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COMMENT

August 18, 2000

Ms Jean Webb
Secretary
Commodity Futures Trading Commission
1125 21st Street, NW
Washington, D.C. 20581

RE: Proposed Rules Concerning Intermediaries of Commodity Interest Transactions

Dear Ms. Webb:

UBS Warburg LLC ("UBSW") welcomes the opportunity to comment on the Commodity Futures Trading Commission's ("CFTC") proposed rule changes, specifically as the proposed changes relate to Intermediaries of Commodity Interest Transactions. (See 65 FR 39008, June 22, 2000). UBSW is an affiliate of UBS AG, one of the five largest banks globally. UBSW, together with its affiliated companies, facilitates exchange traded futures business on all major exchanges. In addition to the futures brokerage business, UBSW is a registered broker/dealer that, either directly or through its affiliates, deals in foreign exchange, fixed income, equity and credit derivative products and emerging markets.

First and foremost, UBSW applauds the CFTC's immediate recognition of the need for reform of the existing rules governing exchange traded derivatives and its tireless effort to create a framework whereby industry participants will be able to compete globally without the regulatory impediments previously suffered. The rules, in the current form, are extremely restrictive in many areas and have often prevented United States futures commission merchants ("FCM") from expanding in the global marketplace. The new framework, which provides for rule enforcement pursuant to established "Core Principles", appears to offer a more flexible regulatory model that will support a commercially driven environment for the business, going forward. This is an absolute necessity given the rapid pace of change experienced by the futures industry in recent years.

Overall UBSW is agreement with the "Core Principles" set forth in the proposed rule, but would offer the following comments specifically related to *Core Principle Three: Financial Requirements*:

Segregation of Funds

UBSW strongly encourages the Commission to permit institutional customers to "opt out" of segregation with appropriate disclosure. The London based exchange traded derivatives business has long permitted its customers to "opt out" of segregation. Because the bank generally deals only with institutional customers and continues to maintain a superior credit rating, the "opting out" has become a readily accepted practice and has improved the quality of the brokerage business. Should the CFTC permit "opting out" of segregation, it should certainly not place any further restrictions on the location or investment of such funds. If the Commission does, in fact, determine that such investments pose additional risks, such risks should be incorporated into the firm's risk based capital calculation. Finally, customers should be provided the appropriate disclosure whereby the customer expressly acknowledges that it is "opting out" of segregation and assumes any and all associated risks.

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Investment of Customer Funds

UBSW supports the Commission's proposal to expand the scope of permissible investments of customer segregated funds under Rule 1.25. The proposed rules, however, should be amended to incorporate permissible investment of customer segregated funds denominated in a foreign currency. Rule 1.25, as it stands, only permits FCM's to invest customer funds in obligations of the United States. This leaves FCM's with no alternative for investment of foreign currencies deposited by customers to margin and settle futures contracts traded on domestic exchanges, which are denominated in foreign currencies. At minimum, the proposed rule should be amended to allow for investment in debt obligations denominated in such currency.

UBSW would also encourage the Commission to be open to alternative investment instruments of various duration and rating. Moreover, it should attempt to provide the FCM community with an efficient mechanism for expeditious approvals of such additional investments. This will position FCM's to take advantage of market opportunities while still adhering to the Commission's ultimate premise of protecting customer funds.

Overall, UBSW supports the proposed rule changes and believes the Commission has addressed the issues that have prevented expansion of the futures industry in the United States for a number of years. UBSW encourages the Commission to continue working toward additional innovative solutions to assure the rapidly changing futures industry remains competitive in the global marketplace.

I you have any questions or comments, please contact me at (312) 554-6677.

Very truly yours,

K. T. Maloney

UBS Warburg LLC
Kevin T. Maloney
Executive Director