



COMMODITY FUTURES TRADING COMMISSION

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91-8

DIVISION OF
TRADING AND MARKETS

October 9, 1991

Re:

Dear :

This is in response to your letter dated June 18, 1991, to Andrea M. Corcoran, Director, Division of Trading and Markets (the "Division"), Commodity Futures Trading Commission (the "Commission"), as supplemented by telephone conversations with Division staff. By your letter, you request, on behalf of

Services Inc., that the staff not recommend any enforcement action to the Commission if operates its proposed computerized system for trading foreign currencies and the U.S. dollar for actual delivery, without seeking designation as a contract market or otherwise complying with the Commodity Exchange Act (the "Act").^{1/}

Based upon the representations made in your letter, we understand that the facts are as follows. is a subsidiary of , a corporation incorporated with limited liability under the laws of and . supplies the international business community and news media with a wide range of products, including real-time financial data, transaction systems, access to numeric and textual historical databases, news and news pictures. The information that is supplied is obtained from various exchanges, over-the-counter markets, subscribers and from a network of journalists, photographers and cameramen. distributes information through approximately 205,000 video terminals and teleprinters. It also has a controlling interest in , an international television news agency, and its group companies design and install trading room systems.

You represent that (or one or more of 's other subsidiaries) intends to operate (also referred to as the "System"). will be a computerized communications system for international trading of foreign currencies and the U.S. dollar for actual delivery. It is designed to facilitate so-called "spot" foreign currency trading transactions. In a spot

^{1/} 7 U.S.C. § 1 et seq. (1988).

transaction, each trading party agrees to pay a certain amount of a specified currency to the other on an agreed-upon date which, consistent with cash market practice, is typically two business days after the transaction is originated. is intended to serve as an alternative to the "brokers market," a mechanism now in use for matching currency trading partners. As currently proposed, all subscribers to the System will be U.S. or foreign commercial banks.

Your letter describes as a system that will serve as a "name passer" in spot transactions between commercial banks involving the actual transfer of funds. Subscribers will input bids and offers to the System by computer. These prices will be displayed on each subscriber's terminal. will automatically "match" buy and sell orders between subscribers who have mutually acceptable credit limits.^{2/} After a match occurs, the System will automatically display on each counterparty's terminal screen the other's pre-programmed settlement instructions, and the System will generate a hard-copy confirmation of the transaction.

You further represent that will not serve as a "clearing organization" for . You base this representation upon the facts that, among others: (1) will not offer subscribers a means to liquidate performance obligations through offset; rather, performance obligations entered into over the System will be terminable only with counterparty consent (which need not be communicated through); (2) will not be involved in the process of transferring currency between principals, either in trades or in any other aspect of the settlement process, aside from enabling the exchange of pre-programmed settlement instructions which provide subscribers with information pertaining to bank names and accounts for purposes of facilitating the wiring of funds; and (3) will include safeguards intended to alert counterparties to communications faults and allow such parties to sort out trades disrupted by such faults directly, without ' involvement.

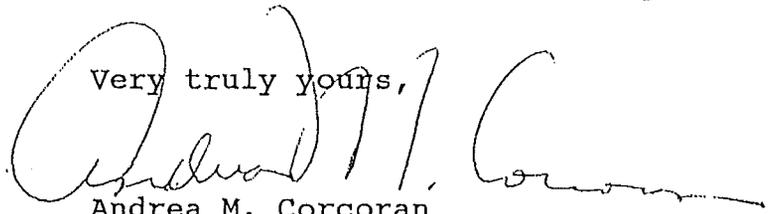
will, however, maintain a record of each transaction effected through , including the names of the participants, the date, the currencies and particular amounts involved, and taxpayer identification numbers. These records will be maintained on computer tape or other storage media for five years. Subscribers to the system will pay a monthly fee and a fee per trade.

^{2/} Each subscriber will be able to determine and input to a credit limit for each other subscriber; will refer to these on-line credit limits in matching buy and sell orders.

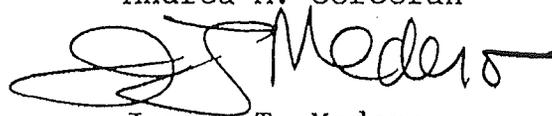
Based upon your representations, the staff will not recommend that the Commission take any enforcement action if _____ operates _____ in the manner described above, without seeking designation as a contract market or otherwise complying with the Act. This position is subject to the conditions that: (1) _____ operation of _____ is strictly limited to facilitating spot foreign currency transactions by matching buy and sell orders between its commercial bank subscribers; (2) _____ does not offer a means to liquidate performance obligations entered into over the System through offset and such obligations will be terminable only through counterparty consent; and (3) _____ does not involve itself in the process of transferring currency between principals aside from enabling the exchange of pre-programmed settlement instructions as described herein.

The position we have taken herein is related solely to _____ operation of the System for spot transactions and not to any other activities of _____ or the System, or otherwise, and is based upon the representations that you have made to us. Any different, changed or omitted facts or conditions might require us to reach a different conclusion. In this connection, we request that you notify us immediately in the event the activities of _____ as they relate to the operation of _____ change in any way from those as represented to us, including, of course, any changes resulting in the _____ System being operated or used to facilitate transactions other than spot foreign currency trading transactions as described in your letter. It also should be noted that this position is that of the staff and is not binding upon the Commission.

Very truly yours,



Andrea M. Corcoran



Joanne T. Medero

Co-Chairmen
Task Force on Off-Exchange
Instruments