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COMMENT

April 27, 1998

Ms. Jean Webb
Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, D.C. 20581

Dear Ms. Webb:

I am writing to express my concern over two issues currently before the Commodity Futures Trading Commission (CFTC)—the CFTC's "concept release" regarding non-competitive futures trading, including off-floor negotiation and execution of futures trades, and the application filed by the New York Cotton Exchange (NYCE) and various Cantor Fitzgerald-related entities (Cantor) for designation as a contract market in various government securities futures contracts.

I would like to begin by first addressing the NYCE/Cantor proposal to establish a new futures exchange, the Cantor Financial Futures Exchange, Inc. (CFFE). This proposed exchange deeply troubles me as it raises disturbing questions regarding customer protections. Terminal operators for CFFE will be executing trades, yet will not be accountable to the standards of conduct demanded by all other such market participants governed by the Commodity Exchange Act.

I will tell you—and I will tell you why—the act of executing orders on behalf of customers is a sacred position, one that must be held to the highest standards of scrutiny and accountability.

I have been a victim of a conspiracy to defraud, a conspiracy which cost my firm and myself approximately \$9 million. This conspiracy—well documented and acted upon by the CFTC as well as the federal courts, resulting in the imprisonment of the two conspirators—happened to me during a time I fulfilled the role of Chairman of the Floor Governors Committee at the Chicago Board of Trade.

If someone as well versed in the rules and regulations of the Exchange as I could be defrauded, I shudder to think what could happen to less-knowledgeable market participants who place their trust as well as capital in CFFE terminal operators not held to proper standards of conduct. A number of questions have been raised in public forums such as *Forbes Magazine* regarding the integrity of Cantor Fitzgerald, L.P.—questions that lead one to question why any Cantor operation would not be held to the same high standards as the Chicago Board of Trade, and all the other CFTC-governed exchanges in North America.

There are numerous other issues relating to customer protection that need to be addressed as the Commission ponders the NYCE/Cantor proposal. Terminal operators in the CFFE network will face conflicts of interests in their interaction with CFFE authorized traders for single order entry, creating possible scenarios in which authorized traders will be soliciting material non-public information. Although CFFE rules prohibit disclosure of such information, I find it difficult to believe a terminal operator could avoid using that information if he were also soliciting business or trading for his own account in the cash market. Further, it appears that it would be difficult for a terminal operator to even perform his basic job functions without providing extensive information and advice.

The NYCE/Cantor is further problematic in that it raises numerous issues regarding Cantor's fitness to control a federally licensed exchange. Again, published reports and settled proceedings raise issues that demand a thorough investigation by the CFTC, and raise serious questions as to Cantor's ability to properly service its affiliation with CFFE.

The other issue I wish to address is the CFTC's "concept release" regarding non-competitive futures trading, including off-floor negotiation and execution of futures trades.

It is unthinkable to me that our federal regulator—charged with safeguarding our markets—would even consider rules permitting off-floor negotiation and execution. There is no question in my mind that the allowance of such practices would rob customers of the price transparency and customer protections of centralized markets. Further, such practices would drain liquidity from organized markets, thereby subverting the very price discovery function which Congress has declared to be in the national interest.

Again, as in the CFFE proposal, issues of customer protections are raised and placed in the frightening shadow cast by the consideration of practices that would contravene the safeguards that have been inherent in CFTC regulation since the Commission's inception.

I began my personal career in the futures industry as a runner at the Chicago Board of Trade, following two years in the United States Air Force. Since that time, I have served as a member of the CBOT for 49 years, and also as a member of the Chicago Mercantile Exchange for 35 years. I have served in the position of exchange director, and have chaired numerous committees. I have therefore participated in this industry long before the establishment of the CFTC.

I have witnessed many beneficial effects of CFTC regulation. Over the course of its 24-year existence, the CFTC has instituted many rules and regulations that have served to imbue the public with confidence in the futures markets. If those requirements are diluted at all—as appears to be the case under the CFFE and “block trading” proposals—there is no question in my mind that our entire industry will suffer irreparable damage in public confidence. Accordingly, I urge a thorough examination of both issues, and ask that neither proposal be authorized by the Commission.

Sincerely,



Lee B. Stern