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OFFICE OF THE
SECRETARY



Board Of Trade
CLEARING CORPORATION

Dennis A. Dutterer
President and Chief Executive Officer

APR 30 2 12 PM '98

April 27, 1998

Re: **Cantor Financial Futures Exchange, Inc.**
Application for Designation as a
Contract Market/New York Board of
Clearing, Inc's Proposal to Serve as a
Clearing Organization

VIA FACSIMILE AND U.S. POST

Ms. Jean A. Webb
Secretary
Commodity Futures Trading Commission
Three LaFayette Center
1155 21st Street, N.W.
Washington, D.C. 20581

COMMENT

COMMUNITY FUTURES
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Dear Ms. Webb:

I. INTRODUCTION

The Board of Trade Clearing Corporation (the "Clearing Corporation") is writing this letter to comment on the application of Cantor Financial Futures Exchange, Inc. ("CFFE") for designation as an electronic contract market for the computer-based trading of US Treasury Bond, Ten-Year Note, Five-Year Note, and Two-Year Note futures contracts and the related proposal of the New York Board of Clearing, Inc. ("NYBOC") to serve as CFFE's clearing organization (the "Application"), which the Commodity Futures Trading Commission (the "Commission") published for comment on February 3, 1998 (the "Release," 63 Fed. Reg. 5505 (1998)).

The Clearing Corporation performs clearing and settlement functions for approximately 120 members for futures and options trades executed on or through the facilities of the Chicago Board of Trade and affiliated exchanges ("CBOT"). The Clearing Corporation's primary responsibility is to ensure the financial integrity of all futures and options contracts traded on the CBOT. Such trades represent approximately one-half of all futures and options contracts executed on the markets located in the United States.

The Clearing Corporation has been guaranteeing the financial integrity of these futures markets for over 70 years. It is the only clearinghouse in the world with both an "AAA" rating from Standard & Poors Corporation and \$100 million in default insurance. The Clearing Corporation has well-developed financial safeguards and operational and risk procedures in place to protect markets from possible member

141 West Jackson Boulevard
Chicago, Illinois 60604
(312) 786-5703

defaults. In addition, the Clearing Corporation has strict admission standards and monitors members' credit-worthiness on an ongoing basis.

As became very clear in the wake of the Barings Bank failure, the financial integrity of the clearing process is critical to reduce systemic risk in the marketplace. Thus, any proposal to serve as a clearing organization should be thoroughly analyzed.

II. DISCUSSION AND ANALYSIS

Given the importance of the role of the clearinghouse in ensuring the financial integrity of the marketplace, it is imperative that the Commission review any proposed clearinghouse to ensure it has the fundamental risk management policies and procedures, and operational safeguards to perform this role. The Clearing Corporation believes the NYBOC's proposal to serve as CFFE's clearing organization raises a number of complex clearing issues and additional important information is needed for a complete evaluation of the proposal.

In particular, information to answer the following basic questions should be provided:

- What will the capitalization of NYBOC be? What is the level and source of other financial resources to cover clearing member defaults? What is the availability (*i.e.*, liquidity) of such resources?
- Who will be the members of NYBOC? Section 10(a) of the NYBOC Bylaws states that a "corporation authorized by the (CFFE) and (NYCE) is eligible to become a Clearing Member of the (NYBOC)". What does this authorization involve? What are NYBOC's admission standards and what monitoring of members will NYBOC undertake?
- Has NYBOC developed a Risk Plan? What are its intended risk management policies and procedures? What are the intended margining policies and procedures? When will the NYBOC guarantee of transactions be effective?
- Has NYBOC developed an "Information Statement" detailing its customer protection mechanisms, sources of financial support and default procedures as recommended by the FIA Global Task Force on Financial Integrity?

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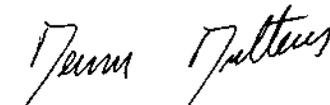
- Will NYBOC participate in cross margining programs and, if so, how will such programs operate?
- What is identity and composition of NYBOC's initial Board of Directors?

III. CONCLUSION

The NYBOC proposal to serve as the clearing organization for the CFFE raises complex clearing issues that require a thorough analysis. In order to perform such analysis, more information regarding NYBOC's proposed operations is necessary (as outlined above). Given the lessons learned from the collapse of Barings Bank in February 1995, it is especially important to ensure financially sound and well-run clearing facilities which will enhance the safety and soundness of the futures markets.

Should you have any questions or comments regarding the foregoing, please call me at (312-786-5703) or Ms. Heidi Rauh at (312-786-5708).

Sincerely,



Dennis A. Dutterer