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COMMENT

Testimony of Peter F. Karpen

Presented Before The Commodity Futures Trading Commission

CFFE Contract Market Application

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Good afternoon, and thank you for permitting me time to comment on the CFFE's contract application from the perspective of an end-user. It's especially pleasing to see Commissioners Holum and Tull again, meet Chairperson Born and Commissioner Spears, and to congratulate Commissioner Newsome on his recent appointment to the Commission. It may be helpful to begin with a description of my background which encompasses many vantage points of the futures industry.

My name is Peter Karpen and I am currently managing member of Diversified Investment Management, L.L.C., a registered commodity pool operator based in Connecticut, and the general partner of Diversified Capital Investment Fund, L.P.

After receiving an MBA in 1975, I began my professional career as a runner and phone clerk on the CBOT and CME. Thereafter, I became a member of both exchanges, president of a New York-based broker/dealer's FCM and managing director of a large CTA. During this time, I served on two CFTC advisory committees (Financial Products and Regulatory Coordinating), many Chicago exchange committees, and on the board of the Futures Industry Association (FIA) and Futures Industry Institute. I was elected chairman of the FIA in 1994 and served during the Barings crisis in 1995. I have testified before both houses of Congress, provided comments before the Brady Commission (1987), and, as chairman of the FIA, helped coordinate the industry's Global Task Force on Market Integrity following the Barings event. Currently, I am a public director of the NYBT and an arbitrator for the NFA.

My comments are brief and focus on three areas – customer protection, customer benefits and market competition. As you will hear, the CFFE offers substantial improvements in the manner that business is presently conducted.

Customer Protection

Contract markets must provide end-users with an efficient regulatory, market and financial environment. Broadly speaking, this means that customers should be protected from fraud and abuse, treated equally and ensured that trading and clearing mechanisms are financially sound and especially able to withstand market and credit risk events.

The CFFE, as proposed, meets these standards. First, and perhaps foremost, it will be a regulated entity, falling under the auspices of the CFTC, NFA and NYCE and subject to their respective rules and regulations.

Second, using Cantor's time-tested trading algorithms and electronic trading platform, the CFFE will provide an accurate and verifiable audit trail for its entire trading session. Time and sales reports will become more reliable and front running discouraged.

Third, equal and fair access to the markets will be maintained through price and time priorities. Liquidity providers will be rewarded with momentary exclusivity.

Fourth, market and credit events that place clearinghouses, intermediaries and end-users at risk will become more manageable. The CFFE will be able to identify, assess and isolate net market exposure in a timely fashion. Thus, risk management information will be more readily available to assist regulators, clearinghouses, intermediaries and end-users during market emergencies.

### Customer Benefits

The CFFE will provide many positive attributes for end-users. First (in no particular order and certainly not inclusive), the CFFE will provide greater anonymity for customers. For example, their respective clearing firms will not be revealed to the market throughout the entire trading and clearing process. Second, prices and quantities traded will be displayed instantaneously and at the price that clears the market at that time. Third, the CFFE trading system is designed to lower transaction costs by reducing the chain of order flow and by charging only the aggressor. Fourth, trade differences will quickly surface allowing out trades to be resolved with minimal dislocation. And fifth, price risk takers, which Cantor calls "aggressors", will have priority.

### Market Competition

One major benefit from the CFFE's contract application submission to end-users has been the quick reaction by its more established competitors to consider changing the way they do business. Market participants, who have been clamoring for years for the exchanges to reduce transaction costs, improve audit trails, manage members' capital more efficiently and lower their operating expenses are now seeing these concerns addressed. For example, the CBOT plans to put before its membership a proposal to trade interest rate contracts electronically during regular open outcry trading hours. If approved, and trading migrates to the electronic platform, a large percent of the CBOT's overall volume will finally have an accurate and verifiable audit trail.

The point is that competition, both here and abroad, encourages exchanges to develop new and more efficient ways to do business. This interaction ultimately improves the regulatory and financial integrity of the market place. It is imperative to the overall health of the futures industry that the Commission endorses this type of competition.

Thank you for your time.