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To the Editor  
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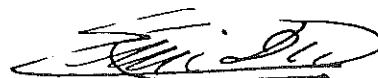
Sir,

You describe (Thoroughly modern Safety net, Oct 26) the market for financial derivatives as a sort of wonderland which is at risk of being disturbed by regulation. No decent market should even be impaired by regulation, but your enthusiasm about this one may lead you to advocate lax regulation at all cost; one could argue that derivatives do not bring significant profits to many banks, and that Corporations have no need of them for raising money.

A limited number of banks trade actively in derivatives, and some make large profits out of them. Among these, some may very well be booking profits today that will produce losses during future years; many traders-cum-mathematicians are quite uncontrolled in their own Banks. The profits they book today result in sure bonuses; the eventual losses some years hence might be their successors' problems. Some of the real profits made by Banks on derivatives come from overpricing complicated instruments or deals where investors large and small are deceived by some tricks, at the cost of their future confidence in those who sold them the stuff.

As to corporations, few of them use derivatives to raise funds. Some use them as speculative investments, sometimes with success. These markets probably do not help to stabilize prices of securities in general; this, together with the frustrations of investors deceived by tricks, may actually decrease real investors' confidence in any security, and thus the fund raising ability of corporations may be reduced rather than enhanced by the excesses of these markets.

Regulation by governments is bad for any market; self regulation works usually much better. Traders in any derivatives should follow proper booking procedures - the kind that is understood by their bosses and auditors - which they should be encouraged to suggest themselves. They should also, via their trade organizations, suggest proper risk ratio's and other regulatory measures. This could limit the activity for a while in some instruments, but it would help the long term prosperity of the useful parts of this market and of some Banks that participate in it.



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