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April 12, 1998

COMMENT

Brooksley Born, Chairperson
Commodity Futures Trading Commission
1155 - 21st Street, N.W.
Washington, DC 20581

Dear Ms. Born;

I am writing to comment on the proposal before the Commission to permit the negotiation and execution of trades off the trading floors of designated futures contract markets. For purposes of exposition, I will use the futures and cash markets in US 10 Year Treasury Notes, the relevant features of which are listed below.

Future Delivery .... a single REGULATED Central Auction Market (CAM)
* Designed to maximize price discovery.
* Strictly governed by Price Priority as opposed to Quantity Priority.
* Free access, low brokerage fees ($17 per million). Minimum participation one tenth the size of OTC round lot.
* Participation includes many small professionals (competing market makers) as well as the public.

Cash Delivery ... numerous separate UNREGULATED Over The Counter (OTC) markets
* Priority varies from market to market. No consistent rules with respect to Price versus Quantity Priority.
* Dominated by large institutions, banks, Primary Dealers and four main Inter Dealer Brokers.
* Access severely restricted, generally denied to small professionals and public. Minimum size of participation generally ten times that of futures.
* Brokerage fees extremely high ($39.06 per million), redundancy in resources very expensive.

Restated in terms defined above, the proposal before the Commission is to adopt the OTC practice of selective Quantity Priority to the highly regulated futures CAM which is strictly governed by Price Priority. To illustrate, consider a large buyer's alternatives:

Futures CAM:
CBT... Bid 112.16 X 350 Offer 112.17 X 100
A buyer may lift the 112.17 offers, then bid 112.18.
No trades at 112.18 are permitted until the 100 contracts offered at 112.17 are filled.

Cash OTC:

1)	Bid 98.24+X 20	Offer 98.25 X 5
2)	Bid 98.24 X 2	Offer 98.25+X 7
3)	Bid 98.24 X 1	Offer 98.26 X 3
4)	Bid 98.24 X 10	Offer 98.26+X 1

Because there are many OTC markets (including four Inter Dealer broker screens), it is difficult for a single large buyer to lift all offers at once. Instead the buyer (an institution to be sure, because neither a small professional nor the public could afford such a thing) agrees to pay a premium to a seller (another institution) in order to get the size it wants. Ignoring Price Priority, a buyer could for instance privately negotiate with yet another seller to buy $100 million (Quantity Priority) 10 Year Notes at 98.27 without lifting lower offers.

In futures markets however, Price Priority and Quantity Priority are mutually exclusive. Allowing such OTC selective Quantity Priority would violate the price integrity of the futures CAM for the convenience of Wall Street institutions. The small professional and the public who compete to provide price discovery would be severely disinfranchised.

Sincerely,

Peter Gallagher