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COMMENT

May 14, 1998

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

Re:March 16, 1998 Federal Register Amendments to Minimum Financial Requirements for Futures Commission Merchants

Dear Ms. Webb:

The Board of Trade of the City of Chicago, the Chicago Mercantile Exchange, the Coffee, Sugar & Cocoa Exchange, Inc., the Kansas City Board of Trade, the Minneapolis Grain Exchange, the New York Cotton Exchange and the New York Mercantile Exchange (collectively "the Exchanges") welcome the opportunity to respond to the Commodity Futures Trading Commission's ("CFTC") proposed rule amendment regarding the elimination of the four percent charge on the market value of options sold by customers on contract markets and on foreign boards of trade [Rule 1.17 (c) (5) (iii)].

The Exchanges are in full support of the CFTC's proposed rule amendment. Furthermore, the Exchanges wholeheartedly agree with the Commission's conclusions that the charge is not closely correlated to the actual risk of options carried on behalf of customers and that there are adequate protections in place to address the risk of the short option positions. These protections have improved significantly since the adoption of the short option charge and will continue to improve along with advances in technology.

For example, all U.S. exchanges and many foreign exchanges, have adopted the Standard Portfolio Analysis of Risk Margin System ("SPAN®") to assess option risk. SPAN recognizes many trading strategies in which short option positions are risk reducing and has been tested and proven to adequately assess the risk in the customer's portfolio. The Exchanges are committed to maintaining and enhancing SPAN as dictated by the marketplace.

The Exchanges monitor large trader positions in each contract market to identify the large market participants that may pose a financial risk to the FCM. Safeguards such as intraday variation margin calls for clearing members, continuous monitoring of the markets and calls to FCMs alert Exchanges to any potential problems. As with SPAN, the Exchanges are committed to developing and maintaining state of the art programs which aid in monitoring large trader risk.

The capital, segregation and secured requirements provide the industry with additional protection. FCMs are required to report to their DSRO and to the Commission in the event their capital falls below the early warning requirements. In computing capital, FCMs are required to take an immediate capital charge for deficits outstanding more than one business day not secured with sufficient collateral and for customer and non-customer accounts which have not posted margin in a timely manner. In addition, minimum capital levels at the clearing organizations are based on risk in the customer and non-customer accounts which encompasses the short option risk. Clearing capital requirements encourage firms to collect and maintain higher levels of customer deposits during periods of market volatility. The segregation and secured regulations, to date, have well served the industry and the protection of customer monies. Finally, the Joint Audit Program requires detailed scrutiny of each firm's books and records. Consequently, many areas which might indicate shortcomings in a firm's risk management procedures are reviewed during the course of the audit.

The Exchanges congratulate the Commission on recognizing that the short option charge does not necessarily relate to the risk applicable to the account portfolio. In fact, some FCMs have made decisions not to accept large option customers based on the cost of carrying the positions rather than the risk. Decisions made under these premises are not in the industry's best interest and could affect the liquidity of the marketplace and the viability of Exchange traded options. Given these concerns and the safeguards that currently exist in the industry, elimination of the short option value charge will improve today's regulatory environment.

Respectfully Submitted,

Thomas R. Donovan
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Chicago Board of Trade

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Chicago Mercantile Exchange

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Coffee, Sugar & Cocoa Exchange, Inc.

Michael Braude
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