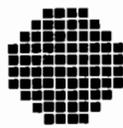


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**KANSAS CITY  
BOARD OF TRADE**

**Received CFTC  
Records Section**

1/25/06

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January 17, 2006

Ms. Jean A. Webb  
Secretary of the Commission  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21<sup>st</sup> Street, N.W.  
Washington, D.C. 20581

**COMMENT**

Re: Comments submitted by the Kansas City Board of Trade ("KCBT") in response to Commission's ongoing review of self-regulation and self-regulatory organizations in the U.S. futures industry ("SRO Study")

Dear Ms. Webb:

In response to the Commission's request for comments on self-regulation and self-regulatory organizations we offer the following (answered in numerical order relative to the comment letter questions posed):

1. KCBT believes the present system of self-regulation is an effective regulatory model for the futures industry. Self-regulation has been an integral part of the futures industry for many years and has worked with a high degree of success. Market integrity must be the most important aspect of an SRO's business in order for the SRO to achieve success. Customer protection is the cornerstone of an effective self-regulatory system. Market participants expect the futures industry to be run fairly and competitively. Exchange staff and members take pride in the history and integrity of their market place. As such, both want to do everything possible to ensure that no events occur that could harm the exchange's good name that they have worked so hard to build.

The current system of self-regulation is effective due to the system of checks and balances that are in place. The exchanges employ individuals who become very knowledgeable about the trading activity conducted in their markets. Exchange staff thoroughly review trading activity and records on a daily basis and thus become very intimate with the trading patterns, tendencies and intricacies of their market place. In addition, exchange staff is routinely in contact with exchange members and member firms so they become very familiar with how their particular business operates. This intimate understanding allows the staff to act quickly in the event of a possible rule violation. If a possible rule violation is discovered then the matter is forwarded to a disciplinary committee made up of

members many of whom have unique or special expertise, knowledge or experience in the matter under consideration. This expertise is also very beneficial in the exchange rule making process. The special expertise, knowledge and experience that exchange members bring to the table is an invaluable asset of the exchange. Exchange members are able to better handle the complex issues that routinely arise at exchanges than someone outside of the industry since they are involved with many of the issues on an everyday basis. Exchange members are able to act more quickly on issues than someone outside of the industry due to their knowledge of the industry.

Through the Joint Audit Committee, self-regulatory organizations have reduced regulatory duplication by appointing one Designated Self-Regulatory Organization to audit and monitor Futures Commission Merchants, that are members of one or more self-regulatory organizations. This system has worked effectively for several decades due to the open lines of communication that have been established between the participating members. During the Refco matter this past October and November, a daily conference call was made in which all interested self-regulatory organizations could participate to share information. The Chicago Mercantile Exchange (DSRO for Refco, LLC) did an excellent job of keeping all interested parties apprised of the events at the firm as they unfolded. This consolidated effort among the self-regulatory organizations lessened the reporting burden of Refco, LLC immensely.

Both the exchange staff and members understand the importance of maintaining market integrity. It is very simple, if market integrity is lacking, then the market participants will not trade your product. Both the exchange staff and members are dedicated to maintaining the integrity, reputation and high standards of our markets.

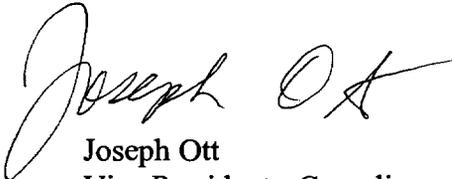
2. For detail on the KCBT's policy and procedures relating to conflicts of interest, please refer to the September 20, 2004 letter submitted by the KCBT to the Commission regarding the governance practices of the KCBT.
3. KCBT is not publicly traded.
4. KCBT rules strive to ensure that the composition of the Board of Directors adequately reflects a broad array of market participants to ensure that various interests are fairly represented. For further detail please refer to the September 20, 2004 letter submitted by the KCBT to the Commission regarding the governance practices of the KCBT.

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5. Please refer to the September 20, 2004 letter submitted by the KCBT to the Commission regarding the governance practices of the KCBT.
6. Self-regulation should not be overseen by an independent entity within an SRO as discussed in question #1 above.
7. KCBT does not have a parent company.
8. KCBT rules require that disciplinary committees include sufficient different membership interests so as to ensure fairness and to prevent special treatment or preference for any person in the conduct of the Committee's responsibilities. For further detail please refer to the September 20, 2004 letter submitted by the KCBT to the Commission regarding the governance practices of the KCBT.
9. KCBT rules and disciplinary decisions are currently made available to the public.
10. For detail on the KCBT's policy and procedures relating to conflicts of interest, please refer to the September 20, 2004 letter submitted by the KCBT to the Commission regarding the governance practices of the KCBT.
11. Third-party regulatory service providers should be subject to conflict of interest standards at a level similar to that of designated contract markets. For detail on the KCBT's policy and procedures relating to conflicts of interest, please refer to the September 20, 2004 letter submitted by the KCBT to the Commission regarding the governance practices of the KCBT.

If you have any further questions, please contact the undersigned at 816-753-7500.

Sincerely,



Joseph Ott  
Vice President - Compliance