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# CHICAGO MERCANTILE EXCHANGE

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1998 AUG 24

OFFICE OF THE SECRETARY

August 20, 1998

**T. Eric Kilcollin**  
President and Chief Executive Officer  
312/930-4570  
FAX: 312/648-3625  
rkilcoll@cme.com

## COMMENT

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

COMMODITY FUTURES  
TRADING COMMISSION  
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Re: FutureCom Application for Designations as a Contract Market in  
Technology Stock Index Futures and Options

Dear Ms. Webb:

The Chicago Mercantile Exchange ("CME") hereby offers its comments regarding the "FutureCom Application for Designations as a Contract Market in Technology Stock Index Futures and Options" as published in the June 24, 1998 edition of the Federal Register.

In addition to comments addressed herein to the proposed "FutureTech Index" ("FutureTech") futures and option contracts, incorporated by reference are the CME's comments of March 4, 1997 and December 23, 1997 regarding FutureCom's application as an automated Contract Market. Insofar as: (1) FutureTech contracts would be offered within the context of FutureCom electronic exchange facilities; and, (2) significant questions remain unanswered and serious shortcomings are evident in every key area of FutureCom's proposed operation, it becomes impossible to completely assess the FutureTech proposal. Therefore, the CME requests the right to comment further on the FutureTech proposal when additional information regarding the proposal becomes available.

Nonetheless, we respectfully request that the Commission consider the following specific observations regarding the FutureCom application.

### Contract Size

FutureCom's proposed Rule 2b of its Futures Chapter indicates that the "unit of trading shall be set prior to the commencement of trading." That is inconsistent with Regulation 1.41(b)(1)(i) of the Commodity Exchange Act ("Act"), which requires that "all proposed contract

market rules that relate to terms and conditions must be submitted to the Commission for approval . . . prior to their proposed effective dates.”

### **Index Construction and Maintenance**

FutureCom has constructed the FutureTech index and proposed to maintain it in the future. However, FutureCom has not provided any methodology for the definition and maintenance of the index. Therefore, there is no guarantee that the index will conform to the requirements of Section 2(a)(1)(B)(ii) of the Act in the future. In addition, there are regulatory questions that FutureCom has not answered. Among the issues not addressed are:

1. What criteria are used to decide upon the inclusion of particular equities? Will the number of equities in the index remain constant or fluctuate? What criteria are used to determine which stocks might drop from the list?

2. What measures are taken to assess cross-ownership of shares within the index? What databases are used to identify these figures?

3. How will the index be calculated and disseminated? Will the quote stream be real-time, publicly available? What back-up sources of data are accessible in the event of primary systems failure?

4. What trading restrictions will be placed on the FutureCom staff that compiles and calculates the index/index values? What kind of intermarket front-running and surveillance capabilities will FutureCom establish? What kind of regulatory staff resources will be devoted to FutureTech?

### **Uncoordinated Circuit Breakers**

FutureCom’s proposed price limit procedures (circuit breakers) are broadly similar to those employed by many US futures exchanges, with two notable exceptions. First, FutureCom proposes to allow discretion to FutureCom officials with respect to the timing of the resumption of trading after a particular price-limit effective period elapses. (Proposed Rule 2.i.i) This proposed discretion conflicts with the requirement of Commission Regulation 1.41(b)(1)(i) that

all rules relating to terms and conditions must receive Commission approval prior to their effective dates. Commission Regulation 1.41(a)(2)(ii) clearly states that trading hours are included in terms and conditions.

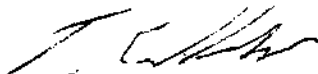
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Second, FutureCom's proposal does not specifically require that trading halt, and remain halted, whenever trading on the primary underlying securities exchange has halted. This omission conflicts with the intent of the President's Working Group that circuit breakers be coordinated among *all* domestic securities and futures exchanges. Justification for this divergence has not been presented.

For the reasons stated above, the CME believes that this FutureCom submission is materially incomplete as proposed. The CME also believes that the Commission should require clarification of, and material amendment to, the FutureCom application before the Commission proceeds in its review. We respectfully request that further public comment be solicited with respect to this matter as those clarifications and amendments are filed with the Commission.

We appreciate the opportunity afforded by the Commission to share our views and we look forward to providing additional commentary as further details regarding this proposal emerge.

Sincerely,



T. Eric Kilcollin  
President