EXTENSIONS OF REMARKS

November 19, 1999

Mr. MARKEY. Mr. Speaker, today I am joining with the Senator from North Dakota (Mr. DORGAN) in introducing the Derivatives Market Reform Act.

In recent years, over-the-counter (OTC) derivative financial products have become an important component of modern financial markets. They provide useful risk management tools for corporations, financial institutions, and governments around the world seeking to respond to fluctuations in interest rates, foreign currency exchange rates, commodity prices, and movements in stock or other financial markets. While OTC derivatives are frequently used to hedge risks, or to lower borrowing costs, they can also be used by dealers or end-users to make risky and highly speculative synthetic bets on the direction of global financial markets. The potential for such derivatives to contribute to excessive speculation or leveraging has raised serious concerns about the potential for OTC derivatives to increase, rather than reduce the risk of catastrophic financial loss or contribute to a future financial panic or meltdown in global financial markets.

In addition, the concentration of market-making functions in a small number of large banks and securities firms, the close financial inter-linkages OTC derivatives have created between each of these firms, and the sheer complexity of the products being traded raise serious concerns about the potential for such derivatives to cause serious disruptions in the fabric of our financial system. The potential for the failure of a key market participant to trigger a meltdown—or the specter of a potential disruption in the financial markets due to highly leveraged and complex investment strategies—was illustrated by last years' near collapse of the hedge fund known as Long-Term Capital (LTCM).

The LTCM affair has underscored the need for regulators to minimize the potential for OTC derivatives to contribute to a major disruption in the financial markets, either through excessive speculation and over-leveraging, or due to inadequate internal controls and risk management on the part of major derivatives dealers or end-users. Today, Senator DORGAN and I are introducing legislation in both the House and the Senate which would provide for certain targeted derivatives market and hedge fund reforms in the aftermath of the LTCM affair. Here's what our bill would do:

First, the bill would define “derivative” to include any financial contract or other instrument that derives its value from the value or