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August 15, 2005

Ms. Jean A. Webb
Secretariat
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street NW
Washington, DC 20581

Dear Jean:

Per your discussion with Toby Taylor, I hereby give permission to post on the CFTC website the FIA's response to the CBOT Letter to FIA re: CBOT - Position Limits in Treasury Futures During Last Ten Trading Days.

Should you have any questions please do not hesitate to contact me. Thank you.

Sincerely,

John M. Damgard
President

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August 1, 2005

Mr. Charles P. Carey
Mr. Bernard W. Dan
Chicago Board of Trade
141 West Jackson Boulevard
Chicago, Illinois 60604

Re: Position Limits for Treasury Futures and Options Contracts

Gentlemen:

The Futures Industry Association ("FIA"),[1] whose membership executes and clears trades on behalf of many of the largest users of the CBOT's Treasury futures and option markets, opposes the decision of the Board of Directors to impose position limits during the last ten days of trading in the Treasury Bond and Two-, Five- and Ten-Year Treasury Note contracts, which the Chicago Board of Trade ("CBOT") announced in notices issued on June 29, 2005 and "reaffirmed" on July 25, 2005. It is our position that an exchange should not adopt unilateral changes to the terms and conditions of contracts in which there are open positions, absent a market emergency. Further, we question whether the self-certification procedures are appropriate when the rules adopted affect contracts with open interest.

As explained in detail below, we are concerned that the operational challenges that certain FIA member firms have discussed with the CBOT, and to which the CBOT referred in its July 25 notice, will place member firms—and the CBOT itself—in an untenable position. Therefore, we urge the CBOT to amend its policy requiring aggregation of all accounts in which there is 10% or more common ownership, even if trading in such accounts is directed by independent account controllers. Consistent with existing policy in all other contracts, aggregation should be required only where there is common control. As important, these limits may cause lasting damage to the liquidity and, therefore, the commercial utility of the CBOT's Treasury contracts. In this regard, we also urge the CBOT to revise its policy and, consistent with existing policy in all other contracts, provide exemptions for risk management positions.

The CBOT's Rationale and Process Are Opaque. Before turning to these issues, however, we want to express our deep reservations concerning the process by which the amendments to Regulation 425.01 were adopted. In brief, the process lacks the transparency that

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1 FIA is a principal spokesman for the commodity futures and options industry. FIA's regular membership is comprised of approximately 40 of the largest futures commission merchants ("FCMs") in the United States. Among its associate members are representatives from virtually all other segments of the futures industry, both national and international. Reflecting the scope and diversity of its membership, FIA estimates that its members effect more than eighty percent of all customer transactions executed on United States contract markets.

we believe is essential to permit the Commodity Futures Trading Commission ("Commission") to fulfill its responsibilities under the Commodity Exchange Act and, as important, to engender confidence in the exchange rulemaking process. In announcing its decision to impose position limits, the CBOT left the clear impression that the exchange had identified a weakness, even a defect, in the existing terms and conditions of these contracts that would interfere with their ability to "perform their price discovery and risk management functions in the best interests of the broad spectrum of market users, both hedgers and speculators." The CBOT, however, does not disclose what that weakness or defect is.

Further, the CBOT states that the decision to adopt these amendments "was made following an analysis of relevant market factors and consideration of the feedback received from a diverse group of market participants. Various government agencies were also briefed on our decision to take this action." Again, however, the factors the Board of Directors considered, the identity of the market participants consulted and the government agencies briefed (and their response to the CBOT's proposal) are not disclosed.[2]

EMF Financial Products, LLC ("EMF") may be one market participant with which the CBOT consulted, but we know that only because EMF filed a comment letter with the Commission opposing the amendments, noting in part, that "the CBOT repeatedly assured us and other market participants that there would be no changes in specifications to contracts with existing open interest."[3] Whatever assurances may have been given to EMF and "other market participants" certainly were not given uniformly to FIA member firms or to other institutional market participants.[4]

FIA understands that neither the Act nor the Commission's rules prescribe the procedures that an SRO such as the CBOT should follow in adopting rules. Nonetheless, we believe the essential elements of these procedures are found in Part 40 of the Commission's rules. In particular, Commission Rules 40.5(a)(1)(v) (voluntary submission of rules for review and approval) and 40.6(a)(3)(iv) (self-certification of rules) each require a contract market to "describe any substantive opposing views expressed with respect to the proposed rule that were not incorporated

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2 Nor is it clear that the CBOT has filed a copy of these amendments with the Secretary of the Treasury as required under section 5c(c)(1) of the Act.

3 EMF Letter, at 1.

4 The lack of transparency in this process raises the concern that certain market participants may have had advance notice of the CBOT's actions. The announcement that Treasury position limits were going to be imposed apparently resulted in an immediate 25 basis point decline in the repo rate for the December Ten-Year contract's cheapest to deliver. The futures, cash and repo markets are symmetrical, a "zero-sum game." Every dollar lost by our members and their customers as a result of the CBOT's decision was made by someone else. It is, therefore, essential that the CBOT disclose the identities of the "diverse group of market participants" with whom it consulted prior to any announcement of the position limits and, using its powers as a self-regulatory organization, determine if CBOT members and others who were positioned to take advantage of any special advance knowledge did so, to the detriment of other market users.

into the proposed rule."[5] Further, Commission Rule 40.5(a)(1)(iv) requires an SRO, in submitting a rule for approval, to include in its submission, an explanation of the operation, purpose and effect of the rule, including, as applicable, a description of the anticipated benefits, any potential anticompetitive effects, and how the rule fits into the framework of self-regulation.[6] The CBOT's submission to the Commission did not address any of these issues.

We submit that the CBOT cannot comply with the provisions of these rules—and the Commission cannot properly determine whether the CBOT's rules violate applicable core principles—unless the CBOT's rulemaking procedures solicit input from members and affected market participants on significant rule proposals. If FIA member firms had had the opportunity to provide such input, the CBOT would have had the benefit of the points made in this letter before acting and the CBOT would have had the opportunity to address these concerns and to explain the rationale for its decision.

The Aggregation Requirements Are Unworkable and Will Inevitably Result in Violations of the Limits. The June 29 notice indicates that "all positions in accounts for which the person controls trading shall be aggregated. A 10% or more financial ownership interest in an account constitutes control; consequently, separate accounts owned by the same legal entity are aggregated, irrespective of whether the accounts have independent account controllers." This causes several problems.

First, and most importantly, the bookkeeping systems used by clearing firms to track positions for purposes of large trader reporting and position limits focus on control and are incapable of additionally tracking positions on the basis of ownership.[7] For example, a pension plan that uses in-house and external managers will have its positions attributed to the different managers, whether external or in-house. In like fashion, the positions established by a hedge fund with multiple advisers will be assigned for purposes of large trader reporting purposes (and, therefore, for position limits) to the fund's advisers, not to the account of the fund. Clearing firms, therefore, simply cannot aggregate positions on the basis of ownership, at least not with the systems that currently are in existence.

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5 Rule 40.5(a)(1)(v); Rule 40.6(a)(3)(iv) is similar.

6 Although an SRO is not technically required to include such a written explanation in self-certifying a rule pursuant to Rule 40.6, we fail to see how an SRO could certify that the rule complies with the Act and the Commission's regulations unless it prepared such an analysis for consideration by the board or appropriate committee prior to the adoption of the rule.

7 FIA understands that the rules governing large trader reporting and position limits require aggregation of accounts subject to common control or ownership. However, Commission Rule 150.3 and CBOT Regulation 425.05 grant exemptions from aggregation for position limit purposes to the accounts of "eligible entities" defined as in Commission Rule 150.1(d), if positions are carried in the separate account or accounts of an independent account controller. Along this same line, the Form 102, which FCMs file on behalf of large traders, requires the FCM to specify whether the account is owned and controlled by the same person or is controlled by an advisor or legal entity that is independent of the account owner. In the latter case, the FCM files information only with respect to the account controller.

The problems posed by the aggregation requirement apply to internal, as well as external, clients. A number of FIA member firms are also primary dealers in government securities. These firms typically have multiple desks that trade Treasury futures and options for their own book, completely unaware of and unaffected by the actions of others within their firm. (For example, a primary dealer might have, in addition to the group that submits bids in the Treasury auctions, wholly independent groups trading repos, swaps, corporate and sovereign debt, and over-the-counter ("OTC") options on Treasury securities, each of which will independently decide when to put on or lift a trade.) FIA is not aware of any bookkeeping system, whether internal or offered by SunGard or Rolfe & Nolan, that can track all of this activity in real time.

A similar problem is faced by FCMs whose broker-dealer and foreign affiliates operate on platforms that are different from those used by the FCM. In such a case, the futures clearer simply is not in a position to timely monitor the trading activity of its affiliates. Given that fact, it is almost inevitable that firms will go over the limits inadvertently. Comparable problems are faced by FCMs that are affiliated with "special purpose vehicles" that are established to act as swap counterparties. These companies may or may not clear through the FCM, but will be combined for purposes of the position limits. An even more intractable problem results from an FCM's investment in a hedge fund or a hedge fund manager—once that investment reaches the 10% level, the FCM will have to count the fund's or the manager's positions as its own, even though the FCM has no ability whatsoever to control the fund's or the manager's trading.

When asked about this concern, CBOT staff replied that the firm would typically not be sanctioned but would be required promptly to take steps to reduce its position. FIA member firms are not monolithic organizations, where a simple notice to someone in compliance is sufficient to effect the necessary adjustments. If, for example, Primary Dealer *A* started the day in compliance but found itself the next morning with a combined position that is 10,000 contracts over the limit, how is that overage going to be allocated? Ratably across all desks? Ratably across the desks in the United States that are open for business? Will they be permitted to close out the excess by making intra-company transfer trades to avoid having to go into the pit and give back a tick or two on every trade?[8]

FIA cannot understand why the CBOT would want to revert to the rigid, inflexible standard that applied prior to the adoption of Commission Rule 150.3 and CBOT Regulation 425.05. They

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8 Some FCMs also are affiliated with Securities and Exchange Commission-registered investment advisers and investment companies that, under this ownership standard, would have their positions aggregated with those of the FCM/broker-dealer. A registered investment adviser or investment company has a fiduciary responsibility to the clients whose assets they manage; affiliated investment advisers and investment companies frequently clear their business other than through their affiliated FCM to avoid any suggestion of conflicts of interest. These affiliates will be aggregated, even though they are walled off from the firm's proprietary traders and have no idea that the combined position is approaching or exceeding the limit. How, then, would the FCM determine whose positions should be reduced? Would a mutual fund's positions have to be reduced just because it is managed by an affiliate of the FCM and another affiliate is engaged in proprietary trading?

have worked well and have not been the subject of abuse. The CBOT should adopt a similar disaggregation approach to the Treasury contracts.[9]

Position Limits Have the Potential to Affect the Pricing of the Treasury Contracts. The way the markets currently operate is optimal—commodity pools and trading advisors and other speculative accounts that are unable or unwilling to make or take delivery get out of their positions by rolling them forward before first notice day. The imposition of a position limit during the last ten days of trading is likely to have one of two effects – either hedgers and other large institutional users will scale down their use of the Treasury contracts to ensure that they stay under the limits or there will be a second "roll" during every expiration.

The roll creates its own pricing dynamic, because those who need to move their positions into the next delivery month are forced to buy or sell at the prices being offered or bid by locals and other liquidity providers. A last-ten-day position limit would add a second roll that, unlike the traditional roll, is likely to be price-distorting. That is because open interest during the delivery month is typically much smaller than it was before the (traditional) roll. A reduced pool of buyers and sellers means that hedgers, spreaders and others who need to liquidate to get below the limit will have to be "price takers" from those who know (from the Commission's Commitments of Traders or other sources) that there is going to be a forced liquidation – that hedgers and other holders of large positions are going to have to buy in or sell out some part of their position during the first few days of the delivery month. Stated differently, a second roll is itself likely to *cause* an artificial price – precisely the evil that position limits are designed to prevent.

Position Limits Will Drive Market Users to the Cash, Swap and OTC Option Markets. It is clear that the nature of the cash Treasury market and with it, the Treasury futures and option markets, are changing. An ever-larger Federal deficit and the shift in the yield curve caused by the phase-out of the long Bond have made it more important than ever that market participants have a reliable mechanism that they can use to lay off ever-increasing interest rate risk. Artificial limits on the size of positions are going to make the CBOT market much less attractive to the largest users of the futures and futures option market, however.

As discussed above, position limits that are applied during the last ten days of trading are effectively going to result in two rolls – one before first notice day, the other before position limit day. The largest market users have other alternatives – they can readily trade in the cash, repo, OTC option and swap markets – and are not likely to want to expose themselves to this additional risk.

It is our understanding that only a small number of market participants are expected to be affected by position limits during any expiration. That may be true, but it fails to take into account the potential consequences to all other market users if the biggest institutions start to withdraw from the CBOT and lay off more and more of their risk in the swap and OTC option markets. It also

[9] Regulation 425.05 would need to be amended for Treasury products, however, because it does not apply in the spot month. That is not unreasonable in relation to agricultural products (for which the Commission requires such a restriction) or to thinly traded products such as gold and silver, but would be unnecessary and counterproductive if applied to Treasury products.

fails to take into account the very real possibility that others, whose positions tend to be somewhat smaller, may become reluctant to use the CBOT market for fear that they may "hit the limit" and not be able to continue to hedge their cash, swap, OTC option and repo books. The market can ill afford the additional disruption that will be caused by the imposition of an artificial cap on the size of the positions that market users can hold.

Position Limits Are Unwise and Unnecessary. The Commission formerly required the contract markets, including the CBOT, to establish speculative position limits for all of their contracts, believing that position limits were necessary to dampen "excessive speculation" that can cause "sudden or unreasonable fluctuations or unwarranted changes in the price" of a contract.[10] Ultimately, the Commission accepted the argument made by the CBOT and other exchanges that a system of "position accountability" would be equally effective for contracts, such as Treasury futures and options, with liquid futures and cash markets because of the ease with which market participants can arbitrage between exchange-traded contracts and the underlying securities.[11] We fail to understand, and the CBOT has offered no explanation, why position accountability rules apparently are no longer effective during the last ten days of the delivery month.

True, deliveries during some of the recent expirations have been larger than normal, but that is not surprising, considering that open interest in some of the Treasury contracts has increased dramatically in recent years. Although the number of Treasury securities being delivered has gone up, the rate of increase is still less than the rate of increase in open interest.

Further, some of the shorts had to deliver securities in addition to the cheapest-to-deliver ("CTD"). The Treasury contracts provide for the delivery of any one of a basket of deliverable securities, however, and market participants on both sides of the market—both long and short—recognize that they can deliver and may receive something other than the CTD. In fact, there have been more than 30 multiple-issue deliveries in the Treasury contracts in the last five years alone, including one case (the September '02 Bond) where nine different securities—ranging from the 6% of February 2002 to the 9% of November 2018—were delivered over the course of the month.[12]

That this can happen should not be any cause for concern. Indeed, the June 29 notice to the membership makes this point abundantly clear:

> The establishment of position limits during the last ten trading days does not ensure that the cheapest to deliver security will be the only security necessary to

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10 46 Fed. Reg. 50938 (October 16, 1981) (*quoting* Section 4a of the Commodity Exchange Act).

11 56 Fed. Reg. 51687, 51688 (October 15, 1991). That approach has been carried forward into the Core Principles for designated contract markets. *See* Application Guidance to Core Principle 5 of Section 5(d) of the Commodity Exchange Act, 17 C.F.R. Part 38, Appendix B (contract markets not required to adopt position limits for contracts based on financial instruments with "very liquid and deep underlying cash markets").

12 http://www.Commission.gov/files/dea/delivery/deahisdel.xls.

> satisfy delivery obligations, nor does it ensure that a contract's fair value will be priced exclusively with reference to its CTD. If the level of contract open interest at expiration exceeds the available supply of the CTD, then at least some short position holders in the contract will necessarily have to fulfill their delivery obligations with a security other than the CTD, selected from the relevant basket of deliverable-grade securities. *Market factors will thus dictate whether the futures contract prices a single-issue or a multi-issue delivery.*[13]

CBOT officials also have expressed concern that market participants with very large positions are in a position to dictate the value of the contract. We think this concern is ill-founded as long as the supply of securities that is actually available for delivery exceeds the open interest. Besides, it is well known that smaller, more frequent auctions by the Treasury Department are resulting in smaller issuances of the CTD. Indeed, one of things that has made the Treasury contracts so attractive to hedgers, arbitrageurs and other market professionals is their optionality—the ability of a short to determine not only what security to deliver but when.[14]

Position limits serve one purpose—to reduce the possibility of a corner or squeeze in the delivery month. There has been no indication that Treasury Bond or Note deliveries have either caused or exacerbated any market dislocations. We would agree that remedial action that affects the entire marketplace might be necessary if there was evidence of market manipulations that distorted prices. Structural changes to the design and operation of these contracts should not be made, however, in the absence of any empirical evidence to suggest such a problem. There are doubtless those who would say that the delivery of securities other than the CTD is evidence of a problem that needs to be fixed. We disagree. The delivery of more that one Bond or Note is not, by itself, evidence of market manipulation or a squeeze. Rather, it is evidence of a well-functioning market that allows those making delivery who do not have the CTD to substitute other Bonds or Notes to discharge their contractual obligations.

Position Limits Should Not Be Applied to Contracts That Have Open Interest. It is axiomatic that neither an exchange nor the Commission can change the terms and conditions of a contract in a way that will have an effect on prices: "[A]mendments to the terms and conditions of contracts trading pursuant to exchange certification [may] be implemented only for contract months having no open interest. That implementation practice has been required by the Commission . . . to provide traders with legal certainty regarding the contract's terms and

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13 (Emphasis added.) The Treasury Department and the Federal Reserve Board both expressed substantial reservations about Treasury futures contracts that permitted the delivery of only one security when these contracts were first proposed in the late 1970s. For its part, the CBOT chose to go with a deliverable basket; the CME opted for the certainty of single-issue deliveries. The CBOT's Treasury products are thriving; the CME's Treasury contracts are defunct. This is clear evidence that the market can adapt and has adapted to the prospect of multiple-issue deliveries.

14 Among other things, shorts have the ability to take advantage of the "switch" option that arises when the second-cheapest to deliver security becomes the CTD during the last seven business days of the delivery month (after trading has ceased), but is priced (invoiced) on the basis of what had been the CTD when the contract was still trading.

conditions. . . . The Commission has approved contract amendments for implementation in trading months with open interest only where implementation of the proposed rule change *would not affect the value of existing positions or traders had notice of the impending change prior to opening their positions*."[15] The rule amendment fails both these tests.

First, traders did not have knowledge of this change prior to opening their positions. As EMF noted in its June 30, 2005 letter to the Commission, as of June 29, open interest in the December 10-year Treasury Note contract was 109,702 contracts, or a cash equivalent of nearly $11 billion. *Second*, and as discussed above, the imposition of position limits have and will "affect the value of existing positions." As EMF further noted, changes in position limits affect open interest, which in turn affects demand for the CTD, which in turn affects the financing rate for the CTD in the repo market, which in turn affects the value of the futures contract. This is not a merely hypothetical or conjectural statement—the announcement that Treasury position limits were going to be imposed apparently resulted in an immediate 25 basis point decline in the repo rate for the December 10-Year contract's CTD.[16] FIA has not undertaken a complete analysis of the effects of the CBOT's action, but it is reasonable to infer such a 25 basis point move would result in millions of dollars being made and lost in the futures, cash and repo markets.

Any Position Limits That May Be Adopted Must Be Coupled With a Risk Management Exemption. If the CBOT is unwilling to repeal the amendment, it must be revised to include a risk management exemption. Any concern that exceptions for risk management positions would render the limits meaningless because market participants with large positions are almost invariably managing the risks associated with their cash Treasury and repo and reverse repo books only confirms the importance of such an exemption.

One of the most important purposes of the futures and option markets is risk shifting—providing commercial users of the underlying commodity with a means to transfer their risk to speculators who are willing to bear that risk in exchange for the possibility of profit.[17] The proposed position limits would make it impossible for dealers to respond to customers' requests to sell large blocks of Treasury securities during the last ten trading days of a delivery month, however, since the

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15 64 Fed. Reg. 66373, 66377 & n. 21 (November 26, 1999) (emphasis added). We understand that the Commission made these statements in promulgating Rule 5.3, which was removed following the enactment of the Commodity Futures Modernization Act of 2000. The policy, however, is still sound. To this end, section 5c(c)(2) of the Act specifically requires Commission approval of any rules altering the terms and conditions of contracts in the enumerated commodities, if the rules apply to contracts that have been listed for trading and have open interest.

16 EMF letter, p. 1.

17 "Hedging, a major economic purpose of futures markets, is buying or selling futures contracts to offset the risks of changing prices in the cash markets. This risk-transfer mechanism has made futures contracts virtually indispensable in efforts to control costs and protect profit margins." Chicago Board of Trade, *Commodity Trading Manual*, at 13 (1989 ed.); *see* Section 3 of the Commodity Exchange Act, 7 U.S.C. § 5 ("The transactions subject to this Act are affected with a national public interest by providing a means for managing and assuming price risks...").

dealer would be unable to hedge its position in the futures market. The proposed position limits also would deny hedgers the ability to carry their positions throughout the delivery month. This would have an especially deleterious effect on hedgers who are short the cash and who may need to hold their positions through expiration to be assured that they will be able to take delivery on their futures contracts.[18]

Adopting a position limit without a hedge exemption is not merely unwise – it would be virtually unprecedented. Congress has prohibited the Commission from doing so,[19] and the few cases where an exchange has adopted such a rule have involved cases where there were serious concerns about the availability of cash supplies. There obviously is no risk of a shortage of deliverable securities. Just as obviously, there is no reason to deny hedgers an exemption from any position limits that the CBOT may adopt.

Position Accountability is Superior to Position Limits. CBOT Regulations 425.06, 425.07 and 425.09 impose a position accountability requirement on market participants whose positions exceed specified levels. The position accountability thresholds are already far lower than the new position limits[20] and, taken together with the authority conferred by those Regulations, allow the CBOT to require market users to supply information relating to the nature of their positions, their trading strategy and, if applicable, their use of the contract in question to hedge cash market, repo or reverse repo exposures.

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18 The argument is sometimes made that the futures markets are not designed to be delivery markets and that long and short hedgers should address their obligations to buy or sell the underling commodity in the cash market, rather than through the delivery mechanisms of the futures market. *See Cargill, Inc. v. Hardin*, 452 F.2d 1154, 1172 (8th Cir. 1971) ("While the obligation to make or take delivery is a bona fide feature of the futures contract, the futures market is not an alternative spot market..."). Statements to this effect ignore the importance of delivery as a means of assuring the convergence of the futures price and the price of the underlying. *See, e.g.*, 62 Fed. Reg. 60831, 60838 (November 13, 1997) (Commission Order changing corn and soybean delivery specifications); *In the Matter of Fenchurch Capital Management*, Comm. Fut. L. Rep. (CCH) ¶26,747, at 44,091 (Commission 1996) (Ten-Year Treasury Notes); *In the Matter of Cox*, Comm. Fut. L. Rep. (CCH) ¶23,786, at 34,064 (Commission 1987) (wheat); *In the Matter of Indiana Farm Bureau*, Comm. Fut. L. Rep. (CCH) ¶21,796, at 27,288 n.2 (Commission 1983) (corn).

19 Section 4a(c) of the Commodity Exchange Act, 7 U.S.C. § 6a(c).

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	Spot Month Position Accountability Threshold	**Spot Month Position Limit (Last 10 Trading Days)**
Treasury Bonds	10,000 (incl. mini-sized Treasury Bonds)	25,000
Ten-Year Treasury Notes	7,500	50,000
Five-Year Treasury Notes	7,500	35,000
Two-Year Treasury Notes	7,500	25,000
Mini-Sized Treasury Bonds	See above	None

It is true that a position accountability regime of this nature would not stop a trader from accumulating a large position in the first place (*i.e.*, before being told that it cannot add to the position).[21] The CBOT is far from powerless in such a situation, however. The Business Conduct Committee may suggest—and, if need be, order—a firm with a large position to reduce the size of that position to the level, and within the timeframe, specified by the committee.

The position accountability system has worked well for years. We see nothing in the current market situation that would call for throwing out a system that allows the CBOT to discharge its market surveillance responsibilities without interfering with the workings of the marketplace.

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In summary, FIA believes that significant rule changes such as the amendments to Regulation 425.01 should be preceded by diverse consultation, that operational considerations should be taken into account and, consistent with historical practice, that such changes should not be applied to contracts in which there is open interest. We further believe that the CBOT and the Commission should consider whether the self-certification procedures should be invoked when the rules adopted affect contracts with open interest. More immediately, we urge the CBOT to conform its amended regulation to its existing policies regarding other contracts: (1) require aggregation only where there is common control; and (2) provide exemptions for risk management positions.

We appreciate the opportunity to make its views known on this important subject. We would welcome the opportunity to discuss these matters with you in greater detail at your convenience.

Sincerely,

John M. Damgard
President

cc: Honorable Reuben Jeffery III
Honorable Sharon Brown-Hruska
Honorable Walter L. Lukken
Honorable Fred Hatfield
Honorable Michael V. Dunn
Richard A. Shilts
James L. Carley
Patrick J. McCarty

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21 The CBOT is already authorized by Regulation 425.07 (relating to Two-, Five- and Ten-Year Treasury Notes) to prohibit a trader from increasing its position above the levels set forth therein. It is not apparent why a similar rule could not be adopted for Treasury Bonds.