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BY E-MAIL

SECRET

June 4, 1999

COMMENT

Jean A. Webb, Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st St., NW
Washington, DC 20581
secretary@cftc.gov

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RE: The Commission's Request for Comment on the Proposal of the Chicago Mercantile Exchange (the "CME") to List Additional Contract Months in the CME Russian Ruble Futures Contract

Dear Ms. Webb:

The Emerging Markets Traders Association appreciates the opportunity to comment and provide input to the Commission on the above-referenced proposal, with specific focus on those requests that relate to (1) the Methodology used to produce the daily CME/EMTA Ruble Rate, as it was revised on October 14, 1998 (the "Methodology"), and (2) the appropriateness of continuing to apply such Methodology to additional contracts months in the Russian Ruble Futures Contract, if approved.

As the CME stated in its Proposal, the CME/EMTA Ruble Rate is widely accepted in the cash market as the primary rate source for the non-deliverable forward market, absent a MICEX fixing rate.

Requests for Comment Relating to Methodology

With respect to the Commission's questions relating to the CME/EMTA Ruble Rate Methodology - whether the Methodology results in a rate that meets the standards of the Commission's Guideline No. 1, including that the rate be representative of the underlying cash market, and not be readily susceptible to manipulation - it is EMTA's view that the Methodology that has been in place since October 14, 1998 meets these criteria.

The Commission Guideline No. 1 requires that the rate be, among other things, reflective of the underlying cash market. EMTA has been comparing the activity on the morning and afternoon sessions of the MICEX and the CME/EMTA Ruble Rate since the MICEX commenced separate morning and afternoon trading sessions. For most of this time, the average rate from the morning session has been published as the Russian Central Bank Official Rate available on Reuters page "FXSU". The average rate from the afternoon SELT session of MICEX has been available, although not consistently, in Reuters articles.

During the afternoon SELT session, financial transactions between commercial banks in Moscow take place. The attached graph (Attachment A) illustrates that the CME/EMTA Rate has fluctuated in response to changes in rates during the afternoon SELT session, and has fairly accurately reflected the average rates from these sessions.

As discussed in EMTA's letter to you dated November 20, 1998 (a copy of which is attached as Attachment C), on various conference calls EMTA members debated whether one of the two random surveys should take place during the morning MICEX session reserved for importers and exporters. There was consensus among our members that it would not be appropriate for a polling to be conducted during these morning sessions, primarily because the morning session for exporters/importers was established to facilitate the buying and selling of Dollars between these domestic entities and the Central Bank, and there was concern that the strong presence of the Central Bank in these morning sessions, would, at least by perception, negatively impact the integrity of the rate. According to the attached graph (Attachment B), the average rates from the morning session have demonstrated two characteristics: (1) they have tended to reflect a stronger Ruble than the afternoon session; and (2) they have remained relatively stable, even during spikes in the afternoon trading session. Therefore, it is EMTA's view that the CME/EMTA Rate is representative of the relevant-cash market in Moscow, namely, that represented by the afternoon SELT session.

The Commission Guideline No. 1 also requires that the rate be "reliable, acceptable, publicly available, and timely". The CME/EMTA Rate has been published every day that the Russian foreign exchange markets have been open since the Methodology was revised on October 14, 1998. The rate is posted at approximately the same time daily (8:30 AM, NYC time) on EMTA's Reuters page, "EMTA", and on the CME's quote distribution channels.

Finally, we do not have reason to believe that the rate produced pursuant to the revised Methodology is readily susceptible to intervention now that the CME/EMTA Rate is based upon the average of two random surveys, rather than one survey at a pre-determined time. Nor have we received any complaints from our members nor seen any other evidence that the Methodology, since revised, results in a rate that is readily susceptible to manipulation.

We are aware that the market for Russian Ruble non-deliverable forwards has declined over the last few months; however, when our members were specifically asked whether EMTA and the CME should discontinue publication of the daily CME/EMTA Ruble Rate due to this decline in activity, our members overwhelmingly supported the continued publication of the rate, at least until the MICEX or some other equivalent local body commences publication of a spot rate that market participants can evaluate and approve.

Requests for Comment Re: Appropriateness of Applying Methodology to Additional Contract Months

With respect to whether it is appropriate to continue to apply certain elements of the current Methodology, in particular the use of implied today rates, to any additional contract months, if approved, it is EMTA's view that it is. We are not aware that there has been any significant change in the structure of the Russian foreign exchange markets since the implementation of the revised Methodology to warrant a reevaluation of this aspect of such Methodology. Therefore, we believe that the analysis undertaken by market participants during the process of revising the Methodology last fall, which led to the decision that the dealer polls be conducted during the afternoon session of the MICEX trading day only, despite the unavailability of today rates during that session (and not during the morning session which is reserved for importers and exporters) is still valid. We have not received any indication that market participants' views have changed with respect to this issue nor any requests that the Methodology be further revised. Furthermore, in the interests of continuity and certainty in the marketplace, we would not advocate a change in this aspect of the Methodology unless necessary to improve the integrity of the rate.

With respect to whether the Ruble Futures Contract is useful for hedging or price discovery, our members expect that activity will pick up again in the Russian market, in terms of both fixed-income and equity trading, as a result of the GKO restructuring, which will lead to increased hedging needs. In this context, despite continued uncertainty in the Russian markets, it is our view that the CME Russian Ruble futures contract continues to be useful for hedging or price discovery.

If you have any questions, please do not hesitate to contact Michael Chamberlin, EMTA's Executive Director, or me at (212) 908-5000.

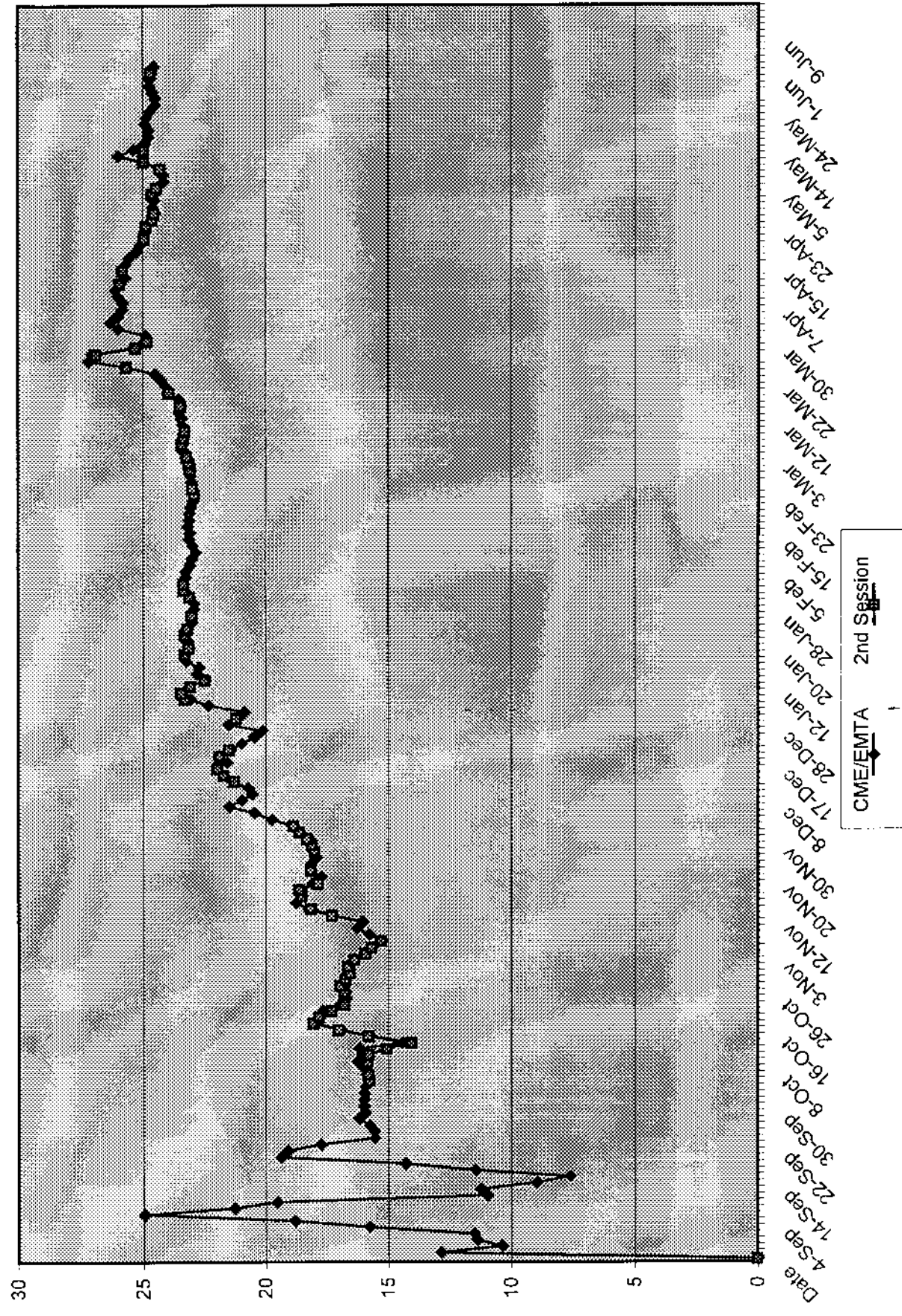
Very Truly Yours,



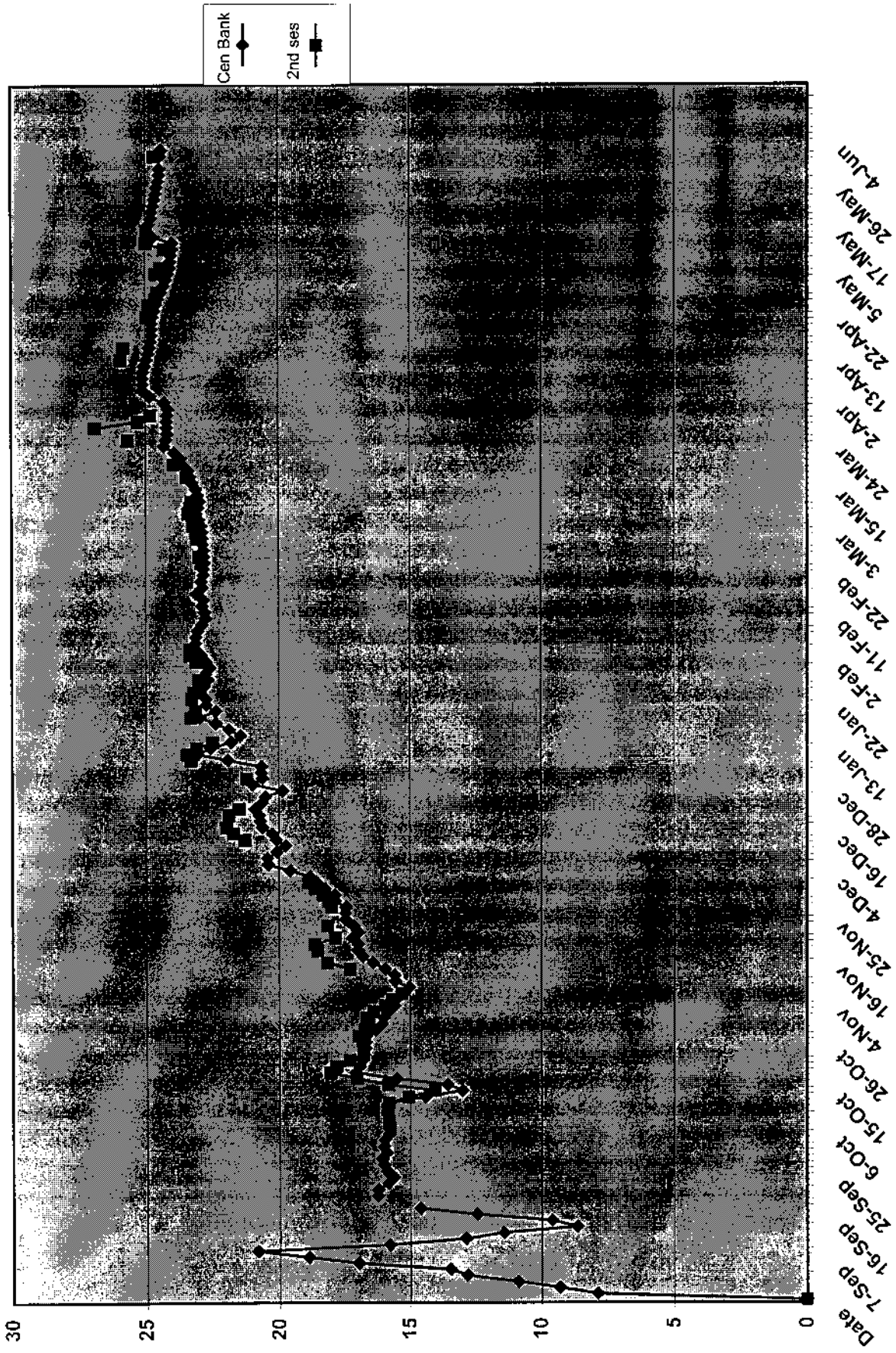
Starla V. Cohen
Legal Counsel & Director
for Eastern Europe

cc: Mr. Michael A. Penick, Division of Economic Affairs

Attachment A



Attachment B



Attachment C

BY FAX

November 20, 1998

Ms. Jean A. Webb, Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st St. NW
Washington, DC 20581
Fax: (202) 418-5521

RE: CFTC's Request for Comment on Federal Register Notice 98-28983, dated October 23, 1998, regarding the Chicago Mercantile Exchange's Proposed Amendments to Cash Settlement Provisions of CME Russian Ruble Futures Contract

Dear Ms. Webb:

With respect to the above captioned request, the Emerging Markets Traders Association ("EMTA") welcomes the opportunity to comment.

EMTA is the industry association representing the global Emerging Markets marketplace. Formed in 1990, EMTA is dedicated to promoting the orderly development of fair, efficient and transparent trading markets for Emerging Markets instruments and to helping integrate the Emerging Markets into the international financial marketplace.

EMTA is made up of over 140 financial institutions and other entities, which trade Emerging Markets Instruments or are interested in Emerging Markets.

EMTA supports the Chicago Mercantile Exchange's (the "CME") proposed amendments to its cash settlement procedures for the CME Ruble Futures Contract. The proposed amendments would extend to the CME Ruble Futures Contract the procedures that have been recommended by the Emerging Markets trading community and implemented with the introduction of the revised methodology (the "Methodology") for determining the daily CME/EMTA Reference Rate on October 14th.

Background

EMTA members are active participants in the Ruble/Dollar spot, futures and forward markets. When MICEX suspended its daily Ruble/Dollar spot auction market on August 26th, it was at the request of EMTA members that EMTA and the CME jointly developed the daily CME/EMTA Reference Rate. It was also at the request of EMTA members that the original Methodology for determining the daily CME/EMTA Reference Rate (one daily survey taken at 11:00 AM Moscow time) was reviewed and revised by the CME. Under the revised Methodology (1) two surveys are taken daily at randomly selected times and (2) a same-day rate is derived from actual today (“TOD”) quotes, if available, or synthetic “implied” TOD rates (based upon available tomorrow (“TOM”) quotes), if necessary. The changes to the Methodology were recommended by EMTA members in order to (1) lessen the susceptibility of the rate to excessive manipulation; (2) ensure that a rate could be determined despite unpredictable market conditions; and (3) produce a rate that is as representative as possible of the underlying cash market in the current environment.

EMTA members use both over-the-counter (“OTC”) non-deliverable forwards (“NDF”) and the CME Ruble Futures Contracts as risk management tools. Based upon feedback from our members, the daily CME/EMTA Reference Rate is currently the most reliable reference rate source for Ruble/Dollar pricing since the suspension of the MICEX fixing, and is currently being used by most market participants as the reference rate source for settling NDF transactions. Lack of certainty as to the procedures to be applied to the CME Ruble Futures Contract significantly lessens the benefits that these futures contracts would otherwise provide as risk management tools.

Specific Comments

1. The CFTC has asked whether the survey procedures will result in a cash settlement price that is reflective of the underlying cash market and otherwise meets the standard’s of the CFTC’s Guideline No. 1, which further requires that the rate be “reliable, acceptable, publicly available, timely and not readily susceptible to manipulation.”

In asking this question, the CFTC has noted that the CME survey procedures are designed to obtain quotes for an exchange rate for same-day settlement during the afternoon MICEX session and that trading for same-day settlement is not currently permitted during that session.

EMTA believes that the CME’s proposed procedures, that are currently being used to produce the daily CME/EMTA Reference Rate, result in a Ruble/Dollar rate that does reflect, to the greatest extent possible under the circumstances, the underlying cash market, and otherwise meets the requirements of the CFTC’s Guideline No. 1.

a. Use of “implied” TOD rates: Since the Russian crisis began in mid-August, the Russian financial system has been characterized by unpredictability. Prior to the adoption of the revised Methodology for determining the CME/EMTA Reference Rate on October 14, 1998, same-day settlement of foreign exchange transactions in Russia was suspended nine times, initially without notice, and subsequently with notice (specifically, on 9/18, 9/25, 10/2, 10/6-10/13). On these occasions, particularly when the same-day settlement suspension occurred without notice, the CME conducted the daily survey and provided, for informational purposes only, the TOM rates obtained in the survey, as no TOD rates were being quoted. EMTA members immediately adapted to the lack of a TOD rate by taking the available TOM rate and, using the interest parity formula described in the Notice, interpolating a synthetic TOD rate. In fact, in order to facilitate this interpolation of TOM rates into reliable same-day rates, EMTA members requested that the CME routinely poll for overnight Ruble money market rates on any days when same-day rates proved unavailable, for whatever reason. The use of “implied” TOD rates in the absence of actual today rates was endorsed by the trading community and considered not only acceptable and reliable, but necessary in light of the current environment in Russia.

b. Conducting surveys during afternoon MICEX Session: When EMTA members were providing comments to the CME’s proposed changes to the Methodology for determining the daily CME/EMTA Reference Rate from one daily survey to two daily surveys, the MICEX had just announced that it was to start conducting two trading sessions daily: one for exporters and importers that would take place in the morning, and one for financial transactions between commercial banks in the afternoon. On conference call, EMTA members debated whether one of the two random surveys should take place during the morning MICEX session reserved for importers and exporters. After extensive discussion, there was consensus that it would not be appropriate for a polling to be conducted during any special SELT session reserved for exporters or importers for two reasons: (1) the exporter/importer session was specifically designed to facilitate the buying and selling of Dollars between these domestic entities and the Russian Central Bank, and there was concern that the strong presence of the Central Bank in these sessions would, at least by perception, negatively impact the integrity of the rate, and (2) there was uncertainty as to whether the special session would be around for an extended period. There was consensus that the afternoon session established for trade between commercial banks was the only reasonable session during which to conduct the polling, despite the lack of availability of same-day quotes.

EMTA members have expressed that the CME/EMTA Reference Rate is the most reliable Ruble/Dollar exchange rate available to market participants in light of current market conditions in Russia. It is widely disseminated on EMTA’s Reuters page “EMTA” and the CME’s normal quote distribution channels, and is officially included as a rate source in Annex A of the 1998 FX and Currency Option Definitions published by EMTA, the International Swaps and Derivatives Association (ISDA) and the Foreign Exchange Committee.

2. The CFTC has also requested comment on whether the CME procedure will result in a cash settlement price that is not readily susceptible to manipulation or distortion in light of the degree of liquidity in the Russian ruble market. Specifically, will the new procedures prevent potential manipulation by market participants.

In every domestic foreign exchange market there a possibility that the currency exchange rate will be subject to some manipulation as it is each government's prerogative, if necessary or desirable for policy reasons, to intervene in the foreign exchange markets. While the Russian situation has been characterized at times by extreme illiquidity making intervention particularly effective, any intervention into the foreign exchange markets comes at a cost to the intervening entity. The goal of the revised CME survey procedures has been to guard against excessive manipulation to the greatest extent possible in the current environment.

The proposed amendments to the cash settlement procedures for the CME Ruble Futures Contract are designed to make such intervention (manipulation) prohibitively expensive to the intervening entity. With the two random surveys, an entity wanting to strengthen the Ruble would have to buy Dollars consistently for an entire day (or in some cases more than one day) in order to ensure that the Ruble/Dollar rates used in determining the CME/EMTA Reference Rate reflect this intervention. EMTA members are of the view that in the current environment, few market participants who might want to manipulate the rate by intervening for a sustained period would have the resources to succeed. EMTA members have acknowledged that the fear of manipulation of the daily CME/EMTA Reference Rate has been greatly alleviated with the adoption of the two random surveys approach. The two random surveys approach is particularly important to alleviate manipulation when a large number of positions fall due on one day, such as on the maturity dates of the CME Ruble Futures Contracts.

The fact that the names of the survey participants are confidential also alleviates the fear that survey participants may be colluding in providing quotes, and the participation of both Russian and non-Russian commercial banks in the survey gives the rate further integrity.

3. The CFTC also has asked whether in the current environment the CME Ruble Futures Contract is useful for hedging or price discovery.

The CME Ruble Futures Contract, along with OTC NDFs, are used for hedging and price discovery so long as the rate source used to cash settle these instruments is considered reliable. EMTA members were an integral part in developing and revising the Methodology for the daily CME/EMTA Reference Rate, which they view as the most reliable Ruble/Dollar exchange rate available. Therefore, EMTA supports an extension of these procedures to the final cash settlement provision of the CME Russian Ruble Futures Contract.

If you have any questions, please do not hesitate to contact Michael Chamberlin, EMTA's Executive Director, or me at (212) 908-5000.

Very Truly Yours,

Starla V. Cohen
Legal Counsel & Director for
Eastern Europe

CC: Mr. Michael A. Penick, Division of Economic Affairs