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COMMODITY FUTURES TRADING COMMISSION

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DIVISION OF TRADING AND MARKETS

June 10, 1993

Mr. Michael Philipp
Staff Attorney
Chicago Mercantile Exchange
30 South Wacker Drive
Chicago, Illinois 60606

Re: Request for relief from the requirement that members pre-print identification on trading cards

Dear Mr. Philipp:

This letter is in response to your letters of April 26, and May 13, 1993, in which you requested on behalf of the Chicago Mercantile Exchange ("CME" or "Exchange") and its members who trade the Rolling Spot futures and options contracts that the Division of Trading and Markets ("Division") adopt a no-action position regarding the requirement under Commission Regulation 1.35(d)(4)(i) that trading cards contain pre-printed member identification. This no-action position would apply only to the CME's Rolling Spot futures and options contracts. You have requested that the Division adopt this position for a six-month period following the introduction of the Rolling Spot contracts. After that period, the relief would expire.

I. Background

In your April 26, 1993 letter, you presented the following facts:

[T]he CME will encourage floor traders to support the new Rolling Spot contracts. When the contracts begin trading the CME expects that the majority of members who choose to trade Rolling Spot contracts will do so intermittently and for short periods during the day.

The Rolling Spot contracts are designed to be larger than the regular foreign currency contracts. As a result, traders are very interested in reducing the likelihood of out-trades. Members who do not remain in the pit for an extended period of time, or who enter and leave the pit frequently, are less likely to discover that an out-trade exists in a timely manner.

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Floor traders have indicated that they would be more inclined to trade the new Rolling Spot contracts if the Exchange were to provide a preliminary trade checking facility for such contracts. The preliminary trade checking facility would be intended to assist in the timely detection and resolution of Rolling Spot out-trades.

As part of this preliminary trade checking facility, the CME would require members to provide a CME employee with a copy of their trading cards for input into a trade matching computer. Currently, members use one- or two-ply trading cards. The preliminary trade checking facility would require the use of three-ply trading cards, since one copy of the trading cards would have to be provided to a CME staff member.

You have further stated that:

[t]he CME believes that members are not likely to incur the considerable expense of purchasing pre-personalized . . . three-ply cards before they have determined that the Rolling Spot contract is one which they intend to trade on a regular basis. This limitation will discourage participation in the start up of Rolling Spot contracts which may adversely affect the success of the contract.

To address this concern that members may not purchase Rolling Spot trading cards, the CME originally proposed that it would supply blank three-ply trading cards to its members for use in trading the contracts. The Exchange modified this proposal in a letter, dated May 13, 1993, to state that the CME would provide trading cards to members with pre-printed sequence numbers, as required by Regulation 1.35(d)(4)(ii).

The Exchange also would require members to write their names or trading symbols on the cards. That member identification would be required to appear on each trading card but would not be pre-printed.

The CME would pre-print sequenced trading cards in series of 26,000 cards each, a quantity that is greater than the anticipated weekly trading volume.^{1/} The pre-printed sequence numbers, therefore, are intended to distinguish each trading card

^{1/} This information is from a telephone conversation between Mr. Michael Philipp and Ms. Shauna Turnbull re: Rolling Spot no-action letter, on May 25, 1993.

from other cards for at least a one-week period, as required by Regulation 1.35(d)(4)(iii). In your letter dated May 13, 1993, you also stated that "[a]lthough the CME will not track the issuance of these pre-sequenced cards, the Exchange will inform members that they are responsible for using such cards sequentially." You further stated that the cards would be placed next to CME staff members located near the pits during the trading day.

Because the foregoing arrangement raises issues with respect to the CME's compliance with the requirement that members pre-print identification on trading cards, you have requested no-action relief on behalf of the CME and its members who trade the contracts.

II. Audit Trail Requirements

Regulation 1.35(d)(4)(i) provides that:

(4) Trading cards prepared by a member of a contract market pursuant to contract market rules must contain:

(i) Pre-printed member identification or other unique identifying information which would permit the trading cards of one member to be distinguished from those of all other members

This request for no-action is limited in scope. The proposal is intended to comply with two important provisions of the trading card regulation. Members would use trading cards with pre-printed sequence numbers and the cards should provide unique identification for members' trades for at least a one-week period. Members also would be required to provide handwritten identification on each trading card. These aspects of the proposal would provide certain safeguards to reduce the opportunity for fabrication of trading cards and to provide accountability for trading cards.

Accordingly, the Division will not recommend enforcement action under Sections 4g(b), 4g(c), 5a(b)(1)(B), or 5a(a)(8) of the Act or Regulation 1.35(d)(4)(i) against the CME or its members who trade the CME's Rolling Spot futures and option contracts with respect to the circumstances detailed above. This relief will expire automatically, six months after the introduction of the Rolling Spot contracts. The CME's existing audit trail rules will apply after the six-month relief period ends. At expiration of the relief period, the CME may have received more comprehensive relief for trading Rolling Spot contracts based on its April 7, 1993 submission requesting exemption from certain Commission requirements, may have achieved sufficient volume in the contracts to justify pre-printing member

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identification on trading cards, or may apply to renew the relief, as appropriate.

The views expressed in this letter are based on the representations that you have made in your April 26, and May 13, 1993 letters and are strictly limited to those representations. Any different, changed, or omitted facts or conditions might require the Division to reach a different conclusion, and we therefore request that you notify us immediately if the facts change in any way from those represented in your letters. The relief granted does not excuse any person from compliance with any otherwise applicable requirements, including audit trail requirements, contained in the Act and the Commission's regulations.

The views expressed in this letter are solely those of the Division and do not necessarily represent the views of the Commission or of any other division of the Commission.

Sincerely,



Andrea M. Corcoran
Director