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**COMMENT**

NATIONAL GRAIN TRADE COUNCIL  
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WASHINGTON, D.C. 20005

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(202) 642-0400

July 16, 1998

Honorable Brooksley Born  
Chairperson  
Commodity Futures Trading Commission  
1155 21<sup>st</sup> Street, N.W.  
Washington, DC 20581

Dear Chairperson Born:

The National Grain Trade Council is writing to express its concerns with the issues surrounding the application of Cantor Fitzgerald L.P. and the New York Cotton Exchange to operate a new futures exchange called Cantor Financial Futures Exchange (CFFE).

The Council has been staying abreast of the issues raised by the CFFE application and with the new 15-day comment period that expires on July 16, 1998. We feel compelled to raise several concerns.

As background I should point out that the Council's members are grain exchanges and grain merchants. Our members have a long history with the present open outcry system. We believe the open outcry system has worked very well and provides the world's best marketing system for price discovery and risk transfer. We do not foreclose the possibility of change in the form of electronic trading. But, we believe that steps that represent a fundamental change in the structure of the trading environment should be held up to close scrutiny, particularly from the vantage point of safeguards to the integrity of the system.

We wonder, in the first instance, about the public interest questions raised by a proprietary exchange. This question is framed very articulately in May 25, 1998, comment letter to the Commission from Congressman Robert Smith, chairman of the House Committee on Agriculture, and from Congressman Thomas Ewing, chairman of the House Agriculture Committee's Subcommittee on Risk Management and Specialty Crops. Their letter stated:

All futures exchanges today are membership organizations. CFFE would be the first proprietary exchange, an exchange owned or controlled by a single private firm, for futures trading. We question whether the kind of proprietary exchange CFFE proposes is compatible with the Commodity Exchange Act. For example, Cantor would control CFFE's board by appointing 8 of 13 directors, trade for its own account on CFFE, employ all Terminal Operators who execute trades on CFFE and control the dissemination of pricing data for CFFE transactions. That

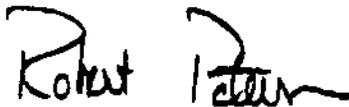
Chairperson Brooksley Born  
July 16, 1998  
Page 2

concentration of dominant market power in one firm raises possible anti-competitive and conflict of interest concerns that could undermine public confidence in CFFE or proprietary exchanges, in general.

In the second instance, we wonder if the 15-day comment period is adequate. The Commission's *Federal Register* notice of July 1, 1998 is notable for its brevity. It states that since the close of the initial comment period, CFFE has submitted additional materials, information, and rule modifications in support of its designation application. These submissions address such issues as membership categories, roles of certain CFFE employees, automated order matching, trading standards, and compliance programs. The *Federal Register* notice did not provide a summary description of the CFFE submission and interested parties are left with the task of sifting through a voluminous amount of material in search of answers to the questions that have been raised.

We believe that the Cantor application raises significant questions that merit considerable study. We would recommend that the Commission: (1) make available the salient features of the additional information provided by Cantor in summary form; (2) make available an analysis of the resulting public policy implications; and (3) provide sufficient time to respond to that information.

Respectfully,



Robert R. Petersen  
President