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COMMODITY FUTURES TRADING COMMISSION RECEIVED OFFICE OF THE SECRETARIAT

COMMITTEES:
ARMED SERVICES
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United States Senate

WASHINGTON, DC 20510-1605

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CFTC

July 22, 1998

COMMENT

COMMODITY FUTURES TRADING COMMISSION RECEIVED FOR PUBLIC RECORD

JUL 27 8 46 PM '98

The Honorable Brooksley Born, Chair
Commodity Futures Trading Commission
1155 21st Street NW
Washington, DC 20581

Dear Ms. Born:

This letter is in reference to the CFTC's concept release on the regulation of OTC derivatives and hybrid instruments. Earlier, I expressed my frustration with the lack of a workable regulatory plan for agricultural trade options with introduction of legislation. Today, given the growing problems and challenges within our farm economy, it is obvious there is a crucial and immediate need for farmers to have more and better vehicles for managing risk. As a matter of fact, it is my opinion that delay and lack of attention to risk management policy in total has contributed to current regional problems in production agriculture and consequently has led to misdirected and wrongheaded attempts to rewrite U.S. farm program policy. On one hand, I am concerned we are not providing farmers better vehicles for managing their risks and on the other hand, I am just as concerned farmers could lose their protections under the Commodity Exchange Act as the trading evolves.

In this regard, I refer to the pending application of the Cantor Financial Futures Exchange and potential ramifications regarding the ability to manage risk in agricultural markets. Specifically, I am concerned about establishing a precedent--one that could easily be applied next to an agricultural futures exchange controlled by a single agribusiness firm.

Last year during the debate on CEA reform, a representative of 12 agriculture groups stated during the hearing:

> "Many of the institutions which take large positions in agricultural futures markets are also major players in interest rate markets. Any market that involves trading on U.S. exchanges must be subject to sufficient regulation to ensure basic safeguards and must operate according to clearly defined rules."

These same groups also expressed concern that changing structures in financial markets could:

> "Attract speculative activity out of the agriculture futures markets to the point where they would not function for hedging purposes and that potential liquidity squeeze would endanger the key role of futures markets in risk management and price discovery."

The Commission's decision on the Cantor Financial Futures Exchange could have implications for agricultural futures trading. With this in mind, the following questions should be fully discussed on the public record.

1. Does the pending application set a precedent for an exchange to be controlled by a single firm, allow employees of only one trading firm to execute all trades as floor brokers on the exchange, and allow trades to be executed at prices other than the best market price available?

2. Upon what will the CFTC rely to control conflicts of interest and insider trading by the firm and the exchange it controls?

3. Is there any authority under the Commodity Exchange Act to approve an exchange governed by a single entity?

4. Should the Cantor application be approved, would the Commission approve an application submitted by a grain company for a grain exchange or an application by a meat packing company to establish a livestock exchange?

I would appreciate your response to these questions prior to any decision on the pending application.

With every best wish,

Sincerely,

Pat Roberts
United States Senate

PR/lt