Commodity Futures Trading Commission
Commission Actions in Response to the "Comprehensive Review of the Commitments of Traders Reporting Program" (June 21, 2006)

December 5, 2006

Executive Summary

The Commitments of Traders ("COT") reports are weekly reports, published by the Commodity Futures Trading Commission ("CFTC" or "Commission"), showing aggregate trader positions in certain futures and options markets. Over time, both the trading activity that is the subject of the COT reports, and the reports themselves, have continued to change and evolve. As part of its ongoing efforts both to maintain an information system that reflects changing market conditions, and to provide the public with useful information regarding futures and options markets, the Commission, on June 21, 2006, published a document entitled, "Comprehensive Review of the Commitments of Traders Reporting Program."[1] The document (hereafter referred to as the "request for comments") was intended to: (1) provide useful background information regarding the COT reports; (2) lay out various issues and questions regarding the COT reports; and (3) solicit public comment regarding the reports, including suggestions as to possible changes in the COT reporting system.

In summary, the Commission's response to the comments received, and its review of COT issues, will consist of the following actions:

1. The Commission will continue to provide the COT reports it currently publishes,[2] covering over 90 U.S. commodity markets, with no changes in the form, format, or timing;

2. On January 5, 2007, the Commission will begin publishing an additional COT weekly report entitled "COT—Supplemental;"

3. The new report will show aggregate futures and option positions of Noncommercial, Commercial, and Index Traders in 12 selected agricultural commodities; [3] and

4. The new report will be published on a two-year, pilot program basis.

More specifically, the primary issue addressed in the request for comments is that, over time, for some commodities the nature of the positions reflected by the COT reports has changed significantly. Prior to 1991, both the long and the short side of the commercial open interest listed in the COT reports represented traditional hedgers (producers, processors, manufacturers

[1] 71 FR 35627 (June 21, 2006).
[2] The Commission currently publishes four weekly COT reports: Futures-Only Commitments of Traders (both long form and short form); and Futures-and-Options-Combined Commitments of Traders (both long form and short form).
[3] In order to put the data in the new COT—Supplemental report in context, the Commission will publish, contemporaneously with the new report, comparable weekly data for 2006 for the 12 markets covered by the report.

or merchants handling the commodity or its products or byproducts). Since that time, trading practices have evolved to such an extent that, today, a significant proportion of the long-side open interest in a number of major physical commodity futures contracts is held by so-called non-traditional hedgers (e.g., swap dealers), while the traditional hedgers may be either net long or net short (more often, the latter). This has raised questions as to whether the COT report can reliably be used to assess overall futures activity by persons who are directly involved in the underlying physical commodity markets.

To address this concern, the Commission will, this coming January, begin publishing a supplemental COT report that includes, in a separate category, the positions of commodity index traders in certain physical commodity futures markets. These so-called "Index Traders" will be drawn from both the current Noncommercial and the Commercial categories. Coming from the Noncommercial category will be managed funds, pension funds and other institutional investors that generally seek exposure to commodity prices as an asset class in an unleveraged and passively-managed[4] manner using a standardized commodity index. Coming from the Commercial category will be entities whose positions predominantly reflect hedging of OTC transactions involving commodity indices—for example, swap dealers holding long futures positions to hedge short OTC commodity index exposure opposite institutional traders such as pension funds. (Note that the four current COT reports will continue to carry commodity index traders in the same Commercial and Noncommercial categories in which they now appear.)

The new supplemental report will be restricted to selected commodity futures markets that are included in commodity indices. The Commission believes that these are the markets where the advent of commodity index trading has raised questions as to whether the current classification of traders into noncommercials and commercials has become inadequate and misleading. No such concern has been expressed about financial futures markets or the many commodity futures markets that are not included in commodity indices.

At this time, the new report will be limited to agricultural futures markets, and, therefore, it will not include energy and metals futures markets. This determination is based on an evaluation of the large-trader data available to the Commission, and in particular on an assessment of the accuracy with which this data can be parsed out, for firms engaged in commodity index trading, between such index trading and other unrelated trading activity. In the case in energy and metals markets, however, there are alternative U.S. and non-U.S. exchanges and a multitude of OTC markets and derivative products. Many swap dealers, in addition to their commodity index-related OTC activity, enter into other OTC derivative transactions in individual commodities, both with commercial firms hedging price risk and with speculators taking on price risk. In addition, some swap dealers are very actively engaged in commercial activity in the underlying cash market, such as a physical merchandising or dealing activity. As a result of these other activities, the overall futures positions held by these energy and metals traders in Commission-regulated markets do not necessarily correspond closely with their hedging of OTC commodity index transactions. Indeed, placing the futures positions of such swap dealers in a commodity

[4] A passively managed position generally means futures or futures equivalent positions that track a broadly diversified index of physical commodities, which index is calculated, adjusted and re-weighted pursuant to an objective, predetermined mathematical formula, the application of which allows only limited discretion with respect to trading decisions.

index trader category would not accurately reflect commodity index trading activity for energy and metals markets.

The Commission, therefore, has decided to proceed with publishing the COT—Supplemental report for the following 12 agricultural commodity futures and options on the following exchanges: corn, soybeans, wheat, and soybean oil on the CBOT; wheat on the KCBOT; cotton no. 2, coffee C, sugar no. 11, and cocoa on the New York Board of Trade; and live cattle, lean hogs, and feeder cattle on the CME. The Commission staff is confident that the new classifications of traders for the COT—Supplemental report for these 12 markets is as accurate as the Commission's large-trader reporting system allows.

The new COT—Supplemental report will be published on a two-year, pilot program basis. During the course of the pilot program, the Commission will assess the relevance and usefulness of the new data and study whether it is possible and appropriate to expand the COT—Supplemental report to include data for other physical commodity markets.