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From: John Legg [johnlegg@sbcglobal.net]
Sent: Wednesday, September 06, 2006 6:18 PM
To: secretary
Subject: Regulatory Governance

SEP 11 2006
11:03 AM
SECRETARY

To whom it may concern:

I am writing to express my concern over the proposed exchange governance requirements as listed below. I am a member of the KCBOT and the CME and have been a part of the professional trading communities in Chicago and Kansas City for the past fourteen years. I agree with the prepared comments below which are points made by the staff at the KCBOT. I would particularly emphasize Comment #14 and #3. Public directors as defined below will almost certainly not have the background or expertise necessary to make critical judgements in the area of exchange governance. In all likelihood, the exchanges will be burdened with educating public directors and keeping them up to date on matters that would be common knowledge among current board and exchange members. This will lead to decreased efficiency on the part of the exchanges in implementing decisions. These requirements also will put critical decisions in the hands of those less qualified than members of the exchange community.

Additionally, requiring a 50% public board heavily dilutes the vested interests of the members, shareholders and other stakeholders of the exchange. These stakeholders are well represented in the current exchange governance framework and they constitute a broad spectrum of competing interests insuring that the exchange is run in a balanced and fair fashion. Finally, the proposed requirements will have a disproportionately negative economic impact on smaller exchanges like the KCBOT which have small budgets and lean staffing operations.

I strongly discourage the implementation of the proposed regulatory changes.

Most sincerely, John Legg

Proposed New Requirements For Exchanges

1. Board of Directors and Executive Committee must be at least 50% "public" Directors.
2. All regulatory/disciplinary functions – staff and committee – must be subject to the review and control of the "public" (non-member) Directors.
3. All disciplinary committees must have at least one "public" member, and
4. "Public" means non-member with no "material relationship" to the exchange including no members, employees of members or exchange employees, and also including immediate family members of any of the aforementioned.

Comments

1. There is no demonstrable need for these drastic proposals. There have been no "problems" at futures exchanges which warrant these radical changes, especially non-public exchanges and most especially at the Kansas City Board of Trade.
2. The 2000 revisions to the CEAct created "core principles," for exchange governance coupled with flexibility on how to meet them, not rigid, "one-size fits all" requirements. These proposals are specific requirements which are unnecessary "micro-management."

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3. “Public” directors lack the requisite expertise to handle the most critical decisions exchange directors have to handle. (Note: Hunt Silver or Ferruzzi soybeans.) Public perception is being elevated over director knowledge and expertise.
4. The Proposal speaks repeatedly of the need for “effective” regulation and “balance.” These proposals impede the effective regulation and demonstrate imbalance between the need for effective regulation and the (unwarranted) perception of potential conflicts of interest.
5. The Proposal ignores the deeply vested interest of exchange members to ensure the public confidence of market users and the fair administration of the exchange which is an integral part of their profession.
 - There is no demonstrable example in recent history of exchange members putting self interest ahead of the interest of the marketplace as a whole.
 - Existing conflict rules which require recusal when one has a direct interest in the financial outcome of the issue under consideration have worked well.
6. The industry trends cited in the Proposal as the reasons for such changes are not applicable to the Kansas City Board of Trade.
 - KCBT ownership is unchanged.
 - Competition, global or national, has not materially changed for the KCBT.
 - Public trust and market integrity have experienced no crisis at the KCBT.
7. The sources cited in the Proposal as support for the proposed charges focus on the securities markets and public companies, not futures exchanges and certainly not the KCBT.
8. The Proposal acknowledges that core principals “allow exchanges considerable leeway in how to” prevent conflicts. Yet, the Proposal constitutes prescriptive, bright-line requirements without leeway or flexibility. As such, they violate the letter and spirit of the 2000 CEAct amendments.
9. The Proposals require directors to have “no material relationship with the exchange.” What, then is their value to the governance of this highly specialized industry? Would such a standard disqualify as “public” a director who is a bank officer of the bank holding deposits for the exchange? If so, why? Would it disqualify an expert, non-member CTA whose fund may have positions at the exchange? If so, why?
10. Regarding the requirement of a Public Director Regulatory Oversight Committee (“ROC”), how could such a committee responsibly perform an oversight function without expertise regarding how exchange markets function?
11. Of the nine specific ROC functions specified in the Proposal, at least four are classic management functions under Delaware law, not Director functions (e.g., staffing and compensation of regulatory employees).
12. The proposal cites Sarbanes-Oxley as authority. But futures exchanges have no history of abuse such as Enron, Adelphi, etc., which led to Sarbanes-Oxley.

13. The Proposal acknowledges that the CFTC “SRO review has found no indication of widespread inadequacy in exchange disciplinary committees, as many FCMs suggested.” So why “fix” what is not “broken”?

14. A Board such as KCBT must include a diversity of interests (as it currently does) among FCMs, commercial users, brokers, traders and the public. The proposals would give unwarranted dominance on the Board to public directors with no expertise or vested interest in the exchange’s markets (and is in direct conflict with the sound policy of CFTC Core Principle 16).