



Chicago Board of Trade

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OFFICE OF THE SECRETARIAT

September 15, 1998

Ms. Jean A. Webb
Office of the Secretariat
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, D.C. 20581

COMMENT

SEP 16 2 01 PM '98
COMMODITY FUTURES
TRADING COMMISSION
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RE: Proposed Revisions to Commission Guideline on Economic and Public Interest Requirements for Contract Market Designation (63 Fed. Reg. 38573 (July 17, 1998))

Dear Ms. Webb:

The Board of Trade of the City of Chicago ("CBOT" or "Exchange") hereby respectfully submits its comments on the proposal of the Commodity Futures Trading Commission ("CFTC" or "Commission") to revise its Guideline on Economic and Public Interest Requirements for Contract Market Designation, published for comment by the Commission in the Federal Register on July 17, 1998.

In its role as the leading international futures exchange, the CBOT welcomes the opportunity to comment on the proposed implementation of guidelines relating to filing requirements that may help alleviate the needless drafting and submission of redundant and unnecessary information, all of which are costly and time consuming. Our comments offered below address each of the proposed revisions to the guideline as outlined by the Commission in its July 17, 1998 Federal Register Release.

1. Cash Market Overview

The CBOT supports the Commission's proposal to explicitly allow for the acceptance of materials which have been researched and drafted by third-parties in support of a contract market's designation application in lieu of or in addition to that produced by the staff of the contract market. This third-party material, which is often times readily available to contract markets from sources such as trade groups and consultants, can prove less expensive to obtain than having a contract market's own staff, which may have limited resources, do the research and compile the data. Moreover, this data from third parties can prove beneficial in that certain trade

Ms. Jean A. Webb
September 15, 1998
Page 2

groups and consultants may possess a high level of expertise and knowledge of the subject matter in question.

2. Charts Relating to Individual Contract Terms and Conditions

The Commission states in its submission that "The proposed chart format will reduce the amount of verbiage and the overall length of designation applications." We agree and, thus, support the proposed revision. The same amount of pertinent and required information relating to contract terms and conditions as is now spelled out in narrative form by exchanges can just as easily be submitted in clear, concise and easy to read charts and tables. In fact, using chart templates will allow for more uniform type submissions from exchanges. That should not only provide the Commission with an easier review process, but should also help ensure that all submissions will be treated in an equally expeditious manner.

3. Clarification of Review Standards

This proposal by the Commission appears to be an attempt to clarify by making explicit certain guidelines that the Commission has heretofore allowed to evolve based on past administrative review. The items listed include adequacy of deliverable supply and justification of cash settlement (prices). The CBOT believes that informal guidelines in these areas are preferable to explicit rules. Thus, we oppose the proposed revisions. While the Commission may argue that the standards being proposed are flexible and can be waived by the Commission when necessary, past experience has shown that once standards are codified they tend to be rigidly enforced, which can stifle innovation. Also, codifying the standards may make it difficult, if not impossible, to adapt them to respond adequately to rapidly changing economic conditions. The flexibility allowed by the present system of evolution based on prior administration reviews seems to us to be an adequate method that does not need to be tampered with at this point in time.

If the Commission, nonetheless, decides to codify its informal guidelines, we have specific comments with respect to standards for physical delivery contracts. First, the Commission needs to clarify how it defines "deliverable supply." As the Commission knows, the Exchange and many in the industry disagreed with the standard that the Commission applied in its consideration of the CBOT's revised delivery terms for our corn and soybean contracts. The Commission should develop industry consensus on this important matter before codifying standards regarding how to determine the adequacy of deliverable supply. Second, we disagree with the "rule-of-thumb" formula for spot month speculative position limits which

Ms. Jean A. Webb
September 15, 1998
Page 3

provides that such limits should be no greater than one-quarter of the "deliverable supply" estimate for that month. We do not understand the underlying rationale for this formula and question whether it is supported by sound economic principles. On both issues, the Commission should issue a separate release soliciting comments from interested parties on the appropriate standards to adopt. The CBOT's concerns regarding the Commission's views with respect to available deliverable supply and its "rule-of-thumb" formula for determining spot month speculative limits and the need for public comment on these specific matters are discussed in greater detail within the CBOT's comment letter response to the Commission's Federal Register Release entitled "Speculative Position Limits."

Conclusion

It is the position of the CBOT that any revisions to the Commission's "Guideline on Economic and Public Interest Requirements for Contract Market Designation" which allows for streamlined submissions and Commission review is a positive for the industry. However, we question whether a proposal such as the one labeled "Clarification of Review Standards" in which the Commission proposes to make flexible guidelines "explicit" will actually impede the Commission's review process and its ability to respond quickly to changes in the industry. We favor the current approach which allows informal guidelines to evolve in response to changing conditions. If the Commission decides to codify those guidelines however, it should address through separate public comment the issues identified above relating to deliverable supply and spot month speculative limits.

We would be happy to discuss the matters discussed herein with Commission staff at their convenience.

Respectfully submitted,

Thomas R. Donovan
President & CEO