

COMMODITY FUTURES  
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JUN 3 3 43 PM '98 United States Senate

WASHINGTON, D.C. 20510

May 28, 1998

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CFTC

COMMODITY FUTURES  
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COMMENT

The Honorable Brooksley E. Born, Chairperson  
Commodity Futures Trading Commission  
Three Lafayette Center  
1155 Twenty-first Street, N.W.  
Washington, D.C. 20581

Dear Chairperson Born:

We are writing regarding the pending application of Cantor Financial Futures Exchange, Inc. ("CFFE") as a contract market in U.S. Treasury bond, ten-year note, five-year note and two-year note futures contracts in association with the New York Cotton Exchange. Because the application raises a number of serious questions and concerns under the governing provisions and principles of the Commodity Exchange Act, we believe it is critically important that in reviewing this application the Commission carefully and thoroughly examine all the relevant issues and fully maintain its high standards for customer protection, market integrity and financial system integrity.

The proposed structure of the CFFE system, including the roles of Cantor entities in its establishment and operation, appears to be unique. Based on the information available, it is our understanding that the proposed CFFE contract market would involve a hybrid manual/electronic futures market for U.S. Treasury securities. Unlike previously approved electronic futures trading systems, however, it appears the CFFE would not allow direct entry of orders into the trading system for matching and execution, but would require that orders be placed by telephone to "terminal operators" supplied by Cantor Fitzgerald Securities, LLC.

The unprecedented system proposed in the CFFE application presents a host of serious issues that must be answered satisfactorily before the Commission grants approval -- that is, if fundamental aspects of the CFFE system do not inherently preclude the possibility of approval under the Commodity Exchange Act. For example, there appears to be real doubt about regulatory oversight under the proposed structure for the CFFE system. It is not clear whether the Commission's regulatory oversight would encompass all members of the Cantor organization engaged in futures trading, nor is the reach and effectiveness of self-regulatory oversight through the CFFE or the New York Cotton Exchange evident. In addition, the available information indicates that while Cantor Fitzgerald Securities, LP would continue as the largest broker of Treasury securities in the cash market, Cantor-employed terminal operators would be the only avenue for executing futures trades on the CFFE, and Cantor entities would control dissemination of CFFE market information and effectively control the CFFE's operation. Plainly, these circumstances raise substantial issues regarding customer protection, open and competitive

The Honorable Brooksley E. Born

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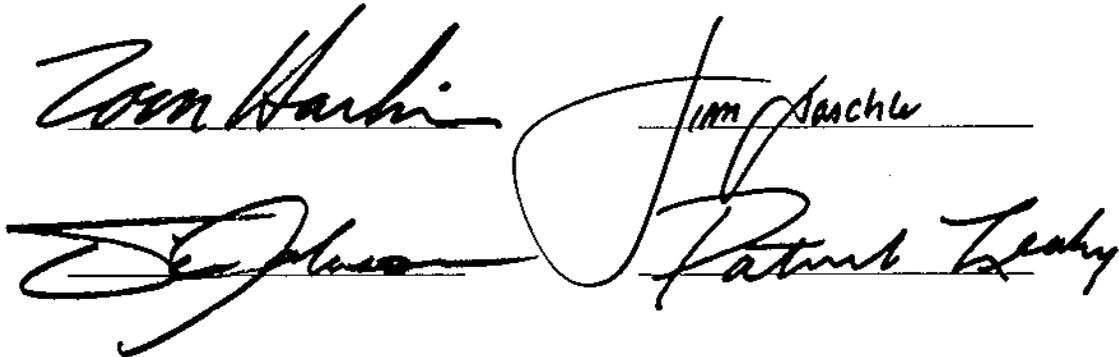
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trading, and market integrity, as well as a public policy issue whether more demanding standards of fitness should apply when one firm would obtain such a high concentration of power over a centralized marketplace.

To be sure, advances in technology will present the Commission with new regulatory issues and challenges just as they also open up new possibilities and opportunities in the futures markets. Although developing technology will surely give rise to new trading systems and ways of doing business, there is no valid reason for abandoning the fundamental principles and standards embodied in the Commodity Exchange Act. The mere fact that an application ostensibly involves a new use of electronic technology should not lead to any derogation of the principles of customer protection, transparency, open and competitive trading, market integrity and adequate regulation that the Commission has traditionally applied to contract markets.

Thank you very much for considering our views on this important matter.

Sincerely yours,



The image shows four handwritten signatures, each written over a horizontal line. From top-left to bottom-right, the signatures are: Tom Harbin, Jim Saatchi, [unintelligible], and Patrick Leahy.

TH/mbh

CC: The Honorable Barbara Pedersen Holum  
The Honorable John E. Tull, Jr.  
The Honorable David D. Spears