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COMMODITY FUTURES TRADING COMMISSION  
2033 K Street, N. W., Washington, DC 20581

(202) 254 - 6970

Mary L. Schapiro  
Chairman

June 16, 1995

Mr. David E. King, Chief Executive  
London Metal Exchange Limited  
56 Leadenhall St.  
London, England EC3A2BJ

Dear Mr. King:

It was a pleasure meeting with you on April 19, 1995, during your trip to Washington. I appreciated the opportunity to discuss with you the Commission's concerns regarding London Metal Exchange's ("LME") delivery points for copper in the United States and hearing your views regarding regulatory and surveillance cooperation. We appreciate receiving from you the information regarding movements of stock certified for LME delivery.

At our meeting, you also offered to have LME staff respond further to any questions which our staff might have in connection with the surveillance of the United States commodity markets. I have taken the liberty of attaching a list of questions that could form the basis for beginning an ongoing dialogue between our surveillance staffs.

As you know, we recently met with other national regulators at Windsor to discuss the need for heightened international cooperation in the regulation of futures trading. We would like to discuss with you mechanisms for sharing information concerning trading in related contracts.

Thank you for your continued cooperation.

Sincerely,

*Mary L. Schapiro*  
Mary L. Schapiro  
Chairman

enclosure

cc: Andrew Winckler  
Securities Investments Board

The following is a list of staff questions regarding London Metal Exchange trading:

- (1) How does the LME handle position reporting? What is the reporting level for copper? If a trader is reportable in one expiration, is that trader reportable in every expiration in copper? Is "expiration" synonymous with "prompt date"?
- (2) Who reviews position data? Are both clearing members and clients' names reported and reviewed? Describe generally the market surveillance of futures and options expiration dates.
- (3) Does the LME publish a Daily Market Report? If so, can we obtain a sample copy? Does the market report contain firm or estimated kerb data? What, if any, transactions that are considered to be LME transactions (i.e., subject to LME rules) are excluded from the market report?
- (4) What information is available on deliveries on a contract? Is information available with respect to delivery location?
- (5) What records are maintained by the LME with respect to stock ownership? To whom is this ownership information available?
- (6) (a) Cash and Forwards -- Do published volume and open interest figures for cash and forward contracts reported (for example, in the Financial Times) include kerb trading? If not, is any estimate of kerb volume and open interest available? What percent of cash and forward contracts are done in the ring as compared with the kerb? Where can we obtain printed data for forward expirations other than the three-month position?  
  
(b) Options -- Again, is kerb trading included in the volume reported? What percent of options volume is done in the ring vs. the kerb? Are data for other strike prices available?  
  
(c) What type of trade documentation and related audit trail information is available from the LME regarding ring and kerb trades? How are principal-to-principal trades documented?  
  
(d) Does the LME have educational pamphlets similar to those used by U.S. exchanges?
- (7) Define the terms "close" and "A.M. Official Price."
  - (a) What is the closing price? Actual prices or a bid/ask range?
  - (b) How are closing prices determined and by whom? How is the final price determined, and how does it differ from closing prices?



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cc: Chairman

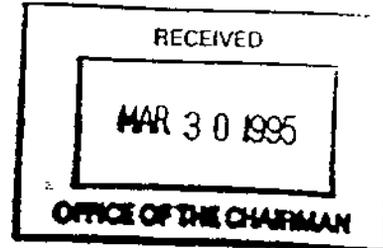
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# LONDON METAL EXCHANGE

*From the Chief Executive*

30th March 1995



The Hon. Mary L. Schapiro  
Chairman  
Commodity Futures Trading Commission  
2033K Street, NW  
Washington DC 20581  
U.S.A.

Dear Ms Schapiro

Thank you for your letter dated 24th March 1995 addressed to Mr Raj Bagri, our Chairman, who is currently out of the country and on whose behalf I am therefore replying.

Raj and I very much appreciated your taking time from your busy schedule at the FIA Annual Meeting in Boca Raton to converse with us about the LME, the metals market generally and our authorisation of Delivery Points for Copper in the United States, effective 1st April 1995.

As we discussed on 17th March and as I advised you during our meeting in December 1994 in Washington and as I had previously advised Andrea Corcoran at an earlier meeting held especially for that purpose in October 1994 in Washington, the LME determined to establish Delivery Points in the U.S.A. for the benefit of U.S. users of the LME, just as it had previously done in recent years for each of the other metals traded on the Exchange, and not with a view to damaging any existing Contract trading on any US Exchange. You will be aware I'm sure that in the case of LME's Primary Aluminium Contract (and the Cocoa and Coffee Contracts of the London Commodity Exchange), US Delivery Points were established, while substantially similar, actively traded Contracts operated in the U.S.A. and in this regard LME's present actions are little different, particularly in so far as their prime function is to better serve the economic and commercial purposes of US users in the underlying cash markets.

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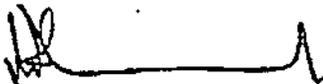
You will also be aware that LME serves the bigger, global Copper market whereas NYMEX's smaller COMEX Division serves primarily the smaller domestic US Copper market and that our actions are prompted by the economic rationale for establishing Delivery Points to enable market users to deliver metal into warehouses in times of surplus (although LME warehouses are normally Delivery Points of last resort), thus generally reducing prices in line with economic supply/demand principles, and enabling them to take metal from warehouses in times of, sometimes local, shortage. Also, during times of stress, such as during backwardations, the availability of nearby warehouses enables those with locally surplus metal to quickly deliver it into warehouses, thus generally reducing or negating backwardations in a far shorter time frame than would otherwise have been the case.

The LME shares your concerns regarding the recent collapse of Baring Brothers & Co., even though preliminary indications are that the collapse was caused primarily by the lack of managements' understanding of risks and a lack of internal control (as has been the case in virtually every other large collapse). It is for this reason that the LME is to participate in the FIA's task force in reviewing the lessons to be learned and is carrying out similar reviews in other areas.

We fully understand and appreciate the responsibilities of the CFTC under the Commodity Exchange Act and the need of the Commission for adequate information with which to fulfil those responsibilities. Accordingly, we have arranged to meet on 31st March 1995 with your representatives who are currently in London, to discuss the matters arising in your letter.

The LME also recognises that differences in approaches to customer protection and market integrity have resulted from differing cultures, legal frameworks and market forces over the years. Even in those jurisdictions and markets which the CFTC has found have and are subject to comparable regulatory regimes, different approaches which accomplish the same ends may be found. Nevertheless, the LME understands that greater mutual understanding of rules and procedures along with enhanced communication, particularly in times of market irregularities, are subjects that are both necessary and appropriate for discussion. To these ends also, the LME looks forward to meeting with your representatives in London on 31st March 1995. In the meantime, you will note that we have issued the attached Notice to our Members providing details of the approved Delivery Points in the U.S.A. in line with our well publicised plans, to avoid any market disruption.

Yours sincerely



pp. D. E. King

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