



Securities and Exchange Commission
Attention: Elizabeth M. Murphy, Secretary
100 F St., NE, Washington, DC 20549-1090.

Re: File Number S7-27-10.

Chairwoman Mary Shapiro,

Our country took a great step forward with the passage of the recent Wall Street reform legislation, HR4173. As this legislation moves through your commission, I encourage you to uphold its intent to foster openness and accountability, especially when it comes to the regulation of the derivatives market.

HR4173 required that derivatives exchanges be processed through clearinghouses. These clearinghouses would act as independent agencies, whose involvement in the process would increase transparency and hedge against the reckless direct trading between big banks that destabilized the stock market and played a significant role to our nation's recent economic downturn. But to ensure that they perform the prescribed function, we need to the regulatory process to ensure that these clearinghouses are not manipulated or subverted.

Currently you are considering two rules that would apply to the ownership of such clearinghouses: the 20/40 Rule and the 5% Rule. The 20/40 Rule follows the intent of HR4173 by limiting the ownership of a clearinghouse by any one entity to 20%, and by any number of big banks to no greater than 40% overall: this effectively prevents big banks joining forces to collectively hold a controlling interest in the clearinghouse and thereby co-opt the process. The 5% Rule does not apply any such aggregate limits, meaning that 11 or more such banks could join forces to gain majority interest in a given clearinghouse.

If these banks owned more than 50% of a clearinghouse, they would essentially be watching themselves. We saw how well such an arrangement worked the last time, when their reckless activities dragged down our economy, drove up unemployment, and destabilized retirements for everyday Americans. If we are to avoid repeating the mistakes of the past, such a co-opting of the clearinghouses must be prevented: therefore, I urge you to uphold the 20/40 Rule, but remove the 5% Rule from consideration.

Thank you,

cc: California Congressional Delegation