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VIA FEDERAL EXPRESS

October 4, 2004

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

COMMENT

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Re: Proposed Rules for Trading Off the Centralized Market
69 F.R. 39880 (July 1, 2004)

Dear Ms. Webb:

Please accept my sincere apologies for the delay in responding to this request. An internal administrative error prevented me from being informed about it. I am extremely grateful that the Commission has allowed me to make this late submission on what is a very important topic for the future of our industry. I am also grateful to Mr. Don Wilson whose own submission alerted us to this opportunity for expressing our views on these very important matters.

First and foremost I would like to stress that Man Financial is a commercially neutral participant in the debate over the merits of screen rather than floor trading. Further, Man Financial has played little if any role in the migration of trading from open outcry to screens – Indeed, we are today probably the largest employer of futures floor staff of any company in the world, maintaining very significant floor populations in New York, Chicago, Singapore and London. Unlike many former floor traders, certain institutional clients and some market-makers, we played no role in encouraging the transference of trading to electronic platforms.

As a major user of the futures markets, our sister division, Man Investments (probably the world's largest allocator to the CTA community), follows liquidity rather than leads it.

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Our contribution to this debate is limited to our very strongly held views of the benefits of the *Call Around* market for certain listed futures and options products once they have been put on a screen. This letter is not intended to extol the virtues of floors versus screens or vice versa rather, it is intended to explain to the Commission the absolute necessity of a "call-around" facility for screen traded non-highly-liquid products – most particularly options.

Our empirical experience in London has shown us that when listed options trading is put onto screens, the bid/ask spread widens in all but the most liquid "in" or "at" the money options. The problem gets far worse when multi-legged strategies such as straddles, strangles, ladders and butterflies are concerned. The reasons for this widening are quite simple: market-makers are reluctant to leave tight bids and offers on the screen all day as they run the risk of being "picked off" by other market makers or by other market participants who may have better knowledge of cash market activities or who may be aware of other price-sensitive activity.

This problem has been solved in London by the emergence of what is often referred to as the "call around market" but which in practice is no different to the way in which many OTC markets have always operated. In London, clients are able to either call market-makers directly to ask for a price or, are able to use a broker to find the best price from a number of market makers. Their broker blends a combination of the lowest available offer (which occasionally is on the screen), with the highest available bid - then presenting this market to the client. In this way, the client receives the tightest possible price with the maximum possible anonymity. When he seeks to close this position he can either go to another market maker or to his broker and they will again find the lowest offers or highest bids for the position he seeks to close. In many instances the various "legs" of multi-legged strategies are split between different market markers and/or clients, making for yet better anonymity.

Certain people have suggested that the only beneficiaries of the *Call Around* market are the brokerage community. That is simply and patently not true. Whilst some London brokers have seen an increase in their execution volumes (largely offset by falling brokerage), the principal beneficiaries have been our customers. This has led to a very steep increase in options trading on European exchanges as clients are enjoying the very tight spreads provided by an ever increasing number of market participants.

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There is a fundamental flaw in the screen-based options model currently being championed by certain US exchanges in that clients will be forced to reveal their intentions if attempting to transact orders of even remotely significant size. Whilst the *Request For Quote* (RFQ) method might be suitable for retail or small sized orders of a few hundred lots, it is entirely inappropriate for the sort of institutional sized orders that we see today. This is simply because once that client has telegraphed his intentions by lifting or hitting the respective offer or bid on the screen, the next bid/ask spread will inevitably be skewed against him.

It is for this reason that *Liquidity Direct* has failed to generate anything like the interest that Globex has enjoyed with its front month futures products. This absolutely demonstrates the stark contrast between the success of screen trading for highly liquid products (front month interest rate futures, shares in highly capitalized corporations, cash FX, stock index futures etc) and their inappropriateness for less liquid products such as out of the money options, option strategies, distant interest rate or energy futures months and the spreads between them.

It is therefore vital that the appropriate regulations exist to allow clients, market-makers and brokers to participate in a *Call Around* market for non-highly liquid screen traded product. If the CFTC were to do anything other than allow the *Call Around* method to evolve whilst the exchanges simultaneously force these illiquid products onto screens, this trading will be driven to an unregulated OTC environment. Under these circumstances, not only would our clients suffer from the resultant decreased transparency of those markets, the existing floor-based market-makers would vanish, since few of them would have the necessary capital to participate in the cash markets.

The disappearance of the independent market-maker community would have even more disturbing consequences as our clients would have even less counterparties from whom to get bids and offers.

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In conclusion, I would like to stress our commitment to the industry at large and urge all participants in this debate to recognize the value of our vast experience in the evolution of trading from floors to screens. Whilst it is absolutely true that highly liquid products can work well in an electronic environment, it is also true that illiquid products do not. Allowing "trading off the centralized market" for these illiquid products is thus vital for their ongoing usefulness and relevance. Clearly, as more participants are attracted to these products and their liquidity improves, clients will naturally use their trading screens to access the market directly – we should let them be the judges of which trading media is most transparent and works best for them.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'K. Davis', with a long horizontal flourish extending to the right.

Kevin R. Davis
Chairman and President