.—Section 6 of the
22 Securities Exchange Act of 1934 (15 U.S.C. ____) is amended

1 by inserting after subsection (h), as added by subsection (a),
2 the following—

3 "(i) To the extent necessary or appropriate in the public
4 interest, to remove unnecessary burdens on competition, and
5 consistent with the protection of investors, each national
6 securities exchange registered pursuant to subsection (a) of
7 this section shall issue such rules as are necessary to avoid
8 duplicative or conflicting rules applicable to any broker or dealer
9 registered with the Commission pursuant to section 15(b)
10 (except paragraph (11) thereof), that is also registered with the
11 Commodity Futures Trading Commission pursuant to section
12 4f(a) of the Commodity Exchange Act (except paragraph (2)
13 thereof), with respect to the application of (1) rules of such
14 national securities exchange of the type specified in section
15 15(c)(3)(B) involving security futures products and (2) similar
16 rules of national securities associations registered pursuant to
17 section 15A(k) involving security futures products."

18 (j) OBLIGATION TO ADDRESS DUPLICATIVE
19 REGULATION OF DUAL REGISTRANTS.—Section 15A of the
20 Securities Exchange Act of 1934 (15 U.S.C. ____) is amended
21 by inserting after subsection (k), as added by section 203, the
22 following:

1 "(E) The clearance and settlement of transactions
2 in over-the-counter derivatives through clearing agencies
3 registered with the Commission will reduce systemic risk
4 and provide stability to financial markets during times of
5 market disorder."; and

6 (B) in paragraph (2)(A)(ii), by striking "and
7 commodity options" and inserting "commodity options,
8 and over-the-counter derivatives"; and

9 (2) in subsection (b)—

10 (A) in paragraph (3)(A), by inserting "and
11 derivative agreements, contracts, and
12 transactions" after "prompt and accurate
13 clearance and settlement of securities
14 transactions";

15 (B) in paragraph (3)(F), by inserting "and,
16 to the extent applicable, derivative agreements,
17 contracts, and transactions" after "designed to
18 promote the prompt and accurate clearance and
19 settlement of securities transactions"; and

20 (C) by inserting after paragraph (7), as
21 added by section 206(d), the following:

22 "(8) A registered clearing agency shall be permitted to
23 provide facilities for the clearance and settlement of any

1 derivative agreements, contracts, or transactions that are
2 excluded from the Commodity Exchange Act, subject to the
3 requirements of this section and to such rules and regulations
4 as the Commission may prescribe as necessary or appropriate
5 in the public interest, for the protection of investors, or
6 otherwise in furtherance of the purposes of this title."

7 **SEC. 208. AMENDMENTS RELATING TO REGISTRATION**

8 **AND DISCLOSURE ISSUES UNDER THE**
9 **SECURITIES ACT OF 1933 AND THE**
10 **SECURITIES EXCHANGE ACT OF 1934.**

11 (a) AMENDMENTS TO THE SECURITIES ACT OF
12 1933.—

13 (1) TREATMENT OF SECURITY FUTURES PROD-
14 UCTS.—Section 2(a) of the Securities Act of 1933 (15 U.S.C.
15 77b(a)) is amended—

16 (A) in paragraph (1), by inserting "security future,"
17 after "treasury stock,";

18 (B) in paragraph (3), by adding at the end the
19 following: "Any offer or sale of a security futures product
20 by or on behalf of the issuer of the securities underlying
21 the security futures product, an affiliate of the issuer, or
22 an underwriter, shall constitute a contract for sale of,

1 sale of, offer for sale, or offer to sell the underlying
2 securities.";

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

4 "(16) The terms 'security future', 'narrow-based security
5 index', and 'security futures product' have the same
6 meanings as provided in section 3(a)(55) of the
7 Securities Exchange Act of 1934."

8 (2) EXEMPTION FROM REGISTRATION.—

9 Section 3(a) of the Securities Act of 1933 (15 U.S.C.
10 77c(a)) is amended by adding at the end the following:

11 "(14) Any security futures product that is—

12 "(A) cleared by a clearing agency
13 registered under section 17A of the Securities
14 Exchange Act of 1934 or exempt from registration
15 under subsection (b)(7) of such section 17A; and

16 "(B) traded on a national securities
17 exchange or a national securities association
18 registered pursuant to section 15A(a) of the
19 Securities Exchange Act of 1934."

20 (3) CONFORMING AMENDMENT.—Section

21 12(a)(2) of the Securities Act of 1933 (15 U.S.C.
22 77l(a)(2)) is amended by striking "paragraph (2)" and
23 inserting "paragraphs (2) and (14)".

1 (b) AMENDMENTS TO THE SECURITIES EXCHANGE
2 ACT OF 1934.—

3 (1) EXEMPTION FROM REGISTRATION.—

4 Section 12(a) of the Securities Exchange Act of 1934 (15
5 U.S.C. 78l(a)) is amended by adding at the end the
6 following: "The provisions of this subsection shall not
7 apply in respect of a security futures product traded on a
8 national securities exchange."

9 (2) EXEMPTIONS FROM REPORTING
10 REQUIREMENT.—Section 12(g)(5) of the Securities
11 Exchange Act of 1934 (15 U.S.C. 78l(g)(5)) is amended
12 by adding at the end the following: "For purposes of this
13 subsection, a security futures product shall not be
14 considered a class of equity security of the issuer of the
15 securities underlying the security futures product."

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

20 "(f) TREATMENT OF TRANSACTIONS IN SECURITY
21 FUTURES PRODUCTS.—The provisions of this section shall
22 apply to ownership of and transactions in security futures
23 products as if they were ownership of and transactions in the

1 underlying equity security. The Commission may adopt such
2 rules and regulations as it deems necessary or appropriate in
3 the public interest to carry out the purposes of this section."

4 **SEC. 209. AMENDMENTS TO THE INVESTMENT COMPANY**
5 **ACT OF 1940 AND THE INVESTMENT ADVIS-**
6 **ERS ACT OF 1940.**

7 (a) DEFINITIONS UNDER THE INVESTMENT COM-
8 PANY ACT OF 1940 AND THE INVESTMENT ADVISERS ACT
9 OF 1940.—

10 (1) Section 2(a)(36) of the Investment Company
11 Act of 1940 (15 U.S.C. 80a-2(a)(36)) is amended by
12 inserting "security future," after "treasury stock,".

13 (2) Section 202(a)(18) of the Investment Advisers
14 Act of 1940 (15 U.S.C. 80b-2(a)(18)) is amended by
15 inserting "security future," after "treasury stock,".

16 (3) Section 2(a) of the Investment Company Act
17 of 1940 (15 U.S.C. 80a-2(a)) is amended by adding at
18 the end the following:

19 "(52) The terms 'security future' and 'narrow-
20 based security index' have the same meanings as
21 provided in section 3(a)(55) of the Securities Exchange
22 Act of 1934."

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

4 "(27) The terms 'security future' and 'narrow-
5 based security index' have the same meanings as
6 provided in section 3(a)(55) of the Securities Exchange
7 Act of 1934."

8 (b) OTHER PROVISION.—Section 203(b) of the
9 Investment Advisers Act of 1940 (15 U.S.C. 80b–3(b)) is
10 amended—

11 (1) by striking "or" at the end of paragraph

12 (4);

13 (2) by striking the period at the end of
14 paragraph (5) and inserting "; or"; and

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

16 "(6) any investment adviser that is registered with the
17 Commodity Futures Trading Commission as a commodity
18 trading advisor whose business does not consist primarily of
19 acting as an investment adviser, as defined in section
20 202(a)(11) of this title, and that does not act as an investment
21 adviser to (A) an investment company registered under title I of
22 this Act, or (B) a company which has elected to be a business

1 development company pursuant to section 54 of title I of this
2 Act and has not withdrawn its election."

3 **SEC. 210. PREEMPTION OF STATE GAMING AND BUCKET**
4 **SHOP LAWS**

5 The last sentence of section 28(a) of the Securities
6 Exchange Act of 1934 (15 U.S.C. 78bb(a)) is amended—

7 (1) by inserting "subject to this title" after
8 "privilege, or other security"; and

9 (2) by striking "any such instrument, if such
10 instrument is traded pursuant to rules and regulations of
11 a self-regulatory organization that are filed with the
12 Commission pursuant to section 19(b) of this Act" and
13 inserting "any such security".

14 **Subtitle B—Conforming Amendments**
15 **to the Commodity Exchange Act**

16 **SEC. 221. JURISDICTION OF SECURITIES AND**
17 **EXCHANGE COMMISSION; OTHER**
18 **PROVISIONS.**

19 (a) JURISDICTION OF SECURITIES AND EXCHANGE
20 COMMISSION.—

1 (1) Section 2(a)(1)(C) of the Commodity
2 Exchange Act (7 U.S.C. ___) (as redesignated by
3 section 122(a)(2)(C)) is amended—

4 (A) by striking subclause (III) of clause (ii)
5 and inserting the following:

6 "(III) Such group or index of securities shall
7 not constitute a narrow-based security index."³
8 and

9 (B) by striking clause (iv) and inserting the
10 following:

11 "(iv) If, in its discretion, the Commission
12 determines that a stock index futures contract,
13 notwithstanding its conformance with the
14 requirements in clause (ii) of subparagraph (C),
15 can reasonably be used as a surrogate for trading
16 a security (including a security futures product), it
17 may, by order, require such contract and any
18 option thereon be traded and regulated as

³ The CEA definition of "narrow-based security index" appears in Title I of the Commerce version of the bill and will be conformed to the definition in section 3(a)(55)(B) of the Exchange Act as it appears in this document (see n. 1).

1 security futures products as defined in section
2 3(a)(55) of the Securities Exchange Act of 1934
3 and section 1a(32)⁴ of this Act subject to all rules
4 and regulations applicable to security futures
5 products under this Act and the securities laws as
6 defined in section 3(a)(47) of the Securities
7 Exchange Act of 1934."⁵ and
8 (2) Section 2(a)(1) of the Commodity Exchange
9 Act (7 U.S.C. 2, 2a, 4) is amended by adding at the end
10 the following:
11 "(D)(i) Notwithstanding any other provision of this
12 Act, the Securities and Exchange Commission shall
13 have jurisdiction and authority over security futures as
14 defined in section 3(a)(55) of the Securities Exchange
15 Act of 1934, section 2(a)(16) of the Securities Act of
16 1933, section 2(a)(52) of the Investment Company Act of
17 1940, and section 202(a)(27) of the Investment Advisers

⁴ The reference to section 1a of the CEA is based on the Commerce version of the bill (assuming deletion of new "ATS" definition).

⁵ Need to amend section 122(a)(2) of Title I of the Commerce version of the bill (Technical and Conforming Amendments) to strike amendment to clause (iv).

1 Act of 1940, options on security futures, and persons
2 effecting transactions in security futures and options
3 thereon, and this Act shall apply to and the Commission
4 shall have jurisdiction with respect to accounts,
5 agreements (including any transaction which is of the
6 character of, or is commonly known to the trade as, an
7 'option', 'privilege', 'indemnity', 'bid', 'offer', 'put', 'call',
8 'advance guaranty', or 'decline guaranty') and
9 transactions involving, and may designate a board of
10 trade as a contract market in, a security futures product
11 as defined in section 1a(32)⁶ of this Act: *Provided,*
12 *however,* That, except as provided in clauses (v) and
13 (vii) of this subparagraph, no board of trade shall be
14 designated as a contract market with respect to any
15 such contracts of sale for future delivery unless the
16 board of trade making such application demonstrates
17 and the Commission expressly finds that the specific
18 contract with respect to which the application has been
19 made, or the board of trade, meets the following criteria:

⁶ The reference to section 1a of the CEA is based on the Commerce version of the bill (assuming deletion of new "ATS" definition).

1 "(I) Except as otherwise provided in a rule,
2 regulation, or order issued pursuant to clause (vi)
3 of this subparagraph, any security underlying the
4 security future, including each component security
5 of a narrow-based security index, is registered
6 pursuant to section 12 of the Securities Exchange
7 Act of 1934.

8 "(II) If the security futures product is not
9 cash settled, the board of trade on which the
10 security futures product is traded has
11 arrangements in place with a clearing agency
12 registered pursuant to section 17A of the
13 Securities Exchange Act of 1934 for the payment
14 and delivery of the securities underlying the
15 security futures product.

16 "(III) The security futures product is not
17 traded on an exempt board of trade or a
18 designated transaction execution facility.

19 "(IV) Except as otherwise provided in a
20 rule, regulation, or order issued pursuant to
21 clause (vi) of this subparagraph, the security
22 future is based upon common stock and such
23 other equity securities as the Commission and the

1 Securities and Exchange Commission jointly
2 determine appropriate.

3 "(V) The security futures product is cleared
4 by a clearing agency that has in place provisions
5 for linked and coordinated clearing with other
6 clearing agencies that clear security futures
7 products, which permits the security futures
8 product to be purchased on a designated contract
9 market, national securities exchange registered
10 under section 6(a) of the Securities Exchange Act
11 of 1934, or national securities association
12 registered pursuant to section 15A(a) of the
13 Securities Exchange Act of 1934 and offset on
14 another designated contract market, national
15 securities exchange registered under section 6(a)
16 of the Securities Exchange Act of 1934, or
17 national securities association registered pursuant
18 to section 15A(a) of the Securities Exchange Act
19 of 1934.

20 "(VI) Only futures commission merchants,
21 introducing brokers, commodity trading advisors,
22 commodity pool operators or associated persons
23 subject to suitability rules comparable to those of

1 a national securities association registered
2 pursuant to section 15A(a) of the Securities
3 Exchange Act of 1934 solicit, accept any order
4 for, or otherwise deal in any transaction in or in
5 connection with a security futures product.

6 "(VII) The security futures product is
7 subject to a prohibition against dual trading in
8 section 4j of this Act and the rules and regulations
9 thereunder or the provisions of section 11(a) of
10 the Securities Exchange Act of 1934 and the rules
11 and regulations thereunder, except to the extent
12 otherwise permitted under the Securities
13 Exchange Act of 1934 and the rules and
14 regulations thereunder.

15 "(VIII) Trading in the security futures
16 product is not readily susceptible to manipulation
17 of the price of such security futures product, nor
18 to causing or being used in the manipulation of
19 the price of any underlying security, option on
20 such security, or option on a group or index
21 including such securities;

22 "(IX) The board of trade on which the
23 security futures product is traded has procedures

1 in place for coordinated surveillance among such
2 board of trade, any market on which any security
3 underlying the security futures product is traded,
4 and other markets on which any related security
5 is traded to detect manipulation and insider
6 trading.

7 "(X) The board of trade on which the
8 security futures product is traded has in place
9 audit trails necessary or appropriate to facilitate
10 the coordinated surveillance required in
11 subclause (IX).

12 "(XI) The board of trade on which the
13 security futures product is traded has in place
14 procedures to coordinate trading halts between
15 such board of trade and markets on which any
16 security underlying the security futures product is
17 traded and other markets on which any related
18 security is traded.

19 "(XII) The margin requirements for a
20 security futures product are consistent with the
21 margin requirements for comparable option
22 contracts traded on an exchange registered
23 pursuant to section 6(a) of the Securities

1 Exchange Act of 1934, except that nothing in this
2 subclause shall be construed to prevent a board
3 of trade from requiring higher margin levels for a
4 security futures product when it deems such
5 action to be necessary or appropriate.

6 "(ii) It shall be unlawful for any person to offer, to
7 enter into, to execute, to confirm the execution of, or to
8 conduct any office or business anywhere in the United
9 States, its territories or possessions, for the purpose of
10 soliciting, or accepting any order for, or otherwise
11 dealing in, any transaction in, or in connection with, a
12 security futures product unless—

13 "(I) such transaction is conducted on or
14 subject to the rules of a board of trade which has
15 been designated by the Commission as a contract
16 market in such security futures product;

17 "(II) such contract is executed or
18 consummated by, through, or with a member of
19 such contract market; and

20 "(III) such security futures product is
21 evidenced by a record in writing which shows the
22 date, the parties to such security futures product
23 and their addresses, the property covered and its

1 price: *Provided*, That each contract market
2 member shall keep such record for a period of 3
3 years from the date thereof, or for a longer period
4 if the Commission so directs, which record shall at
5 all times be open to the inspection of any
6 representative of the Commission, the Securities
7 and Exchange Commission or the Department of
8 Justice.

9 "(iii)(I) Except as provided in subclause (II) but
10 notwithstanding any other provision of this Act, no
11 person shall offer to enter into, enter into, or confirm the
12 execution of any option on a security future.

13 "(II) After 3 years after the date of enactment of
14 the Commodity Futures Modernization Act of 2000, the
15 Commission and the Securities and Exchange
16 Commission may by order jointly determine to permit
17 trading of options on any security future authorized to be
18 traded under the provisions of this Act and the Securities
19 Exchange Act of 1934. Before any such determination,
20 the Commission and the Securities and Exchange
21 Commission shall conduct a study of the effect of the
22 trading of security futures on the markets for futures

1 contracts, securities, and options and the adequacy of
2 protections for investors and other market participants.

3 "(iv)(I) All records of a futures commission
4 merchant or introducing broker registered pursuant to
5 section 4f(a)(2), floor broker or floor trader exempt from
6 registration pursuant to section 4f(a)(3), associated
7 person exempt from registration pursuant to section
8 4k(6), or board of trade designated as a contract market
9 in a security futures product pursuant to section 5f shall
10 be subject at any time, or from time to time, to such
11 reasonable special or other examinations by
12 representatives of the Commission as the Commission
13 deems necessary or appropriate in the public interest,
14 for the protection of investors, or otherwise in
15 furtherance of the purposes of this title: *Provided*, That
16 the Commission, prior to conducting any such
17 examination, gives notice to the Securities and
18 Exchange Commission of such proposed examination
19 and consults with the Securities and Exchange
20 Commission concerning the feasibility and desirability of
21 coordinating such examination with examinations
22 conducted by the Securities and Exchange Commission
23 with a view to avoiding unnecessary regulatory

1 duplication or undue regulatory burdens for such
2 registrant or board of trade.

3 "(II) The Commission shall notify the Securities
4 and Exchange Commission of any examination
5 conducted of any futures commission merchant or
6 introducing broker registered pursuant to section
7 4f(a)(2), floor broker or floor trader exempt from
8 registration pursuant to section 4f(a)(3), associated
9 person exempt from registration pursuant to section
10 4k(6), or board of trade designated as a contract market
11 in a security futures product pursuant to section 5f, and,
12 upon request, furnish to the Securities and Exchange
13 Commission any examination report and data supplied
14 to the Commission in connection with such examination.

15 "(III) The Commission shall, to the fullest extent
16 possible, use the reports of examinations of any futures
17 commission merchant or introducing broker registered
18 pursuant to section 4f(a)(2), floor broker or floor trader
19 exempt from registration pursuant to section 4f(a)(3),
20 associated person exempt from registration pursuant to
21 section 4k(6), or board of trade designated as a contract
22 market in a security futures product pursuant to section
23 5f made by the Securities and Exchange Commission, a

1 national securities association registered pursuant to
2 section 15A(a) of the Securities Exchange Act of 1934
3 (15 U.S.C. 78o-3(a)), or a national securities exchange
4 registered pursuant to section 6(a) of the Securities
5 Exchange Act of 1934 (15 U.S.C. 78f(a)).

6 "(IV) RULES OF CONSTRUCTION.—

7 "(A) Any records required under this
8 subsection for a futures commission merchant or
9 introducing broker registered pursuant to section
10 4f(a)(2), floor broker or floor trader exempt from
11 registration pursuant to section 4f(a)(3),
12 associated person exempt from registration
13 pursuant to section 4k(6), or board of trade
14 designated as a contract market in a security
15 futures product pursuant to section 5f, shall be
16 limited to records with respect to accounts,
17 agreements, and transactions involving security
18 futures products.

19 "(B) Nothing in this subsection shall be
20 construed to impair or limit (other than by the
21 requirement of prior consultation) the power of the
22 Commission under this subsection to examine
23 any futures commission merchant or introducing

1 broker registered pursuant to section 4f(a)(2),
2 floor broker or floor trader exempt from
3 registration pursuant to section 4f(a)(3),
4 associated person exempt from registration
5 pursuant to section 4k(6), or board of trade
6 designated as a contract market in a security
7 futures product pursuant to section 5f, or to affect
8 in any way the power of the Commission under
9 any other provision of this Act.

10 "(v) A board of trade designated as a contract
11 market pursuant to section 5f shall be designated as a
12 contract market with respect to a security futures product
13 by providing to the Commission a written certification
14 that the specific contract with respect to which the
15 application has been made, or the board of trade, meets
16 the criteria specified in subclauses (I) through (XII) of
17 clause (i) of this subparagraph, except as otherwise
18 provided in clause (vii) of this subparagraph.

19 "(vi)(I) The Commission and the Securities and
20 Exchange Commission, by rule, regulation, or order,
21 may jointly modify the criteria specified in subclause (I)
22 or (IV) of clause (i) of this subparagraph to the extent
23 such modification fosters the development of fair and

1 orderly markets in security futures products, is
2 necessary or appropriate in the public interest, and is
3 consistent with the protection of investors.

4 "(II) The Commission and the Securities and
5 Exchange Commission, by order, may jointly exempt any
6 person from compliance with the criterion specified in
7 subclause (V) of clause (i) of this subparagraph to the
8 extent such exemption fosters the development of fair
9 and orderly markets in security futures products, is
10 necessary or appropriate in the public interest, and is
11 consistent with the protection of investors.

12 "(vii)(I) Notwithstanding clauses (i) and (v) of this
13 subparagraph, until the compliance date, a board of
14 trade shall not be required to meet the criterion specified
15 in subclause (V) of clause (i) of this subparagraph to be
16 designated as a contract market in a security futures
17 product.

18 "(II) The Commission and the Securities and
19 Exchange Commission shall jointly publish in the
20 Federal Register a notice of the compliance date no later
21 than 165 days before the compliance date.

22 "(III) For purposes of this clause, the term
23 "compliance date" means the later of—

1 "(A) 180 days after the end of the first full
2 calendar month period in which the average
3 aggregate comparable share volume for all
4 security futures products based on single equity
5 securities traded on all designated contract
6 markets equals or exceeds 10% of the average
7 aggregate comparable share volume of options
8 on single equity securities traded on all national
9 securities exchanges registered pursuant to
10 section 6(a) of the Securities Exchange Act of
11 1934 and any national securities associations
12 registered pursuant to section 15A(a) of the
13 Securities Exchange Act of 1934; or

14 "(B) two years after the date on which
15 trading in any security futures product
16 commences under this Act."

17 "(viii)(I) Three years after the date on which
18 trading in any security futures product commences under
19 this title, the Commission and the Securities and
20 Exchange Commission shall jointly determine whether,
21 based on their experience in overseeing the trading of
22 such products, it is necessary or appropriate in the
23 public interest or to remove unnecessary burdens on

1 competition, and consistent with the protection of
2 investors, to permit any organization, association, or
3 group of persons that is registered as a broker or dealer
4 pursuant to section 15(b) of the Securities Exchange Act
5 of 1934 (except paragraph (11) thereof) and that
6 performs the functions commonly performed by an
7 exchange (as defined in section 3(a)(1) of such Act), to
8 trade security futures products.

9 "(II) If, pursuant to subclause (I), the Commission
10 and the Securities and Exchange Commission determine
11 to permit any organization, association, or group of
12 persons that is registered as a broker or dealer pursuant
13 to section 15(b) of the Securities Exchange Act of 1934
14 (except paragraph (11) thereof) and that performs the
15 functions commonly performed by an exchange (as
16 defined in section 3(a)(1) of such Act), to trade security
17 futures products, any such organization, association, or
18 group of persons shall be deemed a national securities
19 exchange for purposes of section 5f of this Act (and such
20 other provisions of this Act as the Commission, by rule,
21 deems necessary or appropriate in the public interest
22 and for the protection of investors or to maintain fair and
23 orderly markets), and the Commission, by rule, as it

1 deems necessary or appropriate in the public interest
2 and for the protection of investors or to maintain fair and
3 orderly markets, may exempt any such organization,
4 association, or group of persons from any provision of
5 this Act or rule or regulation thereunder."

6 (b) MARGIN ON SECURITY FUTURES.—Section
7 2(a)(1)(C)(vi) of the Commodity Exchange Act (7 U.S.C. 2a(vi))
8 (as redesignated by section 122) is amended—

9 (1) by redesignating subclause (V) as subclause
10 (VI); and

11 (2) by striking "(vi)(I)" and all that follows through
12 subclause (IV) and inserting the following:

13 "(vi)(I) Notwithstanding any other provision
14 of this Act, any contract market in a stock index
15 futures contract (or option thereon), other than a
16 security futures product, shall file with the Board
17 of Governors of the Federal Reserve System any
18 rule establishing or changing the levels of margin
19 (initial and maintenance) for such stock index
20 futures contract (or option thereon), other than
21 security futures products.

22 "(II) The Board may at any time request
23 any contract market to set the margin for any

1 stock index futures contract (or option thereon),
2 other than for any security futures product, at
3 such levels as the Board in its judgment
4 determines are appropriate to preserve the
5 financial integrity of the contract market or its
6 clearing system or to prevent systemic risk. If the
7 contract market fails to do so within the time
8 specified by the Board in its request, the Board
9 may direct the contract market to alter or
10 supplement the rules of the contract market as
11 specified in the request.

12 "(III) Subject to such conditions as the
13 Board may determine, the Board may delegate
14 any or all of its authority, relating to margin for any
15 stock index futures contract (or option thereon),
16 other than security futures products, under this
17 clause to the Commission.

18 "(IV) REGULATIONS.—It shall be unlawful
19 for any futures commission merchant to, directly
20 or indirectly, extend or maintain credit to or for, or
21 collect margin from any customer on any security
22 futures product unless such activities comply with
23 the rules and regulations which the Commission

1 and the Securities and Exchange Commission
2 shall jointly prescribe pursuant to section
3 7(c)(2)(B) of the Securities Exchange Act of 1934.

4 "(V) Nothing in this clause shall supersede
5 or limit the authority granted to the Commission in
6 section 8a(9) to direct a contract market, on
7 finding an emergency to exist, to raise temporary
8 margin levels on any futures contract, or option on
9 the contract covered by this clause, or on any
10 security futures product."

11 (c) DUAL TRADING.—The Commodity Exchange Act (7
12 U.S.C. ___) is amended by striking section 4j and inserting the
13 following:

14 "SEC. 4j. RESTRICTIONS ON DUAL TRADING IN SECURITY
15 FUTURES PRODUCTS ON DESIGNATED CONTRACT
16 MARKETS.

17 "(a) The Commission shall issue regulations to prohibit
18 the privilege of dual trading in security futures products on each
19 contract market. The regulations issued by the Commission
20 under this section—

21 "(1) shall provide that the prohibition of dual
22 trading thereunder shall take effect upon issuance of the
23 regulations; and

1 "(2) shall provide exceptions, as the Commission
2 determines appropriate, to ensure fairness and orderly
3 trading in security futures product markets, including—

4 "(A) exceptions for spread transactions and
5 the correction of trading errors;

6 "(B) allowance for a customer to designate
7 in writing not less than once annually a named
8 floor broker to execute orders for such customer,
9 notwithstanding the regulations to prohibit the
10 privilege of dual trading required under this
11 section; and

12 "(C) other measures to address emergency
13 or unusual market conditions that further the
14 public interest consistent with the purposes of this
15 section.

16 "(b) As used in this section, the term 'dual trading'
17 means the execution of customer orders by a floor broker
18 during the same trading session in which the floor broker
19 executes any trade in the same contract market for—

20 "(1) the account of such floor broker;

21 "(2) an account for which such floor broker has
22 trading discretion; or

1 "(3) an account controlled by a person with whom
2 such floor broker has a relationship through membership
3 in a broker association.

4 "(c) As used in this section, the term 'broker association'
5 shall include two or more contract market members with floor
6 trading privileges of whom at least one is acting as a floor
7 broker, who—

8 "(1) engage in floor brokerage activity on behalf of
9 the same employer,

10 "(2) have an employer and employee relationship
11 which relates to floor brokerage activity,

12 "(3) share profits and losses associated with their
13 brokerage or trading activity, or

14 "(4) regularly share a deck of orders."⁷

15 (d) EXEMPTION FROM REGISTRATION FOR
16 INVESTMENT ADVISERS.—Section 4m of the Commodity
17 Exchange Act (7 U.S.C. ___) is amended by adding at the end
18 the following:

19 "(3) The provisions of subsection (1) of this section shall
20 not apply to any commodity trading advisor that is registered

⁷ Need to strike technical changes to section 4j in Title I of the
Commerce version of the bill.

1 with the Securities and Exchange Commission as an
2 investment adviser whose business does not consist primarily
3 of acting as a commodity trading advisor, as defined in section
4 1a(5)⁸ of this Act, and that does not act as a commodity trading
5 advisor to any investment trust, syndicate, or similar form of
6 enterprise that is engaged primarily in trading in any commodity
7 for future delivery on or subject to the rules of any contract
8 market.".

9 (e) EXEMPTION FROM INVESTIGATIONS OF
10 MARKETS IN UNDERLYING SECURITIES.—Section 16 of the
11 Commodity Exchange Act (7 U.S.C. ___) is amended by
12 adding at the end the following:

13 "(e) The provisions of this section shall not apply to
14 investigations involving any security underlying a security
15 futures product.".

16 (f) RULEMAKING AUTHORITY TO ADDRESS
17 DUPLICATIVE REGULATION OF DUAL REGISTRANTS.—
18 Section 4d of the Commodity Exchange Act (7 U.S.C. ___) is
19 amended by adding at the end the following:

⁸ The reference to section 1a of the CEA is based on the Commerce version of the bill (assuming deletion of new "ATS" definition).

1 "(3) To the extent necessary or appropriate in the public
2 interest, to remove unnecessary burdens on competition, and
3 consistent with the protection of investors, the Commission, in
4 consultation with the Securities and Exchange Commission,
5 shall issue such rules, regulations, or orders as are necessary
6 to avoid duplicative or conflicting regulations applicable to any
7 futures commission merchant registered with the Commission
8 pursuant to section 4f(a) (except paragraph (2) thereof), that is
9 also registered with the Securities and Exchange Commission
10 pursuant to section 15(b) of the Securities Exchange Act
11 (except paragraph (11) thereof), involving the application of (A)
12 section 8, section 15(c)(3), and section 17 of the Securities
13 Exchange Act of 1934 and the rules and regulations thereunder
14 related to the treatment of customer funds, securities, or
15 property, maintenance of books and records, financial reporting
16 or other financial responsibility rules (as defined in section
17 3(a)(40) of the Securities Exchange Act of 1934), involving
18 security futures products and (B) similar provisions of this Act
19 and the rules and regulations thereunder involving security
20 futures products."

1 (g) OBLIGATION TO ADDRESS DUPLICATIVE
2 REGULATION OF DUAL REGISTRANTS.—Section 17 of the
3 Commodity Exchange Act (7 U.S.C. ___) is amended by
4 adding at the end the following—

5 "(r) To the extent necessary or appropriate in the public
6 interest, to remove unnecessary burdens on competition, and
7 consistent with the protection of investors, each futures
8 association registered under this section shall issue such rules
9 as are necessary to avoid duplicative or conflicting rules
10 applicable to any futures commission merchant registered with
11 the Commission pursuant to section 4f(a) (except paragraph (2)
12 thereof), that is also registered with the Securities and
13 Exchange Commission pursuant to section 15(b) of the
14 Securities Exchange Act (except paragraph (11) thereof), with
15 respect to the application of (1) rules of such futures
16 association of the type specified in section 4d(3) involving
17 security futures products and (2) similar rules of national
18 securities associations registered pursuant to section 15A(a) of
19 the Securities and Exchange Act of 1934 involving security
20 futures products."

1 **SEC. 222. APPLICATION OF THE COMMODITY EXCHANGE**
2 **ACT TO NATIONAL SECURITIES EXCHANGES**
3 **AND NATIONAL SECURITIES ASSOCIATIONS**
4 **THAT TRADE SECURITY FUTURES.**

5 (a) NOTICE DESIGNATION OF NATIONAL
6 SECURITIES EXCHANGES AND NATIONAL SECURITIES
7 ASSOCIATIONS.—The Commodity Exchange Act is amended
8 by inserting after section 5e (7 U.S.C. 7b), as amended by
9 section 115, the following:

10 **"SEC. 5f. DESIGNATION OF SECURITIES EXCHANGES**
11 **AND ASSOCIATIONS AS CONTRACT**
12 **MARKETS.**

13 "(a) Any board of trade that is registered with the
14 Securities and Exchange Commission as a national securities
15 exchange or is a national securities association registered
16 pursuant to section 15A(a) of the Securities Exchange Act of
17 1934 shall be a designated contract market in security futures
18 products if—

19 "(1) such national securities exchange or national
20 securities association lists or trades no other contracts of
21 sale for future delivery, except for security futures
22 products;

1 "(2) such national securities exchange or national
2 securities association files written notice with the
3 Commission in such form as the Commission, by rule,
4 may prescribe containing such information as the
5 Commission, by rule, may prescribe as necessary or
6 appropriate in the public interest or for the protection of
7 customers; and

8 "(3) the registration of such national securities
9 exchange or national securities association is not
10 suspended pursuant to an order by the Securities and
11 Exchange Commission.

12 Such designation shall be effective immediately upon filing of
13 the written notice with the Commission.

14 "(b)(1) A national securities exchange or national
15 securities association that is designated as a contract market
16 pursuant to section 5f of this Act shall be exempt from the
17 following provisions of this Act and the rules thereunder:

18 "(A) Subsections (c), (e), and (g) of section 4c.

19 "(B) Section 4j.

20 "(C) Section 5.

21 "(D) Section 5c.

22 "(E) Section 6a.

23 "(F) Section 8(d).

1 "(G) Section 8e.

2 "(H) Section 9(f).

3 "(I) Section 16.

4 "(2)(A) Except as provided in subparagraph (B), but
5 notwithstanding any other provision of this Act, the
6 Commission, by rule, regulation, or order, may conditionally or
7 unconditionally exempt any designated contract market in
8 security futures subject to the designation requirement of this
9 section from any provision of this Act or of any rule or
10 regulation thereunder, to the extent such exemption is
11 necessary or appropriate in the public interest and is consistent
12 with the protection of investors.

13 "(B) The Commission shall, by rule or regulation,
14 determine the procedures under which an exemptive order
15 under this section is granted and may, in its sole discretion,
16 decline to entertain any application for an order of exemption
17 under this section."

18 (b) NOTICE REGISTRATION OF CERTAIN
19 SECURITIES BROKER-DEALERS; EXEMPTION FROM
20 REGISTRATION FOR CERTAIN SECURITIES BROKER-
21 DEALERS.—Section 4f(a) of the Commodity Exchange Act (7
22 U.S.C. 6f(a)) is amended—

23 (1) by inserting "(1)" after "(a)"; and

1 (2) by adding at the end the following:

2 "(2) Notwithstanding paragraph (1), and except as
3 provided in paragraph (3), any broker or dealer that is
4 registered with the Securities and Exchange Commission shall
5 be registered as a futures commission merchant or introducing
6 broker, as applicable, if—

7 "(A) such broker or dealer limits its solicitation of
8 orders, acceptance of orders, or execution of orders, or
9 placing of orders on behalf of others involving any
10 contracts of sale of any commodity for future delivery, on
11 or subject to the rules of any contract market to security
12 futures products;

13 "(B) such broker or dealer files written notice with
14 the Commission in such form as the Commission, by
15 rule, may prescribe containing such information as the
16 Commission, by rule, may prescribe as necessary or
17 appropriate in the public interest or for the protection of
18 investors;

19 "(C) the registration of such broker or dealer is not
20 suspended pursuant to an order of the Securities and
21 Exchange Commission; and

1 "(D) such broker or dealer is a member of a
2 national securities association registered pursuant to
3 section 15A(a) of the Securities Exchange Act of 1934.

4 Such registration shall be effective immediately upon filing of
5 the written notice with the Commission.

6 "(3) A floor broker or floor trader shall be exempt from
7 the registration requirements of section 4e and paragraph (1) of
8 this subsection if—

9 "(A) such floor broker or floor trader is a broker or
10 dealer registered with the Securities and Exchange
11 Commission;

12 "(B) such floor broker or floor trader limits its
13 solicitation of orders, acceptance of orders, or execution
14 of orders, or placing of orders on behalf of others
15 involving any contracts of sale of any commodity for
16 future delivery, on or subject to the rules of any contract
17 market to security futures products; and

18 "(C) the registration of such floor broker or floor
19 trader is not suspended pursuant to an order of the
20 Securities and Exchange Commission."

21 (c) EXEMPTION FOR SECURITIES BROKER-
22 DEALERS FROM CERTAIN PROVISIONS OF THE
23 COMMODITY EXCHANGE ACT.—Section 4f(a) of the

1 Commodity Exchange Act (7 U.S.C. 6f(a)) is amended by
2 inserting after paragraph (3), as added by subsection (b), the
3 following:

4 "(4)(A) A broker or dealer that is registered as a futures
5 commission merchant or introducing broker pursuant to
6 paragraph (2), or that is a floor broker or floor trader exempt
7 from registration pursuant to paragraph (3), shall be exempt
8 from the following provisions of this Act and the rules
9 thereunder:

10 "(i) Subsections (b), (d), (e), and (g) of section 4c.

11 "(ii) Sections 4d, 4e, and 4h.

12 "(iii) Subsections (b) and (c) of this section.

13 "(iv) Section 4j.

14 "(v) Section 4k(1).

15 "(vi) Section 4p.

16 "(vii) Section 6d.

17 "(viii) Subsections (d) and (g) of section 8.

18 "(ix) Section 16.

19 "(B)(i) Except as provided in clause (ii), but
20 notwithstanding any other provision of this Act, the
21 Commission, by rule, regulation, or order, may conditionally or
22 unconditionally exempt any broker or dealer subject to the
23 registration requirement of paragraph (2) of this subsection, or

1 any broker or dealer exempt from registration pursuant to
2 paragraph (3) of this subsection, from any provision of this Act
3 or of any rule or regulation thereunder, to the extent such
4 exemption is necessary or appropriate in the public interest and
5 is consistent with the protection of investors.

6 "(ii) The Commission shall, by rule or regulation,
7 determine the procedures under which an exemptive order
8 under this section shall be granted and may, in its sole
9 discretion, decline to entertain any application for an order of
10 exemption under this section.

11 "(C)(i) A broker or dealer that is registered as a futures
12 commission merchant or introducing broker pursuant to
13 paragraph (2) or an associated person thereof, or that is a floor
14 broker or floor trader exempt from registration pursuant to
15 paragraph (3), shall not be required to become a member of
16 any futures association registered under section 17 of this Act.

17 "(ii) No futures association registered under section 17 of
18 this Act shall limit its members from carrying an account,
19 accepting an order, or transacting business with a broker or
20 dealer that is registered as a futures commission merchant or
21 introducing broker pursuant to paragraph (2) or an associated
22 person thereof, or that is a floor broker or floor trader exempt
23 from registration pursuant to paragraph (3)."

1 (d) EXEMPTIONS FOR ASSOCIATED PERSONS OF
2 SECURITIES BROKER-DEALERS.—Section 4k of the
3 Commodity Exchange Act (7 U.S.C. 6k), is amended by
4 inserting after paragraph (4), as added by subsection (c), the
5 following:

6 "(5) Any associated person of a broker or dealer that is
7 registered with the Securities and Exchange Commission, and
8 who limits its solicitation of orders, acceptance of orders, or
9 execution of orders, or placing of orders on behalf of others
10 involving any contracts of sale of any commodity for future
11 delivery, on or subject to the rules of any contract market to
12 security futures products, shall be exempt from the following
13 provisions of this Act and the rules thereunder:

14 "(A) Subsections (b), (d), (e), and (g) of section
15 4c.

16 "(B) Sections 4d, 4e, and 4h.

17 "(C) Subsections (b) and (c) of section 4f.

18 "(D) Section 4j.

19 "(E) Paragraph (1) of this section.

20 "(F) Section 4p.

21 "(G) Section 6d.

22 "(G) Subsections (d) and (g) of section 8.

23 "(H) Section 16."

1 **SEC. 223. NOTIFICATION OF INVESTIGATIONS AND EN-**
2 **FORCEMENT ACTIONS.**

3 (a) Section 8(a) of the Commodity Exchange Act (7
4 U.S.C. 12(a)) is amended by adding at the end the following:

5 "(3) The Commission shall provide the Securities and
6 Exchange Commission with notice of the commencement of
7 any proceeding and a copy of any order entered by the
8 Commission against any futures commission merchant or
9 introducing broker registered pursuant to section 4f(a)(2), any
10 floor broker or floor trader exempt from registration pursuant to
11 section 4f(a)(3), any associated person exempt from
12 registration pursuant to section 4k(6), or any board of trade
13 designated as a contract market pursuant to section 5f."

14 (b) Section 6 of the Commodity Exchange Act (7 U.S.C.
15 8, 9, 9a, 9b, 13b, 15) is amended by adding at the end the
16 following:

17 "(g) The Commission shall provide the Securities and
18 Exchange Commission with notice of the commencement of
19 any proceeding and a copy of any order entered by the
20 Commission pursuant to subsections (c) and (d) of this section
21 against any futures commission merchant or introducing broker
22 registered pursuant to section 4f(a)(2), any floor broker or floor
23 trader exempt from registration pursuant to section 4f(a)(3), any

1 associated person exempt from registration pursuant to section
2 4k(6), or any board of trade designated as a contract market
3 pursuant to section 5f."

4 (c) Section 6c of the Commodity Exchange Act (7 U.S.C.
5 13a-1) is amended by adding at the end the following:

6 "(h) The Commission shall provide the Securities and
7 Exchange Commission with notice of the commencement of
8 any proceeding and a copy of any order entered by the
9 Commission against any futures commission merchant or
10 introducing broker registered pursuant to section 4f(a)(2), any
11 floor broker or floor trader exempt from registration pursuant to
12 section 4f(a)(3), any associated person exempt from
13 registration pursuant to section 4k(6), or any board of trade
14 designated as a contract market pursuant to section 5f."

15 **Subtitle C—Effective Date**

16 **SEC. 231. EFFECTIVE DATE.**

17 This title and the amendments made by this title take
18 effect on the date of enactment of this Act.