

Received CFTC
Records Section

8/18/09

09-8
⑦



C.F.T.C.
OFFICE OF THE SECRETARIAT

2009 AUG 18 AM 10 44

Craig S. Donohue
Chief Executive Officer

August 17, 2009

VIA ELECTRONIC MAIL

COMMENT

David Stawick
Secretary of the Commission
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581
secretary@cftc.gov

Re: Account Ownership and Control Report– 74 Fed. Reg. 31642 (July 2, 2009), RIN 3038-AC63

Dear Mr. Stawick:

CME Group Inc. ("CME Group"), on behalf of its four designated contracts markets ("Exchanges" or "DCMs"), appreciates the opportunity to comment on the Commodity Futures Trading Commission's (the "Commission") advanced notice of proposed rulemaking ("ANPR") with respect to collection of certain ownership, control and related information for accounts that are active on U.S. futures exchanges.

CME Group is the world's largest and most diverse derivatives marketplace. We operate four separate Exchanges, including the Chicago Mercantile Exchange, Inc ("CME"), the Board of Trade of the City of Chicago, Inc. ("CBOT"), the New York Mercantile Exchange, Inc. ("NYMEX") and the Commodity Exchange, Inc. ("COMEX"). The CME Group Exchanges offer the widest range of benchmark products available across all major asset classes, including futures and options based on interest rates, equity indexes, foreign exchange, energy, metals, agricultural commodities, and alternative investment products. We also operate CME Clearing, one of the largest central counterparty clearing services in the world, which provides clearing and settlement services for exchange-traded contracts, as well as for over-the-counter derivatives transactions through CME ClearPort. The CME Group Exchanges serve the hedging, risk management and trading needs of our global customer base by facilitating transactions through the CME Globex electronic trading platform, our open outcry trading facilities in New York and Chicago, as well as through privately negotiated transactions.

Background

The Commission is proposing to collect certain ownership, control and related information for every "trading account" that is active on a U.S. futures exchange. This information would be compiled into an account Ownership and Control Report ("OCR"). The Commission envisions that the information in the OCR would include the following data points:

- Account number
- Name and address of account's owner
- Date on which account was assigned to current owner
- Name of executing firm for account
- Name of clearing firm for account
- Name and address of account's controller
- Date on which account was assigned to its current controller
- Account controller's Commodity Trading Advisor ("CTA") number, if any
- Special account number, if any
- Indication of whether account is reportable
- Indication of whether account is a firm omnibus account (and, if so, the firm's name)
- Last four digits of the Social Security number or taxpayer identification number of account's owner and controller
- Name of firm providing OCR information for the account
- Name of exchange or other entity submitting the OCR
- OCR transmission date

The Commission anticipates that exchanges "and possibly other registered entities" will gather the necessary information and submit OCRs to the Commission.¹ "Each exchange's first OCR submission will constitute a 'master file' containing the required data for all trading account numbers present in the Trade Capture Report during the previous 30 days. The master file will establish a baseline directory."² Thereafter, a weekly OCR submission from each exchange would consist of a "'change file' reporting only additions, deletions, or amendments to the master file; if the reported change includes changes to an account's owners or controllers, the precise date of such change should also be reported."³

The Commission has selected the above-listed OCR data points in order to achieve four objectives:

1. Identifying with certainty all accounts under common ownership or control at a single exchange.
2. Identifying with certainty all accounts under common ownership or control at multiple exchanges.
3. Identifying all trading accounts whose owners or controllers are also included in the Commission's large trader reporting program.
4. Identifying entities to which the Commission should have recourse if additional information is required, including the trading account's executing firm and clearing firm and the name of any firm providing OCR data for the account.⁴

¹ 74 Fed. Reg. 31642, 31644 (July 2, 2009).

² *Id.*

³ *Id.* at 31644-45.

⁴ *Id.* at 31644.

The Commission believes that the OCR "will facilitate innovative trade practice and market surveillance by [the Division of Market Oversight]; bridge the gap between individual transactions reported on exchange trade registers and aggregate positions reported in large trader data; and allow other Commission Offices and Divisions to better utilize regulatory data in support of their own missions."⁵ The Commission further envisions that the OCR will "enhance exchanges' internal regulatory efforts."⁶

CME Group supports the concept of ensuring the continued effectiveness of the Commission's and the Exchanges' market surveillance efforts through improved reporting mechanisms that timely and efficiently collect relevant market data. CME Group recognizes that there is significant regulatory value in identifying trading accounts and linking them to position accounts. We are also mindful, however, of the importance of taking appropriate steps to minimize costs associated with reporting requirements and to avoid unnecessary or unfair financial burdens on futures commission merchants ("FCMs") and the exchanges.

As presently planned, the OCR would be limited to information relating to accounts on U.S. futures exchanges. We believe the Commission should consider expanding the reporting requirements to encompass trading on exempt commercial markets ("ECMs") and foreign boards of trade ("FBOTs") that have received permission to offer U.S. traders electronic access to their trading platforms through no-action letters issued by the Commission. Failure to include ECMs and FBOTs in the Commission's enhanced reporting requirements would result in an incomplete data set for effective regulation and encourage market participants to evade information and disclosure obligations by directing the trading activity in comparable instruments to ECMs and FBOTs. Furthermore, exclusion from certain data-collection responsibilities and the costs associated therewith would give ECMs and FBOTs an unfair competitive advantage over U.S. futures exchanges.

Because of the importance and complexity of issues presented by the proposed OCR, we concur with the recommendation of the Futures Industry Association that the Commission convene a group of industry representatives including futures exchanges, FCMs, technology vendors and other interested stakeholders to discuss and develop effective and efficient methods for the Commission and exchanges to obtain the type of information described above. CME Group would, of course, be happy to actively participate in such discussions. In the interim, our preliminary responses to specific questions posed in the ANPR are set forth below.

CME Group's Responses to Questions in the ANPR

1. *Is there additional information ... that should be included in the OCR?*

The proposed OCR includes a significant amount of information that, to the extent it is available to any given entity, is likely to be retained in disparate formats and systems across the industry. In order to determine how to most efficiently accomplish the objectives of the OCR, greater specificity is required

⁵ *Id.* at 31643.

⁶ *Id.*

regarding the desired data elements and their value, the relative challenges and costs associated with systematically producing and updating the various data points, and the means by which such information will be standardized and submitted. Such an undertaking requires the input of diverse constituencies and functional specialists to ascertain how critical objectives can most feasibly and economically be met in a reasonable time frame. Examples of data points that may add complexity to the reporting process without commensurate value include: (a) the date on which an account was "assigned" to a particular controller; (b) where an account controller is a CTA, its CTA number; and (c) the identity of each executing broker used by a particular account.

Currently, FCMs are required to submit to the Commission and the relevant exchanges a Form 102 that identifies each "special account" that reaches a reportable level in a futures or options contract. The vast majority of information in the Form 102, which the industry has discussed automating for more than a decade, would be duplicated in the proposed OCR. Rather than creating a new and largely duplicative report, an appropriate initial step would be to automate the data collection process for Form 102s. This approach would have the benefits of: (a) modernizing the manual processes currently used by the Commission, the exchanges and FCMs in connection with Form 102s; (b) enhancing the accuracy, completeness and timeliness of Form 102 data; and (c) creating time and costs savings throughout the industry over time.

2. *What is the lifecycle of the information required by the OCR? Who possesses it at a root level? From what types of entities will exchanges draw the information required by the OCR (e.g. exchange clearing members, nonmember futures commission merchants, etc.)? How will exchanges obtain OCR information?*

The lifecycle of the information required by the OCR and where it resides at a root level may differ depending on the firm and the nature of the account. If exchanges are required to transmit OCRs to the Commission, they will need to receive the necessary information in a standardized format via a standardized protocol from the entities that maintain the data. As noted above, a number of the proposed data points must be fully vetted and understood before the requisite interfaces can be developed in a manner that allows for the accurate and efficient provision of the data and maximizes utility of the information collected in order to best serve the desired objectives.

3. *Will OCR information be more difficult to acquire for some account types than for others? If so, what types of accounts will present a greater challenge and why? How can the challenge be overcome?*

The APNR does not clearly address significant complexities associated with the data field of "account number", which is the locus of the remaining information in the OCR. For numerous transactions, differences exist between the execution account, the clearing account and the ultimate destination account. Give-up transactions, bunched orders and omnibus accounts are widespread in the industry, and each creates challenges in the context of the OCR as currently proposed. Before an appropriate

structure for the OCR can be developed, these and other fundamental issues need to be holistically addressed and this will require input from various stakeholders in this initiative.

In addition, the Commission should carefully analyze whether the costs of requiring comprehensive information for every "trading" account are justified by the benefits, as experience suggests there is little incremental regulatory value below certain thresholds. Consideration should be given to whether reporting requirements may be tailored in ways that enhance efficiency without materially compromising the regulatory objectives of the initiative. As suggested above, automating submission of data in the Form 102 and modifying submission requirements to capture critical information necessary to link position and trading accounts would be important steps in this regard.

4. *The Commission expects that initially the OCR will be submitted in FIXML via FTP. Is there a better way to electronically transmit the OCR? Is there an existing FIXML report that may be used to transmit OCR information? If not, is there an existing FIXML report that can be easily modified to supply the information contained in the OCR?*

We believe that FIXML is an acceptable format. We understand that the FIX Protocol organization recently added support for a Party Detail List Report that, with certain adaptations, should be useful for identifying the owner and controller of an account. Developing a new FIXML standard would involve meetings to: (a) discuss the layout; (b) obtain agreement among the various stakeholders; and (c) receive approval from the FIX Committee. Additional time would then need to be spent with service bureaus and FCMs to set up the new file and clarify associated requirements.

5. *The Commission anticipates that each exchange will initially transmit a "master file" containing the required information for every trading account number included in the Trade Capture Report during the previous month or longer. The master file will effectively establish a baseline of account information. Subsequently, each exchange would be required to file a weekly "change file" reporting only changes that occurred during the week (e.g., new accounts, deleted accounts, or changes to accounts already in the master file). Is there a more convenient way to provide the required information on a regular basis? Do changes occur so frequently that a change file should be submitted daily instead of weekly?*

In the context of the suggestion to reconfigure the Form 102 and automate the submission process, daily reporting would be necessary. Discussions with a broader industry group would be necessary to assess the anticipated frequency of changes in OCR data, and discussions with information technology staff would be necessary to determine whether it would be more practical to obtain a weekly "change file" or a weekly re-submission of the "master file", inclusive of any changes.

6. *What entities will have to report raw data to exchanges so that exchanges can compile the information required by the OCR? Since these entities will already be in possession of OCR information, what additional measures will they have to take to transmit it to*

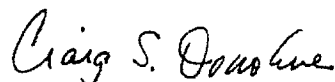
- exchanges or prepare it for transmission? What will be the dollar and staff-hour cost of those measures? To the extent possible, please itemize costs related to initial implementation as well as regular reporting costs.*
7. *How long will it take exchanges to assemble the necessary information and transmit the first OCR to the Commission? What will be the dollar and staff-hour costs associated with providing the OCR? To the extent possible, please itemize costs related to initial implementation as well as regular reporting.*

Further discussions are needed to determine which entities will need to report data to the exchanges, and which data elements a specific reporting entity will have access to given its relationship to the account. Until details of the OCR are more fully fleshed out and an associated project plan is developed, we cannot estimate with any degree of certainty the related costs associated with the proposal or the length of time that would be required to implement the OCR.

CME Group appreciates and shares the fundamental objective of improving the quality of regulatory data to enhance market integrity, and we believe that coordination with the industry is necessary to fully address the complexities inherent in this initiative and identify efficient and effective means for achieving these goals. Furthermore, in order to ensure that DCMs are not burdened with an unfair competitive disadvantage arising from more onerous reporting requirements, trading on ECMs and FBOTs should be subject to equivalent reporting requirements with respect to OCR submissions.

CME Group thanks the Commission for the opportunity to comment on this matter. We would be happy to discuss any of these issues with Commission staff. If you have any comments or questions, please feel free to contact me at (312) 930-8275 or Craig.Donohue@cmegroup.com; or Lisa Dunsky, Director and Associate General Counsel, at (312) 338-2483 or Lisa.Dunsky@cmegroup.com.

Sincerely,



Craig S. Donohue

cc: Chairman Gary Gensler
Commissioner Michael Dunn
Commissioner Bart Chilton
Commissioner Jill Sommers
Sebastian Pujol Schott
Cody J. Alvarez