

**KANSAS CITY  
BOARD OF TRADE**

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MICHAEL BRAUDE  
PRESIDENT  
CHIEF EXECUTIVE OFFICER

**COMMENT**

COMMODITY FUTURES  
TRADING COMMISSION  
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Ms. Jean A. Webb  
Secretariat  
Commodity Futures Trading Commission  
1155 21st Street, N.W.  
Washington, D.C. 20581

Dear Ms. Webb:

The Kansas City Board of Trade submits these comments on the Commission's release titled "Application of Cantor Financial Futures Exchange, Inc. As a Contract Market in U.S. Treasury Bond, Ten-Year Note, Five Year Note, and Two-Year Note Futures Contracts." The release was published in the July 1, 1998 *Federal Register*.

We have extensively reviewed the material submitted by the New York Cotton Exchange and the Cantor affiliates in their proposal to create the Cantor Financial Futures Exchange (CFFE) as well as the comments submitted to date on the proposal. We are alarmed by the significant issues which such an application puts before the CFTC -- issues which are not highlighted by the Commission in their notices for comment and which conflict with the CFTC's current administration of its rules for existing exchanges.

The proposal appears to be unfair in a number of areas.


1. It allows a private organization, Cantor and its affiliates, to control the governance of the new CFFE when, under CFTC Rule 1/63, that group of affiliates would be unable even to serve on the governance board of another exchange because of CFTC rules outlawing service by anyone with recent disciplinary offenses. Cantor Fitzgerald and Co. were disciplined by the CFTC in December 1997.
2. It allows noncompetitive trades to occur regularly. CFTC rules such as 1.38 require open and competitive trading. Allowing such trading to go forward makes no sense especially when the Commission has a separate proposal out for public comment examining the same issue. Has the CFTC already determined that such noncompetitive transactions are allowable? If so, why is the noncompetitive trading issue out for public comment until September 1? How can the Commission effectively amend its rules without going through the required administrative process? As we stated in our earlier letter on noncompetitive transactions, "these issues go directly to the viability of contract markets, such as the Kansas City Board of Trade."

3. It allows and indeed requires that trades must be executed by non-members when the CEA (Section 4(a)) requires and other exchanges must ensure that trades are executed or consummated by or through a member of a contract market. This would allow any private organization to run a futures exchange.
4. The potential for conflict of interest coupled with questionable audit trail and surveillance programs would not be acceptable if proposed for an existing exchange.

The CFTC seems to be changing the concepts that have historically and legally been the underpinnings of futures exchange operation and doing it within the context of the contract market application approval process. Additionally, the Commission seems focused on the marketing of the proposed exchange as electronic trading. It seems the Commission's own requirement that the Cantor Terminal Operators (who are intrinsic to negotiations and operations of the broker-assisted trading) be registered as floor brokers refutes the contention that this is an electronic system. The multiple duties of the Terminal Operator actually open the door to different types of trading abuses.

We urge the Commission to be consistent in its administration of the CEA and its rules and to consider the serious issues raised by this application in the appropriate administrative process.

Sincerely,



Michael Braude  
President  
THE KANSAS CITY BOARD OF TRADE

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