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COMMODITY FUTURES
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The Honorable Brooksley Born, Chairperson
U.S. Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, D.C. 20581

COMMENT

Dear Chairperson Born:

I am writing to express my concern about a potential conflict of interest in the recent proposal to the Commodity Future Trading Commission (CFTC) to create a new type of futures exchange. The attached article describes this conflict of interest and raises important questions in my mind for users of futures markets.

The plan put forth by Cantor Fitzgerald and the New York Cotton Exchange seems to skirt many of the mechanisms mandated by the Commodity Exchange Act to ensure market integrity, fairness for those transacting business and those using pricing data. If a large market participant is allowed both to run an exchange as well as trade in the market it controls, a radically different exchange structure would be created. Any such action which should be thoroughly examined for its public policy implications.

Additionally, I am concerned the CFTC's request for public comment does not explicitly identify the unique structure of this proposed exchange or highlight the critical issues raised by this structure. The second attached article indicates, following the public comment period, CFTC staff identified more than 100 questions in the areas of governance, membership, order handling, trade matching, compliance and clearing. The broader policy implications should not be lost in the details of specific, individual questions.

Again, I am concerned about the CFTC's lack of focus on the broader fundamental policy issues raised by this type of exchange. The Cantor Financial Futures Exchange's (CFFE)'s response that these questions will be readily answered and an analysis will be completed in time for a June launch troubles me. I would like to be notified when a response is provided by CFFE. I further request any available information regarding what the CFTC's timetable and process for reviewing the response and whether your commission has the statutory tools necessary to approve such a departure from the traditional exchange structure.

Thank you for your attention to this matter. I look forward to your response.

Sincerely,



Leonard L. Boswell
Member of Congress

Encls.

cc: Commissioners: Barbara Pedersen-Holum, David D. Spears, John E. Tull Jr.

May 11, 1998

Amex and CBOE join anti-Cantor chorus

US/EXCHANGES

In comment letters filed at Commodity Futures Trading Commission, New York's American Stock Exchange and Chicago Board Options Exchange have joined Chicago Board of Trade in raising objections to the proposed Cantor Financial Futures Exchange (CFFE).

The Amex and CBOE submissions are noteworthy not least for coming from exchanges regulated not by the CFTC, but by the Securities & Exchange Commission.

Significance

In Amex's case, the intervention has added significance given that Amex itself was, until recently at least, thought to have been contemplating a very similar venture to CFFE for trading Treasury products — in collaboration with Spear Leeds & Kellogg.

A spokesman for Amex insisted that this proposed SLK joint venture is still very much on the agenda, even though Amex's letter to the CFTC appears to imply that any such deal has now been called off.

"Many of the concerns stated in this correspondence contributed to our recent withdrawal from a very similar joint venture to develop a new Treasury futures market," Amex stated.

Both Amex and CBOE highlighted what they suggest could be a potentially serious conflict of interest under the proposed structure of CFFE — if, as under existing plans, officials of Cantor Fitzgerald act both as operators of the exchange and as brokers in the marketplace.

Terminal operators

Amex focused specifically on the proposed role of 'terminal operators' who will accept orders by telephone and enter them into the Cantor system — even though they will also be registered as 'government securities representatives' for cash Treasuries.

"We believe... there is an

issue as to whether it is even possible for a single person to act as a broker/trader in the cash market while simultaneously acting as a mere clerk in the related futures," Amex said.

According to CBOE: "This unusual structure raises significant questions of conflict of interest, adequacy of Commission oversight and whether trading in CFFE would be competitive and fair..."

Although Chicago Mercantile Exchange has thus far kept out of the argument, there was also a letter making the same point from Sean Bolger, a Eurodollar pit clerk at CME.

"How can an exchange remain a neutral ground for commerce when one of its largest participants is the entity running the said exchange?" Bolger asked.

Considerations

Together with a letter expressing similar sentiments from Minneapolis Grain Exchange, as well as the 48-page missive filed by CBoT (*F&O Week 4* May), there seems plenty for CFTC officials to consider. ©

Neil Wilson

CFTC suspends review of proposed electronic market

WASHINGTON, May 8 (Reuters) - The Commodity Futures Trading Commission has suspended its review of a proposal to develop the first electronic commodity exchange for trading futures contracts on U.S. Treasury securities.

In a letter Wednesday, the CFTC asked one of the co-developers of the proposed electronic market, the New York Cotton Exchange, for more information on how the system would operate. The NYCE is working with Cantor Fitzgerald LP to develop the exchange.

The delay is not expected to be a major set back for the electronic exchange, and CFTC staff said they are ready to resume their review of the proposal once the additional information is made available.

"Commission staff wants to assure you that this matter has the highest attention of the staff, and when the outstanding information is provided, it is prepared to work with the utmost speed to bring this matter to a very prompt resolution," the agency said in its letter to the NYCE.

NYCE President Joe O'Neill told Reuters the exchange will send the requested information to the agency next week. "We're on target for opening (the electronic exchange), starting trading sometime in June," he said.

However, a spokesman for the Chicago Board of Trade, which would compete with the electronic market, said more public information about how the exchange would operate will highlight its problems.

"If the information is made available, we believe the commission will have more reason to reject the application," the spokesman said.

Other concerns about the electronic exchange have been raised to the CFTC by the American Stock Exchange, Chicago Board Options Exchange and the Minneapolis Grain Exchange.

Amex is worried that Cantor will have too much control over the proposed market, in that the company will appoint a majority of the exchange's board, handle all the exchange's order flow, own and operate the market's computerized order matching system and distribute the exchange trade data.

The electronic exchange's futures contracts would be based on the value of the U.S. Treasury's 30-year bond, 10-year note, 5-year note and 2-year note, and would compete with similar contracts traded at the CBOT.

The contracts would be traded on the new Cantor Financial Futures Exchange, a wholly-owned subsidiary of Cantor Fitzgerald. CFFE trading would be conducted on the same computer-based system used by another Cantor subsidiary to operate as an interdealer-broker in the U.S. Treasury securities market.

The futures contracts would trade from 7:30 a.m. to 5:30 p.m. New York time on each business day.

Authorized traders would place orders for the contracts, either for their own accounts or for their customers, by phoning CFFE terminal operators located at Cantor.

A trader would have to provide the terminal operator with an account number, then say which contract is to be bought or sold, as well as the quantity and price. This information would then be typed into Cantor's trading system.

Buy and sell orders would then be matched in the same way Cantor matches interdealer-broker orders in the government securities market.

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