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*Coffee, Sugar & Cocoa Exchange, Inc.**Jarnes J. Bowe
President*

March 25, 1998

COMMENT**VIA FAX/U.S. MAIL****Ms. Jean A. Webb
Secretariat
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, D.C. 20581**

Dear Ms. Webb:

The Coffee, Sugar & Cocoa Exchange, Inc. ("CSCE" or "Exchange") submits this comment letter in response to the Commission's proposed rulemaking concerning voting by interested members of self-regulatory organization ("SRO") governing boards, disciplinary committees and oversight committees (hereafter "Members"), as published in 63 F.R. 3492 (January 23, 1998). The Exchange previously filed a comment letter dated July 2, 1996, in response to the Commission's earlier, proposed rulemaking on the subject. While some of the concerns raised by the Exchange at that time have been addressed in the current proposal, CSCE believes that certain aspects of the current proposal are problematic and should be reconsidered.

Relationship with Named Party-in-Interest

The proposal would disqualify Members from deliberating or voting on any matter which involves a named party in interest with whom the Member has one of several types of relationships specified in Rule 1.69, or where the Member is the named party in interest. Each SRO must establish procedures for determining whether a Member is subject to a conflict restriction. Paragraph (b)(iii) of the Rule requires that this determination be made on the basis of information provided by the Member and "any other source of information that is reasonably available" to the SRO. The phrase "reasonably available" is a subjective one which is open to wide differences in interpretation. For example, conducting background checks, or reviewing regulatory filings made with other SROs, would entail a significant allocation of personnel and financial resources which a smaller exchange, such as CSCE, may not be in a position to make. Without specification or guidance on this issue, it is not clear what sources of information, beyond an exchange's own membership and broker association files, the Commission believes should be consulted under the Rule. At the same time, CSCE recognizes that there may be instances where information is known to an SRO through means other than its own records or disclosures made by the Member. For example, it may be common knowledge that a Member is related to another person who is the named party in interest of a particular matter. Clearly, in such a case the exchange should not look the other way and must require the Member to abstain from deliberations and voting. SROs should not be required to make any inquiries under Rule 1.69. CSCE believes that the Commission can strike a fair balance by replacing the quoted phrase with the language "any

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information otherwise known to the SRO in the ordinary course of business." This change would bring within the scope of the Regulation information in the SRO's files and any other information which it may have, regardless of the source, but would not impose other, unspecified duties of inquiry. In addition, the Commission should make clear in the Federal Register release accompanying the final rule that SROs have no obligation to affirmatively conduct any inquiries under the Rule.

Bases for Determination of Financial Interest

Likewise, the Exchange believes that the Commission should make the same change in the parallel provision of paragraph (b)(2)(iv)(C), so that an SRO must use any information otherwise known to it in the ordinary course of business, but does not have to actively investigate position information from unspecified, other sources. In that connection we note that the Federal Register release accompanying the proposed rulemaking states that the positions of Members on other contract markets could be provided to an SRO by the Commission. The Exchange believes that the Commission should be specifically included in the listing of bases for determination set forth in sub-paragraph (iv) of the Rule, so that the Rule is not open-ended. Indeed, it would be counter productive to the orderly functioning of the marketplace if consideration of significant actions had to await inquiries by an SRO.

Disclosure of Interest

Proposed Rule 1.69 enumerates in paragraph (b)(2)(iii) various categories of position information to be disclosed by Members. It goes on to require that, in determining whether to permit a Member to participate in deliberations on a significant action for which the Member otherwise would be required to abstain, the deliberating body, i.e., governing board, must fully consider the position information which forms the basis for the Member's financial interest in the matter. The Exchange believes that the disclosure of such material, non public information is not necessary. Instead, the positions in the relevant categories should be disclosed to the governing board by way of ranges established by the board for the purpose of such disclosures. As noted in our previous comment letter, under CSCE's conflict of interest guideline, whenever the guideline is invoked the board establishes ranges characterized as *de minimis*, small, medium and large. In setting the ranges, the board necessarily takes into consideration market factors such as open interest, market price and physical supply, so that the ranges accurately reflect market circumstances in the commodity at the time of the board's deliberations. In addition, board members disclose the nature of their position in each category -- long or short. In this manner, the potential bias of a Member is disclosed to all other members, without the need to disclose the precise position held in each of the specified categories. It has been the Exchange's experience during the past two decades that this approach works extremely well to ensure that its board makes well informed decisions that are not colored by the self-interest of any member or group of members. CSCE urges the Commission to amend this aspect of the Rule consistent with CSCE's guideline. Otherwise, it is highly unlikely that Members will be willing to make the disclosures

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required by the proposal, and deliberating bodies will not get the input they critically need from Members holding special expertise in the commodity underlying the significant action being contemplated.

Recordkeeping Requirement

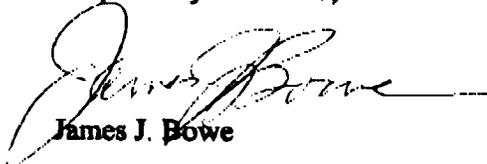
Paragraph (b)(4)(iv) of the Rule would require the minutes of the relevant meeting to contain a full description of the views expressed by any person who would otherwise be required to abstain from deliberations and voting, but who participates in the deliberations. The Exchange believes this is counterproductive, because it would have a chilling effect on Members and would discourage them from candidly expressing their views. This is particularly true where, as here, theirs would be the only remarks singled out for attribution in the meeting minutes. CSCE sees no positive purpose to be served by such a requirement. Moreover, such a requirement creates the risk that any decision which is consistent with the views expressed by such a Member would be deemed inherently suspect. For both of these reasons, the Commission should eliminate this requirement.

Scope of Named Party-in-Interest Provision

The Commission has requested comments on whether the proposed named party in interest provision should be extended to other types of SRO committee actions, such as revisions to the price change register. CSCE believes that sufficient procedures are in place to protect the integrity of this and similar processes. Exchange rules already prohibit any member of the Floor Committee from participating in any matter in which such person has a direct financial, personal or other interest. If such procedures need to be enhanced in any way, the current rule enforcement review process should be able to identify areas for change.

The Exchange appreciates the opportunity to submit its comments concerning the proposed rule making and welcomes any questions which the Commission staff may have.

Respectfully submitted,



James J. Bowe

cc: Chairperson Brooksley Born
Commissioner Barbara P. Holum
Commissioner David D. Spears
Commissioner John E. Tull, Jr.

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