



**Commissioner  
Walter Lukken**

*China Financial Derivatives Forum  
September 26, 2005*

# Commodity Futures Trading Commission (CFTC)

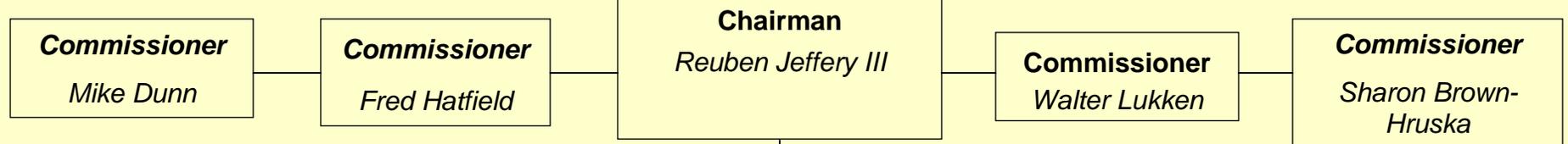
- Independent government agency created in 1974, similar to the Securities and Exchange Commission.
- Oversees U.S. commodity futures and options markets.
- Protects participants against manipulation, abusive trade practices and fraud.
- Ensures integrity of risk management markets in the U.S.

# CFTC Organizational Overview

- Five Commissioners
  - One Chairman, Two Republicans, Two Democrats
  - Appointed by the President, Confirmed by the Senate
- Approximately 500 Employees
- Offices in Washington, DC (headquarters), Chicago, New York, and Kansas City
- Annual Budget ~ 100 million USD

The Commission

# CFTC



The Staff



# Functions of the CFTC

- Register exchanges, clearinghouses and market participants to ensure they meet regulatory standards.
- Audit and review exchanges, clearinghouses and participants to ensure continuing compliance and financial integrity.
- Conduct real-time surveillance of markets and firms to monitor financial risks.
- Take regulatory or civil action when violations occur.

# Example of Surveillance Report on Market Participants

## Percentage Breakdown of Open Interest in CME Foreign Currency Futures

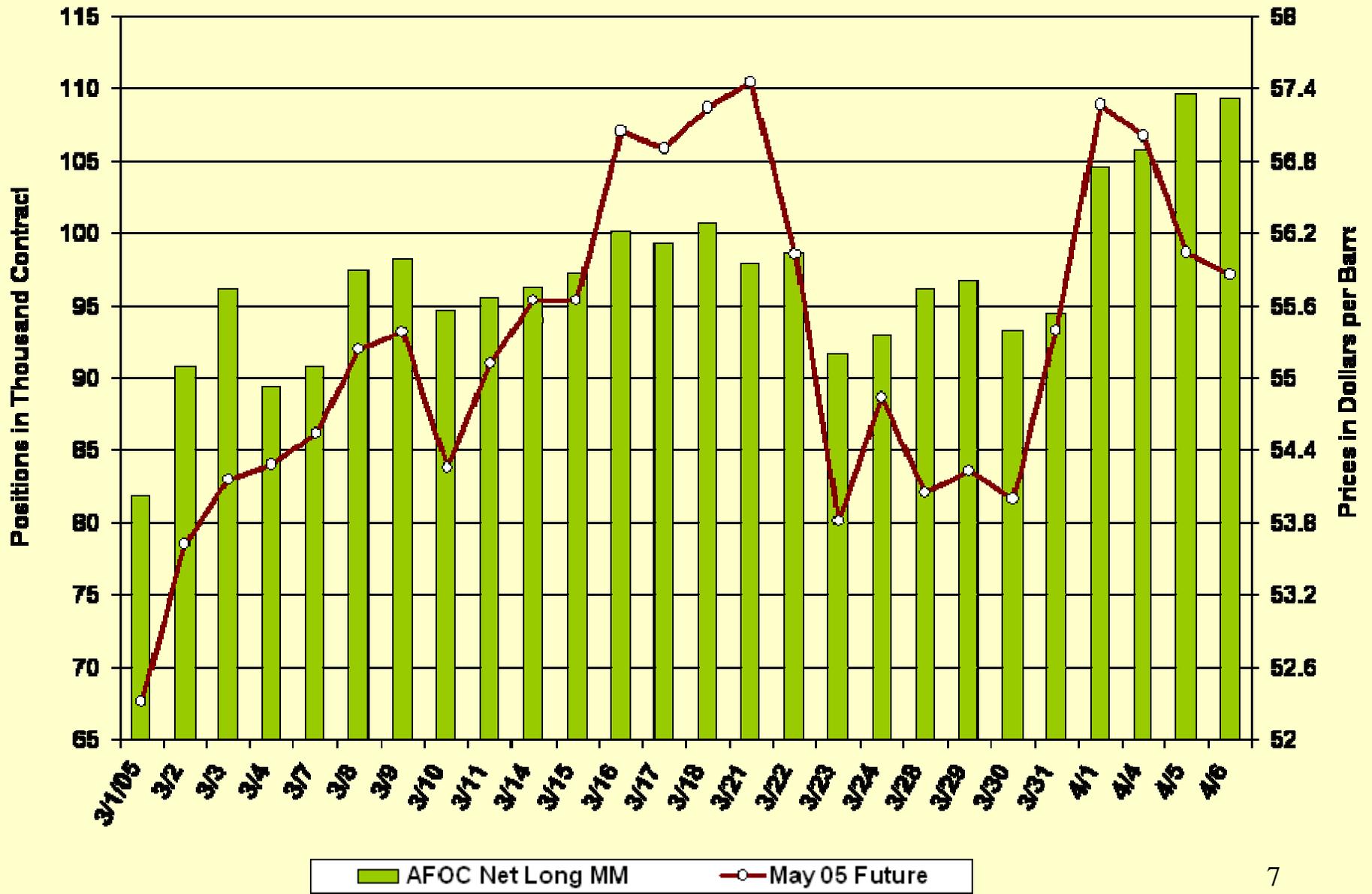
<i>September 1, 2004 to August 1, 2005</i>	FUTURES		OPTIONS <sup>2</sup>	
TRADER CATEGORY	% LONG	% SHORT	% LONG	% SHORT
Arbitrageur or Broker/Dealer	21.4	33.9	29.7	25.3
Non U.S. Commercial Bank	5.1	2.7	2.9	2.6
U.S. Commercial Bank	2.2	3.5	8.0	8.1
Endowment or Trust	0.4	0.0	0.0	0.0
Mutual Fund	0.8	0.7	3.1	3.9
Pension Fund	5.8	4.4	0.6	0.5
Insurance Company	0.0	0.1	0.0	0.0
Hedge Fund	1.3	1.3	0.0	0.0
Other Financial	3.4	8.7	1.6	1.9
Managed Account or Pool	0.8	0.5	0.0	0.0
Swaps/Derivatives Dealer	6.9	4.7	0.5	0.4
Corporate Treasurer	0.1	0.1	0.4	0.2
Floor Broker/Floor Trader	0.7	0.9	13.4	14.2
Managed Money Trader	17.3	13.0	10.4	10.8
Noncommercial Trader - No Registration	6.0	5.3	3.5	5.7
Nonreportable Positions <sup>3</sup>	27.8	20.1	25.7	26.2

1. Major foreign currency represents the currencies of Japan, U.K., Canada, Australia, Switzerland, Sweden, and Euro.

2. Options are delta adjusted.

3. Nonreportable positions are derived by subtracting all reportable open positions from the total open interest.

**Crude Oil: AFOC Delta Adjusted Net Long Managed Money  
Positions and May 2005 Future Settlement Prices**



## CME June 2005 JAPANESE YEN - Futures Only As of 06/10/2005

Open Interest In: UNITS OF 12,500,000 JAPANESE YEN	First Notice Day	06/13/2005
Delivery Facilities: DESIGNATED JAPANESE BANKS	Last Trading Day	06/13/2005
	Option Last Trading Day	06/03/2005

	( 06/10/2005 ) THIS WEEK	( 06/03/2005 ) LAST WEEK	( 06/11/2004 ) LAST YEAR
OPEN INTEREST	91,700	171,661	49,875
DELIVERABLE STOCKS			
	THIS FUTURE ( JUN. 05 )	LAST FUTURE ( MAR. 05 )	LAST YEAR ( JUN. 04 )
DELIVERY NOTICES/ CASH SETTLEMENT	87,441	51,248	48,794

	DATE	JUN. 05	SPREAD	BASIS	VOLUME	O.I.	NOTICES	XFCS
1	06/06/2005	0.9364	-0.0086	-0.0014	67,346	156,322	N/A	4,733
2	06/07/2005	0.9388	-0.0086	-0.0009	75,084	124,383	N/A	7,322
3	06/08/2005	0.9332	-0.0086	-0.0012	59,456	109,080	N/A	5,890
4	06/09/2005	0.9307	-0.0086	0.0000	37,703	99,516	N/A	6,748
5	06/10/2005	0.9211	-0.0085	-0.0011	11,689	91,700	N/A	115
6	06/13/2005	0.9150	-0.0059	-0.0020	5,085	87,441	0	4,142

PRICES IN US \$ PER JAPANESE YEN (.00'S OMITTED)/CASH PRICE REPRESENTS 2:00 PM (CST) INTERBANK SPOT BID/LTD PRICE REPRESENTS 10:00 AM (CST) INTERBANK SPOT BID

**CME June 2005 JAPANESE YEN - Futures Only**  
**As of 06/10/2005**

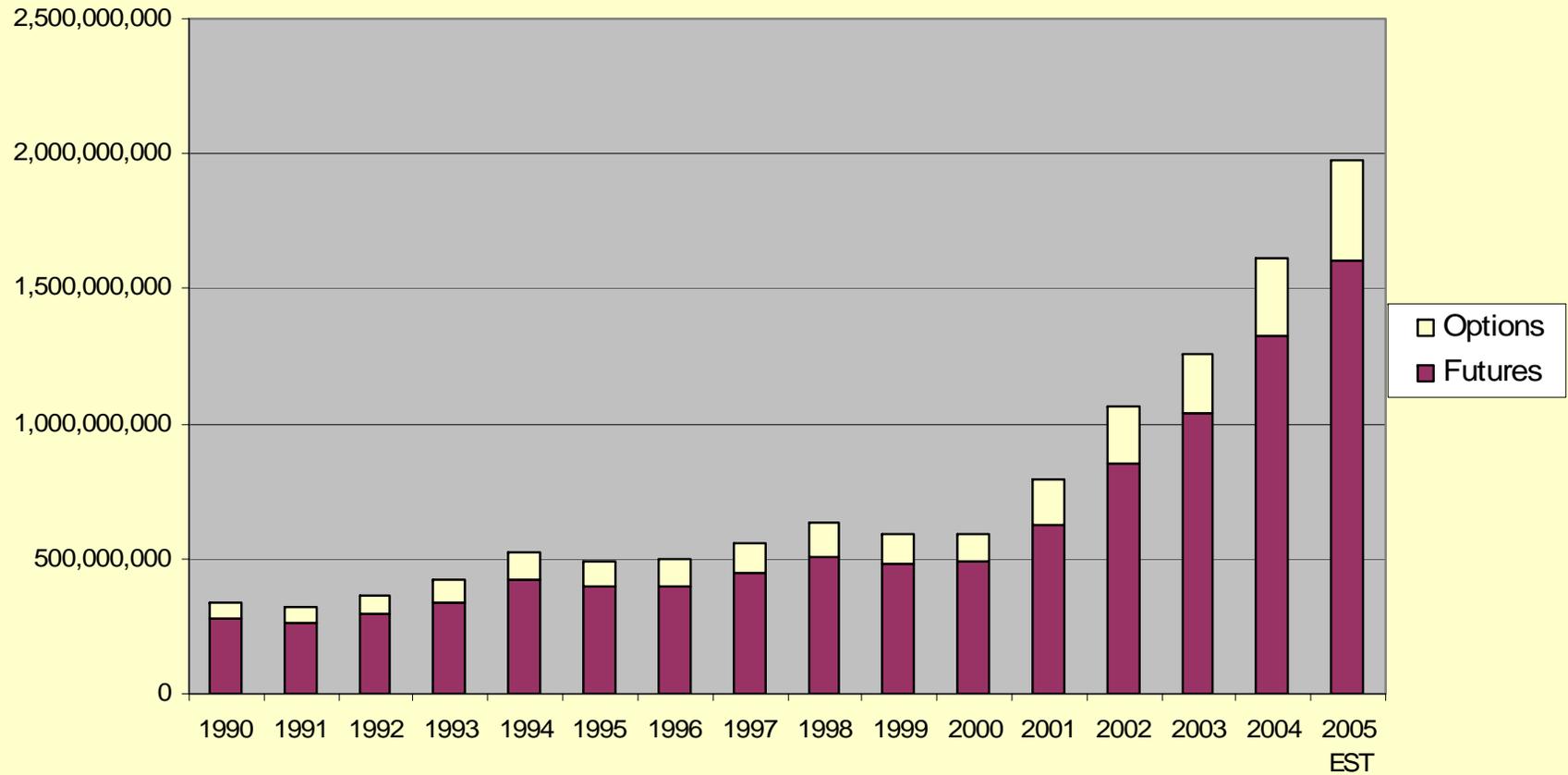
<b>FOUR LARGEST LONGS</b>		<b>CURRENT POSITION</b>		<b>LAST WEEK</b>		<b>% OF OPEN INTEREST</b>		<b>NET</b>
	<b>CLASS</b>	<b>LONG</b>	<b>SHORT</b>	<b>LONG</b>	<b>SHORT</b>	<b>CURRENT</b>	<b>LAST WEEK</b>	<b>OPTION</b>
1	AAA Company	61,333	0	50,943	0	66.9	29.7	0
2	BBB Company	21,507	6,142	21,215	10,678	23.5	12.4	0
3	CCC Company	3,480	0	1,050	0	3.8	0.6	0
4	DDD Company	1,099	0	1,099	0	1.2	0.6	0
	<b>TOTAL</b>	<b>87,419</b>	<b>6,142</b>	<b>74,307</b>	<b>10,678</b>	<b>95.4</b>	<b>43.3</b>	<b>0</b>
1	Broker Dealer, NYC							
2	Investment Bank							
3	3 <sup>rd</sup> largest Japanese Bank							
4	Investment Advisor Paris, France							

<b>FOUR LARGEST SHORTS</b>		<b>CURRENT POSITION</b>		<b>LAST WEEK</b>		<b>% OF OPEN INTEREST</b>		<b>NET</b>
	<b>CLASS</b>	<b>LONG</b>	<b>SHORT</b>	<b>LONG</b>	<b>SHORT</b>	<b>CURRENT</b>	<b>LAST WEEK</b>	<b>OPTION</b>
1	WWW Corp.	0	35,593	0	38,082	38.8	22.2	0
2	XXX company	0	15,001	0	15,001	16.4	8.7	0
3	YYY Corp.	0	7,303	0	6,116	8.0	3.6	0
4	ZZZ Company	0	5,848	0	5,848	6.4	3.4	0
	<b>TOTAL</b>	<b>0</b>	<b>63,745</b>	<b>0</b>	<b>65,047</b>	<b>69.6</b>	<b>37.9</b>	<b>0</b>
1	Pension Fund Manager, Netherlands							
2	Investment bank, NY							
3	Commercial Bank, Hong Kong							
4	Swaps/Derivatives Dealer, NY							

Reporting Level: 400

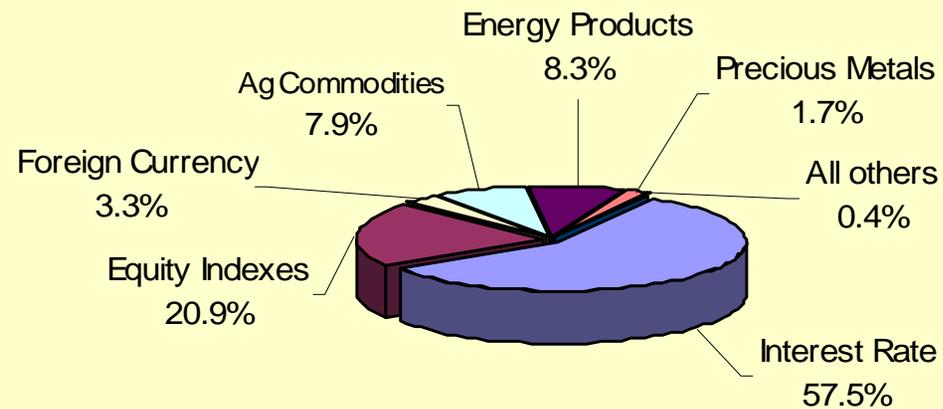
Speculative Limit: NO LIMIT DEFINED

## Total U.S. Futures and Options Volume 1990 - 2005\*

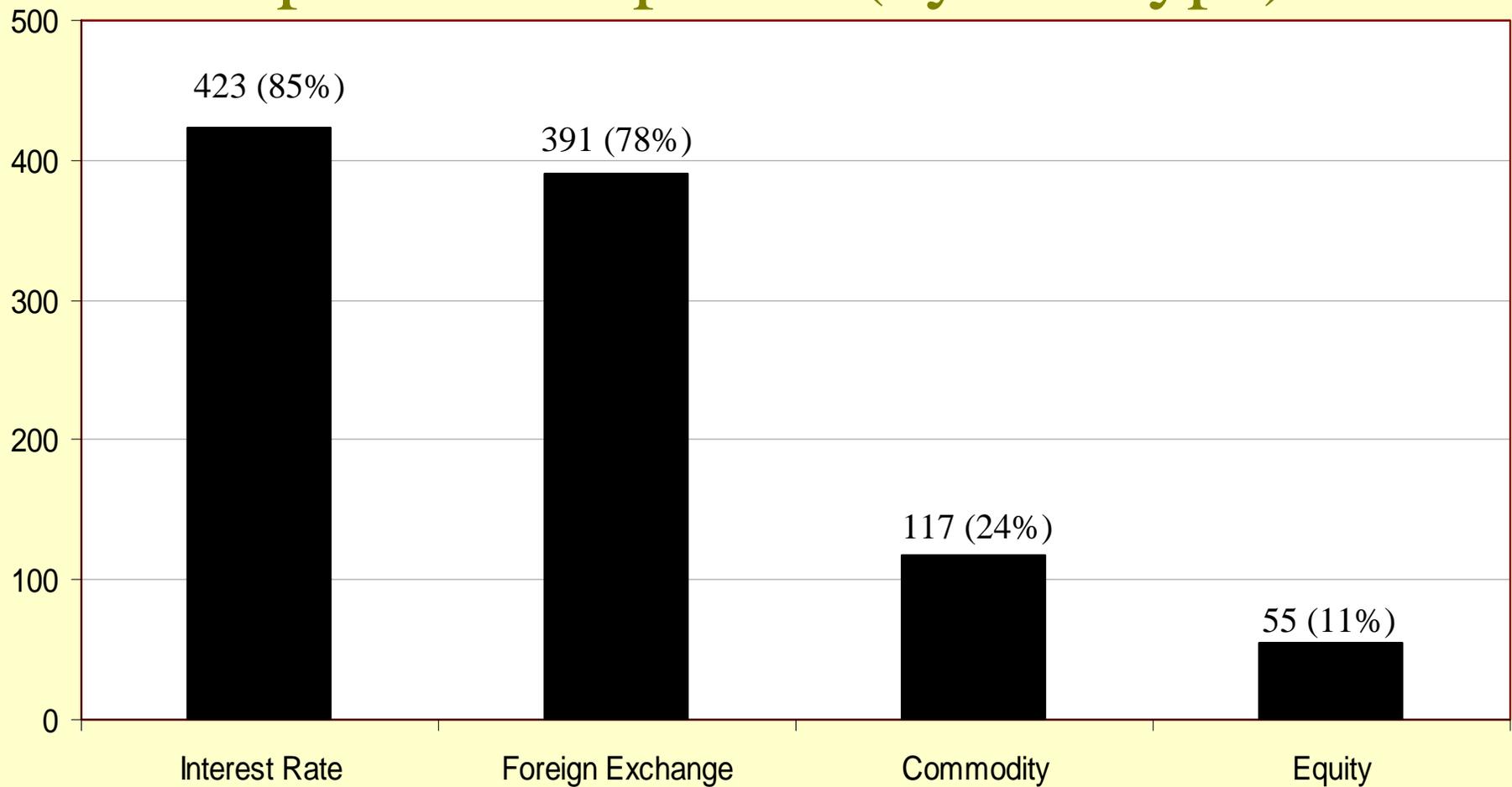


Source: Futures Industry Association

# 2004 Total U.S. Futures Exchange Volume (by product type)



# Derivatives Usage among World's Top 500 Companies (by risk type)

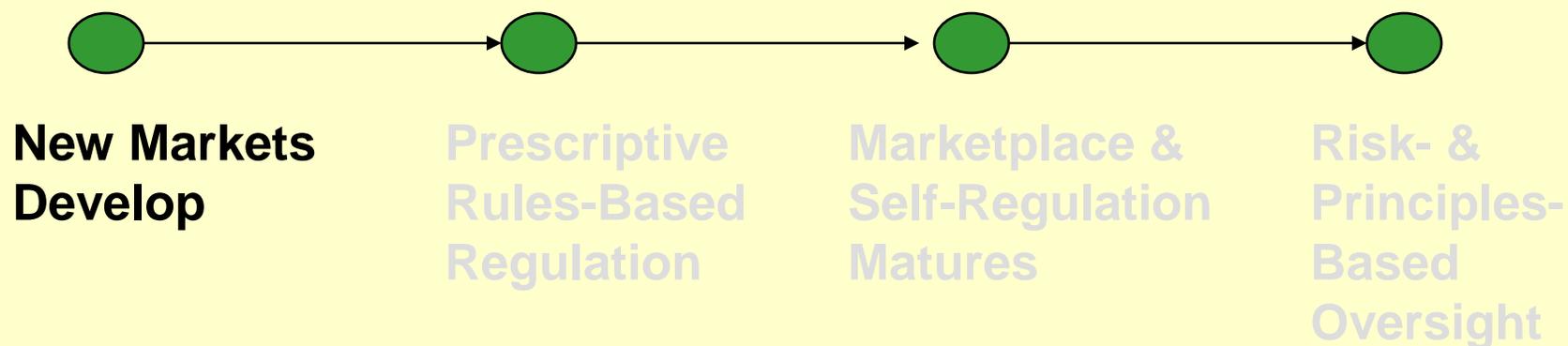


Source: International Swaps and Derivatives Association, Inc. 2003

# Lifecycle of a Regulated Market

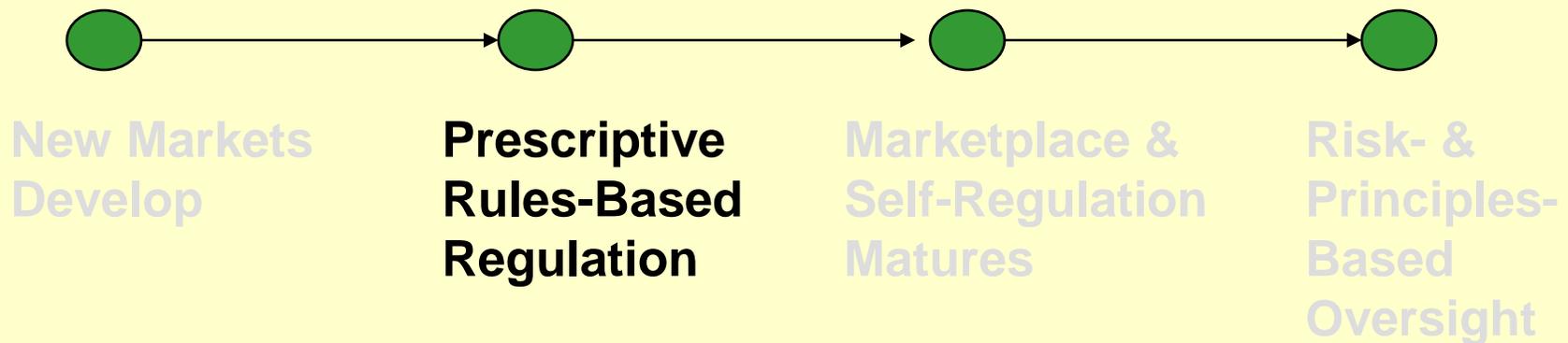


# Lifecycle of a Regulated Market



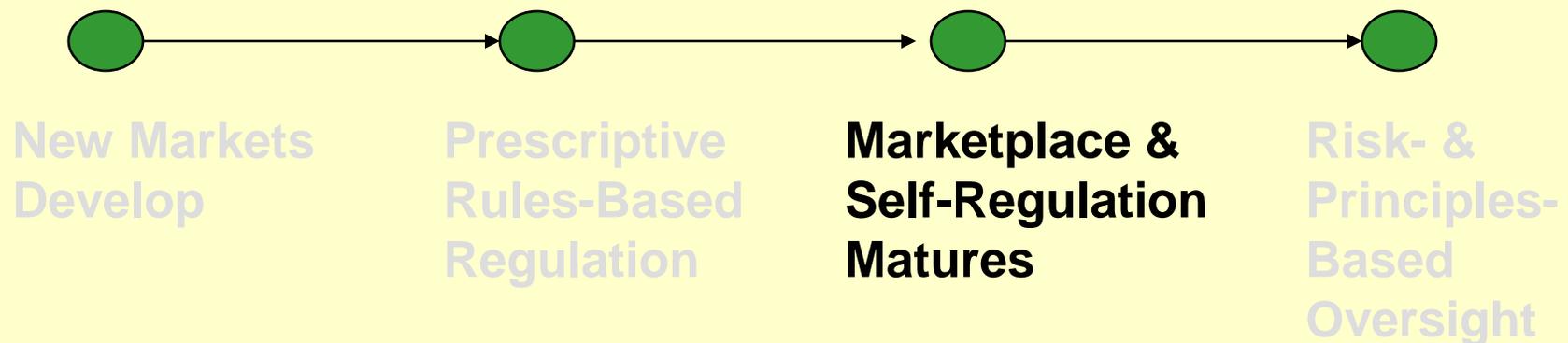
- In the 1970s, the U.S. abandoned the gold standard for the dollar and the resulting demand for risk management products led to the development of the currency derivatives market.
- Other financial products, such as interest rate and equity derivatives, followed soon after.

# Lifecycle of a Regulated Market



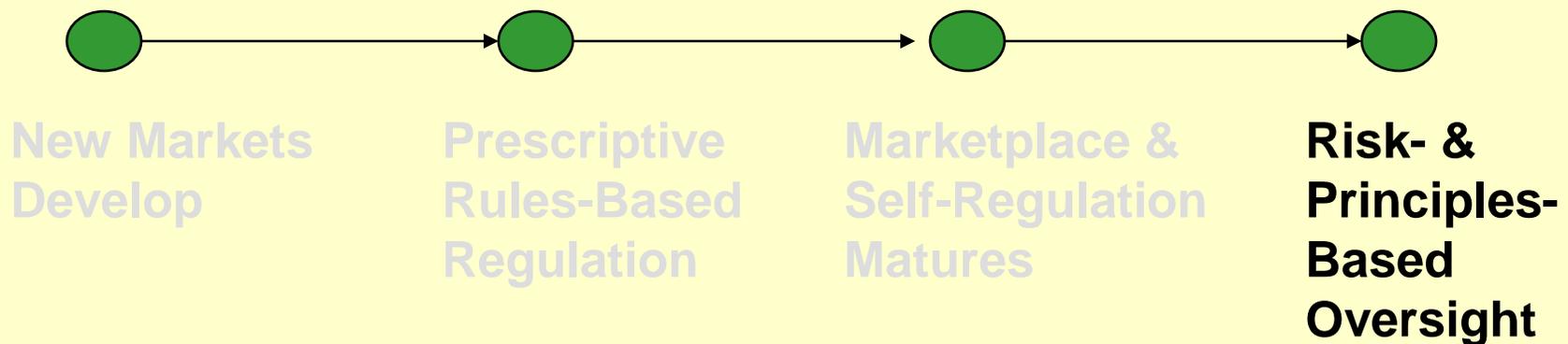
- In 1974, Congress passed the Commodity Exchange Act and created the independent CFTC.
- Required exchange rules and products be approved by regulator before implementation.
- CFTC developed detailed, prescriptive regulations.
- Limited flexibility for market participants but greater certainty for compliance.

# Lifecycle of a Regulated Market



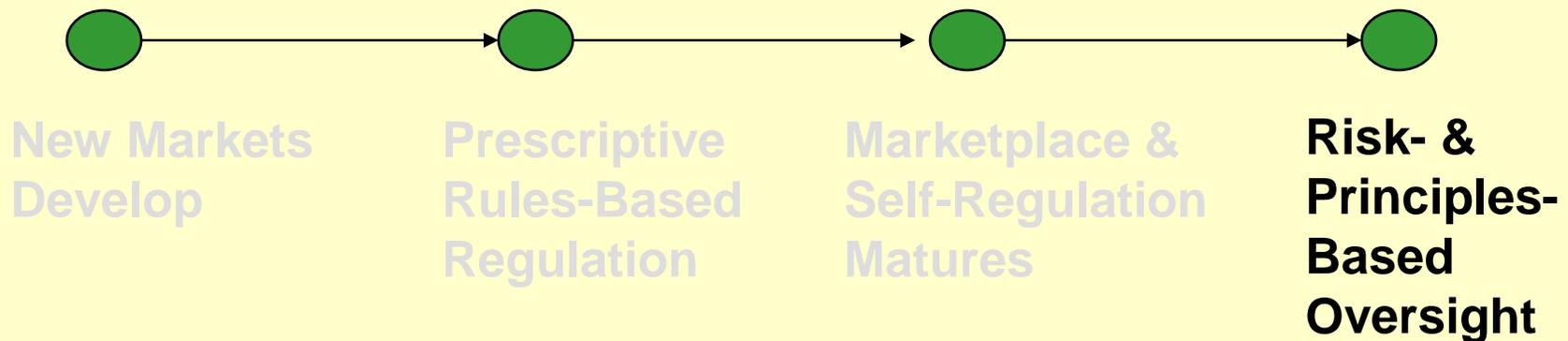
- National Futures Association (NFA), the futures industry's self-regulatory organization (SRO), formed in 1982.
- In 1984, the futures exchanges and NFA formed the Joint Audit Committee (JAC) to coordinate self-regulatory duties.
- During the 1990s, electronic trading platforms decreased trading costs and lowered barriers of entry for new exchanges.
- As markets matured and became more competitive, market reputation, discipline and competition served as important additional deterrents for wrong-doing, as they do still today.<sub>r6</sub>

# Lifecycle of a Regulated Market



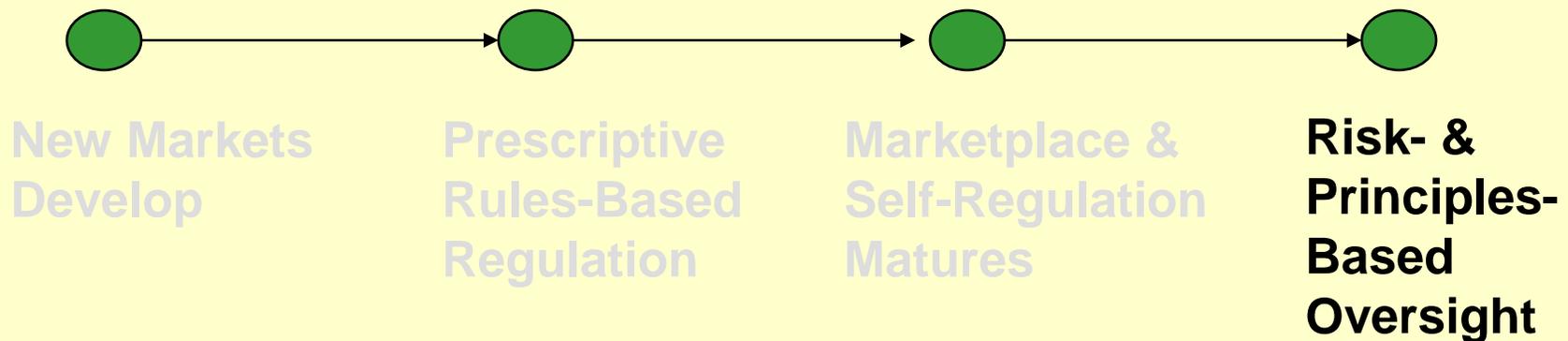
- In 2000, the landmark Commodity Futures Modernization Act (CFMA) became law.
- Principles-based regulation provides flexibility while adhering to global standards.
- New oversight structure focused on identifying high risk areas and reviewing such areas for compliance with the CFMA.
- More frontline regulatory responsibility given to SROs.

# Lifecycle of a Regulated Market



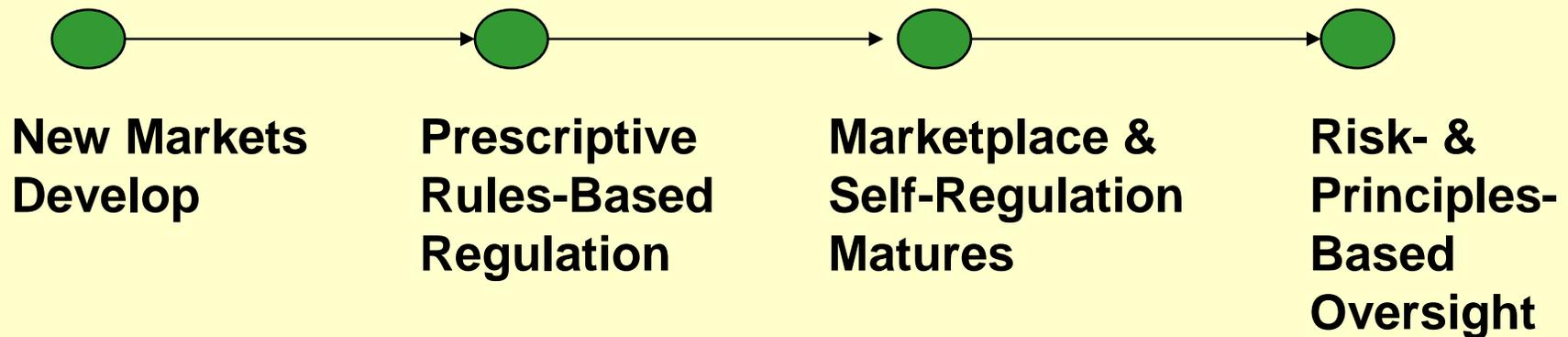
- Sliding scale for regulation of exchanges depending on type of participant and product.
- Products and rules certified by exchange and reviewed by CFTC after implementation.
- Certain products excluded from regulation when otherwise regulated or no policy justification is present.
- Competition brings other regulatory concerns such as antitrust and intellectual property claims.

# Lifecycle of a Regulated Market



- This stage requires greater global cooperation.
- IOSCO, CESR, bilateral MOUs (including with CSRC).
- Cooperative Regulation – market access, clearing & market linkages, inter-market surveillance.
- Cooperative Enforcement - information sharing, money laundering, fraud.

# Lifecycle of a Regulated Market



- Where is China in this process?
- Advantage for “Second Movers”
- Incremental steps are important.

