



Bernard W. Dan  
President and  
Chief Executive Officer

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August 21, 2006

BY E-MAIL AND FEDERAL EXPRESS

Ms. Eileen Donovan  
Acting Secretary  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21<sup>st</sup> Street, N.W.  
Washington, D.C. 20581

COMMENT

OFFICE OF THE SECRETARIAT

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C.F.T.C.

Re: COT Reports – 71 F.R. 35627 (June 21, 2006)

Dear Ms. Donovan:

The Board of Trade of the City of Chicago, Inc. (“CBOT®” or “Exchange”) is pleased to respond to the Commodity Futures Trading Commission’s (“Commission”) request for comments regarding the Commitments of Traders (“COT”) Reporting Program. The CBOT commends the Commission for undertaking a comprehensive review of its COT reporting program and for recognizing the significant role that index fund trading and other non-traditional hedging activity has assumed in the agricultural futures markets.

During the fall of 2005, a number of market participants communicated to the CBOT their concern that the COT reports may need modification to properly account for the increasing participation in the CBOT’s agricultural futures markets by index fund traders. While these market participants welcomed the beneficial impact on market liquidity provided by index fund traders, they also expressed concern that many of these traders were being placed in the “commercial” category on the COT reports.

Currently, there are only two classifications of traders on the COT reports, “commercial” and “non-commercial”, and all hedgers are classified as “commercial”. The “commercial” category historically reflected hedging transactions connected to activities of producers, processors and merchandisers of the underlying product. However, the “commercial” category now includes a growing number of non-traditional hedgers, such as swap dealers and index fund traders, who currently represent a significant proportion of the long open interest in various physical commodity futures. Therefore, in its request for comments, the Commission noted that questions have been raised regarding whether market participants can continue to place reliance on the COT reports “. . . to assess futures hedging activity by persons hedging exposure in the underlying physical commodity markets.” 71 F. R. at 35631.

In November 2005, CBOT staff and members of the National Grain Trade Council held a conference call with Commission staff to discuss the feasibility of creating a new category or a subcategory in the COT reports that would include the positions of non-traditional hedgers. On December 2, 2005, the CBOT wrote a letter to Chairman Reuben Jeffery III expressing its support for a change in the COT reports that would place the positions of index fund traders in a separate category or a subcategory of the existing commercial category.

In its Request for Comments, the Commission has posed a number of specific questions regarding the COT reports, which are addressed below.

1. **What types of traders in the futures and option markets use the COT reports in their current form, and how are they using the COT data? More specifically:**
  - (a) **How do traders use the COT information on commercial positions?**
  - (b) **How do they use the COT information on non-commercial positions?**
  - (c) **In particular, with respect to information on non-commercial positions, what information or insights do traders gain from the COT reports regarding the possible impact of futures trading on the underlying cash market?**

Based on the feedback that the Exchange has received from market participants, the presentations made at the Commission's Agricultural Advisory Committee Meeting on August 1, 2006, and the comment letters filed thus far, the COT reports appear to be widely used throughout the trading community by both commercial and speculative traders to assist them in analyzing price trends and making trading decisions.

2. **Are other individuals or entities (academic researchers or others) using the COT reports and, if so, how?**

CBOT research staff also utilizes historical COT data to monitor trends in participation in the Exchange's products by commercial and non-commercial traders.

3. **Do the COT reports, in their current form, provide any particular segment of traders with an unfair advantage?**

The CBOT does not believe that the COT reports currently provide any category of trader with an unfair advantage over any other category of trader. However, the lack of differentiation between traditional hedgers and non-traditional hedgers in the commercial category may have placed all market participants at a disadvantage with respect to the

usefulness of the information because it has not allowed them to distinguish between the percentage of long open interest held by traditional commercials (e.g., exporters, processors and livestock feeders and other end-users) from that held by swap dealers and index fund traders.

**4. Should the Commission continue to publish the COT reports?**

The Exchange strongly supports the continued publication of the COT reports. Particularly, if the Commission adds a new category for non-traditional commercials, these reports will continue to provide all market participants and members of the public with transparent information regarding the nature of futures market participation that has been a goal of the Commission and its predecessor agencies for more than 80 years.

**5. If the Commission continues to publish the COT reports, should the reports be revised to include additional categories of data – for example, non-traditional commercial positions, such as those held by swap dealers?**

The Exchange supports a revision in the categories of traders in the COT reports to include a new category for non-traditional commercials. By doing so, the Commission would separately report for traditional commercial market participants and non-traditional commercials, the aggregate positions held by each category of trader and the percent of open interest represented by each category of trader. This additional refinement of the COT data would permit the public to better understand the nature of participation in the markets, and could assist market participants in making more informed trading decisions.

**6. As a general matter, would creating a separate category in the COT report for “non-traditional commercials” potentially put swap dealers or other non-traditional commercials at a competitive disadvantage (since other market participants would generally know that their positions are usually long, are concentrated in a single futures month, and are typically rolled to a deferred month on a specific schedule before the spot month)?**

**7. More specifically, if the data in the COT reports are made subject to further, and finer, distinctions, such as adding a category for non-traditional commercials:**

- (a) Would it increase the likelihood that persons reading the reports would be able to deduce the identity of the position holders, or other proprietary information, from the reports?**
- (b) Could such persons use information gleaned from the reports to gain a trading advantage over the reported position holders?**

- (c) **In such case, in order to reduce the likelihood of publishing categories with few traders, which might provide information giving other traders a competitive advantage over the reported traders, should the Commission consider raising the threshold number of reportable traders needed to publish data for a market from 20 traders to some larger number of traders?**

The Exchange believes that it would significantly improve the usefulness of the COT reports if the Commission created a separate category for non-traditional commercials. However, the Commission should carefully analyze the issue of whether there would be any potential competitive disadvantage to these non-traditional commercials, and consider any appropriate means to mitigate any such disadvantages in its implementation of revisions to the COT reports.

8. **If the data in the COT reports are made subject to further, and finer, distinctions, should the reports be revised for all commodities, or only for those physical commodity markets in which non-traditional commercials participate?**
9. **If a non-traditional commercial category were added to markets in physical commodities, what should be done with financial commodities, where “non-traditional commercials” would be essentially an empty category (since, in financial commodities, swap dealers would fall within the pre-existing “commercial” category)?**

The Exchange does not perceive any disadvantage to including the non-traditional commercial category on the COT reports for all commodities, regardless of whether it reflects a value of zero. If the category is included, then it will be able to be populated with a number when and if non-traditional commercials do enter a particular market. Although this modification may only be needed for physical commodity markets, the Commission should determine the most efficient manner of implementing this change.

10. **The Commission has observed that the non-traditional commercials tend to be long only and tend not to shift their futures positions dramatically – even in the face of substantial price movements. If the data in the COT reports are made subject to further, and finer, distinctions, would issuing the additional data on a periodic basis, in the form of a quarterly or monthly supplement, be sufficient?**

We believe that the Commission should continue to publish the COT reports on a weekly basis, and should also include a new category for non-traditional commercials on a weekly basis. This additional information will be most useful when it is timely, and a less frequent publication may obviate the potential benefits. Moreover, the weekly reports could be misleading if information regarding the positions of non-traditional

Ms. Eileen Donovan

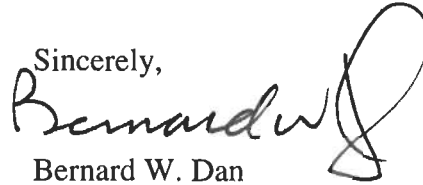
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hedgers were either not included on the reports at all or were included in the traditional commercial category, until the publication of periodic supplements.

The CBOT appreciates the opportunity to comment on this important issue. If you have any questions, please feel free to contact Anne Polaski, Assistant General Counsel, at (312) 435-3757 or [apolaski@cbot.com](mailto:apolaski@cbot.com).

Sincerely,

A handwritten signature in black ink, appearing to read "Bernard W. Dan". The signature is fluid and cursive, with a large loop at the end.

Bernard W. Dan