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NEW YORK COTTON EXCHANGE

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March 6, 1998

COMMENT

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

Re: Reproposed Amendments to Commodity Futures Trading Commission Regulation 1.35 Relating to Account Identification for Eligible Bunched Orders

Dear Ms. Webb:

The New York Cotton Exchange ("Exchange") welcomes the opportunity to comment on a release issued by the Commodity Futures Trading Commission ("Commission") on January 7, 1998[1] concerning account identification for eligible bunched orders.

The Exchange applauds and supports the Commission's efforts to provide regulatory relief while maintaining certain core regulatory protections and customer safeguards. As a self-regulatory organization, the Exchange appreciates the sometimes difficult task of trying to temper two important goals - facilitating efficient access to the markets and providing adequate, meaningful protection and safeguards against abuse for all participants in the markets. Under the current global, competitive environment, it is becoming increasingly important for the Exchange, and the U.S. futures industry, to try and balance these two goals.

The Exchange would like to note that post-trade allocation is not only sometimes a more efficient method of processing bunched orders, but can also provide for a more equitable and fairer treatment of accounts participating in a trading program that utilizes bunched orders. Post-trade allocation may provide a means whereby each account participant in a bunched order can obtain and receive the same "average fill price", allowing all accounts to be treated equally. *Exhibit A* attached provides a "simplified" example illustrating how post-trade allocation allows for a more equitable treatment of account participants than does pre-trade allocation. While the Commission noted that "average price systems" can achieve the goal of obtaining the "same" price for each participant, not all exchanges offer such average price systems, perhaps for technical (systems) reasons. In addition to enabling participants to receive the same or closely similar average fill prices, which promotes fairness, allowing post-trade allocation (and thereby not requiring the pre-trade filing of an allocation "formula") may provide for quicker, easier access to the market, possibly causing less "slippage" and/or missed opportunities. This would be true for a plan trading a one-market strategy, or trading a multi-market strategy.

In light of the above, the Exchange believes that the Commission should expand the list of those managers and customers who may be able to utilize post-trade allocation. The expansion of those eligible to participate, along with appropriate safeguards, such as those proposed by the Commission (and a suggestion which will be discussed below), would further

[1] 63 *Federal Register* 695

mesh the two goals of facilitating access while providing adequate protection. Given the complex and dynamic trading strategies employed, and to be employed in the future, post-trade allocation seems to be the fairest method of allocating fill prices.

Eligible Account Managers

While the Commission's proposed list of eligible account managers is extensive, it should include foreign advisors. Given the increasingly significant role of foreign advisors in the futures markets, particularly in the financial markets, the Exchange believes that such advisors should be able to utilize post-trade allocation.

Eligible Customers

The Exchange feels that natural persons should be included in the list of those participants who constitute eligible customers. Such inclusion allows all participants to be treated on an equitable basis, and precludes the account manager from having to place multiple bunched orders - those for eligible participants, and those for non-eligible participants. The different treatment of plan participants might leave more room for abuse, in addition to being an administrative nightmare. The different treatment of plan participants also raises certain questions and issues as to how and what data an account manager must make available to enable participants to compare their results with those of other participants.

Eligible Orders

The Exchange believes that the Commission should reconsider the restrictions regarding the permissible extent of proprietary ownership by the account manager or FCM of any accounts included in the block. Post-trade allocation should provide for the equitable treatment of all participants, thus obviating the need for such restrictions.

Customer Protection

The Exchange supports the Commission's proposed requirement that each account manager must make available, upon request of an eligible customer, data sufficient for that customer to compare its results with those of other relevant customers. However, the Commission may want to add that such data must also be made available to appropriate regulatory authorities.

Conclusion

Again, the Exchange praises the Commission's efforts in trying to provide regulatory relief while maintaining appropriate safeguards. The Exchange would be glad to assist the Commission in working on these issues.

Sincerely,

Joseph J. O'Neill
President

EXHIBIT A

Example: "Pre-Trade" vs. "Post-Trade" Allocation

A CTA manages 3 accounts - account "A", "B" and "C"
The CTA places an order for a total of 6 contracts for the 3 accounts to be allocated as follows:

- Account "A" - 3 contracts
- Account "B" - 2 contracts
- Account "C" - 1 contract

The pre-trade allocation formula calls for the following:

- Account "A" - will receive the 3 lowest fills
- Account "B" - will receive the next 2 highest fills after account "A"
- Account "C" - will receive the highest fill

The order is filled at the following prices:

- 2 contracts @ 101
- 2 contracts @ 102
- 2 contracts @ 103

The following table shows the difference between the "pre-trade" and a "post-trade" allocation:

Allocation Method	Account "A" Fills	Account "B" Fills	Account "C" Fills
Pre-Trade	2 contracts @ 101 1 contract @ 102 average fill price = **101.3**	1 contract @ 102 1 contract @ 103 average fill price = **102.5**	1 contract @ 103 average fill price = **103**
Post-Trade	1 contract @ 101 1 contract @ 102 1 contract @ 103 average fill price = **102**	1 contract @ 101 1 contract @ 103 average fill price = **102**	1 contract @ 102 average fill price = **102**