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COMMENT

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May 16, 2000

Ms. Jean A. Webb
Secretary
Commodities Futures Trading Commission
Three Lafayette Centre
1155 21st St. NW
Washington, DC 20581

Dear Ms. Webb,

For the last eleven years, Richfield Investments has arbitraged Finex Dollar Index futures and options. In this role, we have become very familiar with the intricacies of the contract, its trading, and its settlement. For this reason, I feel qualified to comment on the proposed change of the contract to physical delivery.

Over the last three years, the exchange's cash settlement mechanism has grown increasingly inefficient. The currency prices utilized are indications, not "live" markets. As such, they can prove inaccurate. The provider of these indications, Reuters Ltd., acknowledges that the quality of their contributions has deteriorated, and they hold out little hope for improvement.

The Dollar Index market has three major participants: independent traders (locals), customer speculators, and arbitrageurs. All three have been affected by the aforementioned deterioration, and the marketplace has suffered. Arbitrageurs make futures markets right up to expiration. They implicitly build into those markets a settlement premium. That premium is a function of the likelihood of holding a position to settlement and the expected (or to the risk averse, the possible) cost of settlement. As expiration approaches, the likelihood factor becomes either zero or one, depending upon the trader's position and the side of the market in question. That factor is then multiplied by the cost. A less dependable settlement means a higher possible cost, a higher settlement premium, and therefore wider markets for locals and customers. In the end, arbitrageurs pass along their increase slippage costs to the customers.

Physical delivery will halt this expanding problem by making settlement a defined cost. The clearing charge for currency delivery is slightly greater than for cash settlement, but avoiding the bid – offer slippage, as well as the uncertainty, more than compensates for the higher contract charge. In the end, physical delivery will significantly improve the market's price discovery process as expiration approaches.

There was some doubt as to whether "market participants who make or take delivery realize profits or losses in the contract." The settlement and delivery process has no slippage, so a customer who is long one DX future that is worth $111,000 before expiration will be short $111,000 worth of six currencies after expiration. The customer will receive $111,000 for those currencies, but she will be at risk until she pays dollars to buy back the six currencies and levels her account. While the exact size of the positions (in terms of dollars or currency) is unknown until expiration, the customer can anticipate their upcoming foreign exchange exposure to within fraction of a percent; and that position size will represent a smooth transition from the final futures mark-to-market.

Finally, there is the question of potential manipulation. As with all physical deliveries, the settlement price is relatively inconsequential. The only important issue for the DX is that the settlement price be consistent with the prices used to determine the quantities of dollars and other currencies exchanged in the delivery. The ability of some individual to affect the settlement of an index component, and therefore of the index, is pretty unimportant. Actually, such an ability would prove more troublesome under the cash settlement procedure in which the DX settlement determined a final value for the contract.

Since its inception, the Dollar Index settlement has provided a less than perfect convergence between futures and spot prices. Through most of the contract's history, fairly accurate spot price indications combined with the difficulty of delivering ten components to make cash settlement the most desirable alternative. As the cash settlement has become less efficient and the number of currencies has been reduced, the Finex has the opportunity to guarantee convergence by moving to physical delivery. I believe they are making the right choice.

Sincerely,

Ken Perkins
President