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Chicago Board of Trade

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Thomas R. Donovan
President and
Chief Executive Officer

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April 3, 1998

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

COMMENT

Re: **Application of Cantor Financial Futures Exchange, Inc. as a Contract Market in US Treasury Bond, Ten-Year Note, Five-Year Note and Two-Year Note Futures Contracts, 63 Federal Register 5505 (February 3, 1998)**

Dear Ms. Webb:

The Chicago Board of Trade hereby requests that the Commission extend the April 6, 1998 comment deadline on the above-referenced Federal Register release. The Commission has requested comments on the application for contract market designation submitted by a brand new exchange, the Cantor Financial Futures Exchange, Inc. ("CFFE"), in contracts that are nearly exact replicas of the Board of Trade's own Treasury futures contracts. The CFFE is seeking to offer these contracts under a wholly unprecedented exchange structure -- both in terms of organizational control and market operations -- that appears to be fundamentally at odds with the regulatory framework of the Commodity Exchange Act ("CEA") and Commission rules. It is difficult to fully evaluate the CFFE proposal, however, because there are major deficiencies in the information that CFFE has submitted to the Commission as part of its application.

We are requesting a sixty to ninety day extension to allow sufficient time for the Commission to request CFFE to provide additional necessary information, for CFFE to respond and for the Commission to make the information publicly available for interested parties to evaluate in formulating their comments. If the Commission encounters any delays in receiving more information from CFFE, it should suspend CFFE's application just as the Commission recently suspended FutureCom's application for contract market designation for FutureCom's failure to provide complete information necessary to adequately review its proposal. We have attached a list of the specific areas we have identified at this time where we believe the information provided in the CFFE application is deficient and needs to be supplemented.

An extension of the comment period is appropriate for other reasons as well. Based on the limited information that is available, CFFE's application raises fundamental regulatory questions. These include, among others:

1. Do the CFFE's proposed execution facilities meet the fair and competitive trading standards of the CEA and Commission rules?

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2. Is it in the public interest for Cantor Fitzgerald Securities Corp. to be given a monopoly on trade execution and to shield its activities from regulatory scrutiny by performing those functions under the rubric of contract market operations?
3. When exactly is a trade deemed to occur on the CFFE execution facilities and does the CFFE have an audit trail that accurately captures this information and other required audit trail information?
4. Will the CFFE's execution facilities have a detrimental effect on the price discovery function which Congress has declared to be in the national interest?
5. Will CFFE, through market fragmentation and unfair competition, harm the liquidity and price discovery of established government securities futures markets?
6. Should a Cantor-related company be allowed to control a federally-designated contract market given that one of the Cantor entities reportedly settled fraud charges recently with the CFTC and given the serious, unresolved allegations regarding questionable trading practices at several Cantor entities?
7. Does CFFE meet the statutory requirements for designation as a contract market?

The Commission's sixty-day comment period simply does not give interested parties enough time to undertake the type of careful and thoughtful evaluation of the CFFE's application that these complex issues dictate. In reality, the Board of Trade and, we assume, other interested parties have had even less time to evaluate the limited information CFFE has provided. In the Board of Trade's case, the Commission did not provide us with any substantive materials describing CFFE's proposed organization and operations until February 27, leaving the Exchange barely thirty days to formulate our comments.

Moreover, based on the limited information available, it appears that many of the issues raised by the CFFE application are inextricably tied to the market fragmentation issues raised by the Commission in its separate "Concept Release on Regulation of Noncompetitive Transactions Executed on or Subject to the rules of a Contract Market" ("Non-Competitive Trading Concept Release"), which was published for comment on January 26, 1998. The Board of Trade believes the Commission will receive more meaningful comments if interested parties have an opportunity to review and formulate comments on the two releases concurrently. Thus, at the very least, the Commission should extend the comment deadline on the CFFE application to April 27 to correspond to the comment deadline for the Non-Competitive Trading Concept Release.

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For all of the reasons explained above, the Board of Trade urges the Commission to extend the comment deadline on CFFE's application for contract market designation by sixty to ninety days. We look forward to the Commission's prompt response to our request.

Sincerely,

A handwritten signature in cursive script that reads "Thomas R. Donovan". The signature is written in black ink and is positioned above the printed name.

Thomas R. Donovan

LIST OF AREAS WHERE ADDITIONAL INFORMATION IS NECESSARY

The Board of Trade requests additional information in the following areas to enable the Commission and interested parties to fully and carefully evaluate the CFFE application.

Ownership/Control of CFFE

1. Description of the level and source of capitalization of Cantor Financial Futures Exchange Holdings, L.L.C, (“Holdings”) including any debt arrangements between CFFE and Cantor Fitzgerald & Co. (“Cantor”) or its affiliates
2. Organization chart illustrating the relationship between CFFE; Holdings; Cantor; CFFE, LLC and other Cantor entities, including percentage ownership
3. Description of the nature and level of financial interest corresponding to direct or indirect ownership that Cantor or any of its affiliates has in CFFE
4. Description of the nature and amount of any other financial compensation that Cantor or its affiliates will receive from CFFE for participating in or performing services for CFFE; e.g., whether Cantor Fitzgerald Securities Corp. (“CFS”) will receive any compensation for providing employees to act as Terminal Operators
5. Identity of investors and controlling entities in CFFE, LLC
6. Identity of CFFE’s initial board of directors and officers
7. Identity of each individual and entity previously disciplined by the SEC or CFTC that is involved in the direct or indirect ownership or management of the CFFE; and a copy of all publicly available information regarding the nature and disposition of those proceedings

Ownership/Control of the New York Board of Clearing, Inc. (“NYBOC”)

8. Description of the level and source of NYBOC’s capitalization
9. Description of NYBOC’s financial safeguards to ensure the financial stability of the clearing system; description of the level and source of NYBOC’s financial resources available to cover a clearing member default, including a description in each case of whether the resources are liquid or illiquid; and a description of NYBOC’s default procedures
10. Identity of NYBOC’s initial board of directors and officers

Exchange Personnel

11. Description of Terminal Operator qualifications and responsibilities, as well as any restrictions on their activities as Terminal Operators, e.g., whether Terminal Operators are

allowed to solicit futures orders or government securities orders for CFS or other Cantor affiliates

12. Description of how Terminal Operators will be compensated and by whom
13. Since Terminal Operators are also employees of CFS, a description of their job responsibilities for CFS, including whether they will handle customer orders in government securities for CFS or may trade for CFS's account
14. Description of the functions that Terminal Operators will perform that require registration with the NASD as Government Securities Representatives
15. Information regarding compensation of Terminal Operators for non-CFFE activities they will perform for CFS or any other Cantor affiliates
16. Information regarding qualifications, responsibilities and authority of the persons designated as supervisors ("Supervisors") over the Terminal Operators
17. Description of how Supervisors will be compensated and by whom

Trading Activities/Rules

18. Description of any trading activities that Cantor, CFS or any other Cantor affiliates are permitted to conduct, either proprietary or for customers, on the CFFE
19. Description of any restrictions on trading activities of Terminal Operators and Supervisors in other markets or on behalf of Cantor, CFS or other Cantor affiliates or their customers
20. Description of any cash market activities of any Cantor entities that will have access to CFFE trade information
21. Description of any procedures to prevent improper flow of confidential or sensitive trade information between CFFE, on the one hand, and Cantor, CFS and other Cantor affiliates, on the other hand
22. Description of the execution process, from a member's receipt of a customer order; to placing of the order with a Terminal Operator; through the Terminal Operator's handling of the order, including especially the Terminal Operator's role in the execution process during the "Exclusive Time" and the "Clearing Time;" through communication of an executed trade back to the customer
23. Description of the current execution facilities and processes at CFS and other Cantor entities and a point by point comparison of the same to CFFE's execution facilities and processes, including a comparison of existing work up practices to the Exclusive Time concept at CFFE

24. Description of any CFFE rules or restrictions on block trading, that is, matching of trades away from the CFFE's execution facilities
25. Description of any CFFE rules or restrictions on pre-negotiation, i.e., pre-arrangement of orders that are submitted to the Terminal Operators
26. Description of any CFFE rules or restrictions on dual trading
27. Related to dual trading and insider trading concerns, a description of any CFFE rules or restrictions on Cantor, CFS or their affiliates participating in CFFE's markets given CFFE, LLC's control over CFFE and the Terminal Operators' status as joint employees of the CFFE and CFS
28. Description of how the CFFE's trade practice rules and execution facilities meet competitive trading standards
29. Explanation of when a trade is deemed to occur

Audit Trail and Surveillance Procedures

30. Description of the audit trail information that CFFE will capture throughout the entire end-to-end cycle and how -- e.g., whether Terminal Operators will time stamp orders when received or at other steps in their handling of orders; whether audit trail information will include time of trade execution; whether it will include any special audit trail information with respect to the Exclusive Time or Clearing Time trade procedures
31. Description of the accuracy and reliability of CFFE's audit trail information and how CFFE's audit trail complies with the CEA and CFTC requirements system or any audit trail specific to an electronic environment (including during Exclusive Time and Clearing Time)
32. Description of the surveillance programs that the New York Cotton Exchange ("NYCE") will perform for CFFE and whose activity will be covered, e.g., whether NYCE will conduct surveillance of how the Terminal Operators handle and execute the orders they receive
33. Description of NYCE's surveillance programs for monitoring activity that occurs on the electronic component of CFFE's execution facilities
34. Description of NYCE's surveillance programs for monitoring EFP or basis trading
35. Description of any special market or trade surveillance functions that NYCE will perform with respect to the trading activities of the Terminal Operators or Supervisors in other markets, whether for their own account or on behalf of Cantor, CFS or other Cantor affiliates or their customers

36. Description of any special market or trade surveillance functions that NYCE will perform with respect to the trading activities of Cantor, CFS or other Cantor affiliates, whether as dealer for their own account or as broker on behalf of other customers
37. Demonstration that NYCE has adequate resources to take on added surveillance responsibilities on behalf of CFFE

Customer Grievances

38. Description of customer recourse against CFFE for trading errors committed by Terminal Operators; justification for any disclaimers of such liability by CFFE in light of Commission requirements that exchanges provide an arbitration forum for customer grievances against exchange members, which includes grievances relating to trading errors or abuses

Integrity of the CFFE Trading System

39. Description of whether CFFE has tested the accuracy and reliability of the electronic component of CFFE's execution facilities trading system, whether the testing was performed and the test results certified by a qualified independent consultant; and the results of any such testing