Chicago Board of Trade

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Yvonne J. Downs
Senior Vice President
Office of Investigations and Audits

April 5, 1999

Ms. Jean A. Webb
Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, D.C. 20581

Re: **64 FR 5200 (February 3, 1999)**

COMMENT

Dear Ms. Webb:

The Chicago Board of Trade appreciates the opportunity to comment on the Commodity Futures Trading Commission's proposed changes to its large trader reporting rules. The Commission is proposing to raise the reportable level for certain commodities and to eliminate certain reporting requirements on the Form 102 for commodity pools and pool operators as part of its effort to "reduce unnecessary burdens on the futures industry while maintaining the important public protections embodied in the Commodity Exchange Act." 64 FR 5201. The Board of Trade fully supports Commission initiatives to reduce regulatory burdens placed on clearing member firms and other market participants. The current proposal may fall short of that objective, however, because the Commission is eliminating the collection of important market data that the Board of Trade relies upon and would still want to collect as part of our rigorous financial and market surveillance programs. Thus, contrary to the intended result, the proposed changes, if adopted, will likely mean that market users will face two different sets of reporting requirements – one at the agency level and one at the exchange level – for the same contracts.

Proposed Change to Reportable Levels

The Board of Trade disagrees with the proposed increase in reportable levels. We recognize that the original and primary purpose for collecting information on the positions of large traders is to aid the exchanges and the Commission in monitoring and detecting market concentrations while ensuring that the markets expire in an economically appropriate manner. Although the higher reporting levels are not likely to hinder those market surveillance activities, they will have an adverse affect on financial surveillance activities. The information from position reporting has proven to be extremely valuable for assessing the financial impact of directional market moves on a member FCM's capital stability. During volatile markets or market crises, the Board of Trade relies upon the large trader information to help us quickly assess the impact of market moves and potential market moves on large participants in the affected markets.

To assess the impact of the higher proposed reporting levels, the Board of Trade reviewed our large traders as of March 25, 1999 to determine how many large traders would be captured under the higher reporting levels. We noted a significant decrease in the number of accounts that

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would have been reportable under the proposed changes. The results are presented in the following table:

As of March 25, 1999	**Reportable Levels (contracts)**		**Total Large Trader Accounts**		
Commodity	***Current***	***Proposed***	***Current***	***Remaining After Proposed Change***	***Percentage Decrease in the number of Accounts***
10-Year US Treasury Notes	500	1000	338	194	57%
2-Year US Treasury Notes	200	500	78	37	47%
30-Day Fed Funds	100	300	57	28	49%
5-Year US Treasury Notes	300	800	303	141	47%
Dow Jones Industrial Average Index	25	100	137	51	37%
Municipal Bonds	100	300	46	16	35%
Rough Rice	25	50	55	38	69%
Soybean Meal	175	200	200	140	70%
Soybean Oil	175	200	202	152	75%
US Treasury Bonds	500	1000	470	175	37%

Given the importance of the large trader data to our financial surveillance activities, coupled with the significant reduction in the number of reporting traders under the Commission's proposed increases, the Board of Trade will probably retain the lower reportable levels for many of the above commodities that are currently set out in our rules and the Exchange needs to maintain the flexibility to adjust reportable levels based on market factors. Instead of raising the reportable levels for certain contracts, we recommend that the Commission consider deferring to the reportable levels adopted by the exchanges. We believe that is a more direct approach for achieving the Commission's stated objective of eliminating duplicative regulatory requirements.

Form 102 Changes for Commodity Pools and Pool Operators

The second area of relief proposed by the Commission is to reduce the information required on the Form 102 with regard to commodity pools and pool operators. The Commission has proposed to eliminate the requirement in CFTC Regulation 17.01(b)(3)(iii) that the FCM must provide on Form 102 the identity of each pool, the pool's account number and name, as well as the name and location of the commodity pool for which the account controller trades. By eliminating the commodity pool information from the requirements of Regulation 17.01(b)(3), the CFTC will eliminate the necessity for FCMs to identify commodity pools and pool operators that control or have financial interests of ten percent or more in the commodity pool. In support of this change, the Commission notes that it receives the same information from the trader on CFTC Form 40. However, unlike the Form 102 which is filed both with the exchanges and the Commission, Form 40 is filed only with the Commission.

If the Commission eliminates information on commodity pools and pool operators from the Form 102, the Exchange will have to obtain this information in some other way. The Board of Trade relies upon the information that the Commission is proposing to eliminate from the Form 102 to aggregate positions owned or controlled by commodity pools and pool operators for market surveillance purposes. (The Exchange cannot require non-member users of our markets to submit the Form 40 to us since as non-members they are not directly under our jurisdiction.) This aggregate position information on pools can be an integral component in our ability to detect and monitor market concentrations and economic conditions during an expiring contract month.

Thus, if the Commission decides to implement the Form 102 changes, we recommend that the Commission concurrently adopt procedures to provide the exchanges with copies of the Form 40 on a routine basis rather than, as is currently done, pursuant to a specific request. This approach would foster the Commission's objective of eliminating duplicative regulatory requirements imposed on FCMs by eliminating the need for exchanges to impose separate information gathering and reporting requirements on member FCMs with respect to pool customers. We recognize that our recommendation may result in some added work for the CFTC, but if the industry moves to electronic filing of the Form 40, the impact on the CFTC should be minimized since the Commission could electronically forward the information automatically to the exchanges requiring that information.

We also question whether the proposed changes to CFTC Regulation 17.01(b)(3)(iii) and Form 102 are necessary, considering that the industry has been working on an electronic Form 102 to achieve the very same objective cited by the Commission of lessening the burden of reporting requirements. The framework for the electronic Form 102 has been outlined as a joint effort by both the Chicago Mercantile Exchange and the Chicago Board of Trade. Member firms, bookkeeping vendors and the Commission have reviewed the document. The related account portion of the electronic format is in its initial stages of implementation at the CME. The second phase, which will cover the balance of the Form 102 information, should be implemented by late 2000. Once fully implemented, the electronic filing will eliminate the paper and manual processes associated with Form 102 and enable member firms to modify their master account information to generate the Form 102 reports on an automated basis through their bookkeeping system when an account becomes reportable. The electronic Form 102 design includes the information on commodity pools that the Commission is seeking to delete. When the Form 102 is submitted electronically, the burden associated with submitting the commodity pool information should be lessened, and the exchanges as well as the CFTC would have access to this important information to aid in the aggregation of accounts. The automated system would also inform the CFTC and the Exchanges whenever there is a change in the information required to be reported on the Form 102. The automated update of the Form 102 information will be a more efficient system and will ultimately reduce the regulatory burden on FCMs while providing updated information on a more timely basis to the Commission and the Exchanges.

If the Commission wishes to discuss any of the matters raised in this letter, please contact Mary Beth Rooney at (312) 435-3583.

Sincerely,

Yvonne J. Downs

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