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Senior Executive Vice President

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April 29, 1999

Ms. Jean A. Webb
Secretary of the Commission
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, DC 20581

COMMENT

Re: *Proposed Rules Governing Access to Automated Boards of Trade*

Dear Ms. Webb:

Salomon Smith Barney Inc. ("SSB") respectfully submits this comment letter in response to the Commodity Futures Trading Commission's ("CFTC" or "Commission") request for comments on proposed rules governing access to automated boards of trade ("proposed rules"), published on March 24, 1999.[1] Although SSB understands that there may be sound reasons for the Commission to formalize its guidelines for placement of foreign electronic terminals in the U.S., SSB is gravely concerned that, if adopted, the proposed rules would disadvantage U.S. futures commission merchants ("FCMs") in relation to their non-U.S. competitors, inhibit the ability of U.S. customers (including large institutions such as pension funds, corporations, and mutual funds) to access global markets efficiently, and impede the development of technology that promises significant efficiencies in the global trading environment. For those reasons, SSB fully supports the Futures Industry Association's ("FIA") proposal that the Commission withdraw the proposed rules and lift the moratorium on placement of foreign terminals in the U.S.[2] If the Commission decides to proceed with its rulemaking, SSB would support adoption of FIA's proposed interim order as a far more sound approach than pursuing the inherently flawed framework of the proposed rules.

SSB is a broker/dealer and FCM with a global customer futures business. SSB clears and executes futures trades for institutional and retail clients in the U.S. and, through affiliates and unaffiliated firms, provides execution and clearing facilities on most futures exchanges worldwide. Like other FCMs, in the last few years SSB has experienced rapidly accelerating customer demand for both access to non-U.S. futures

[1] 64 F.R. 14159 (March 24, 1999).

[2] See Letter to Jean A. Webb, CFTC, from John Damgard, FIA (April 19, 1999), and Letter to Jean A. Webb, CFTC, from John Damgard, FIA (April 20, 1999), (together, "FIA comment letters").

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markets, including electronic exchanges, and automation of the business services that SSB provides.

The proposed rules address two loosely related but distinct topics: the terms under which non-U.S. futures exchanges can make direct electronic execution facilities available in the U.S., and the terms under which financial intermediaries like SSB can make electronic order routing systems available to customers to the extent that those order routing systems can be used to access non-U.S. electronic futures exchanges. The proposed rules would require any non-U.S. exchange seeking to place a direct order entry facility in the U.S. to obtain a CFTC exemptive order based on, among other things, a demonstration that the exchange is subject to regulations "comparable" to those imposed on U.S. exchanges. More significantly, the proposed rules would create new regulatory requirements for electronic order routing systems that FCMs or Introducing Brokers might make available to their customers. Those requirements would be applied solely on the basis that the order routing system could be used by customers to place orders for execution on non-U.S. electronic exchanges.

SSB is concerned that both aspects of the proposed rules would create burdensome and unneeded regulatory hurdles and are based on fundamentally flawed precepts. The FIA comment letters fully describe the basis for these concerns, and SSB supports those comments. Most significantly, SSB believes that the Commission's proposal to regulate order routing systems would impose a new set of regulatory requirements based solely on technological improvements in order routing and placement. Yet the CFTC proposal does not identify customer protection or other legitimate regulatory concerns that arise from the adoption of that technology. It does not identify how existing CFTC regulation of intermediaries such as FCMs would be inadequate or ineffective when applied to an automated order routing environment or, more to the point, how an order placed by keystrokes on a computer warrants greater regulatory controls than the same order for the same product placed by the same customer over a telephone.

SSB therefore urges the Commission to withdraw the proposed rules and end the moratorium on placement of foreign terminals in the U.S. If the CFTC does not withdraw the proposed rules, SSB would urge the Commission to base any action it may take on FIA's proposed interim order.

SSB appreciates the opportunity to submit these comments and would welcome the opportunity to work with the Commission and the FIA to develop a flexible and workable approach to the emerging global electronic trading environment.

Sincerely,

Jack Lehman
Senior Executive Vice President