

98-37

(2)

Emerging
Markets
Traders
Association

RECEIVED
C.F.T.C.

63 Wall Street, 20th floor
New York, NY 10005
212 908-5000
212 908-5039 Fax

1998 NOV 20 P 5: 2

OFFICE OF THE SECRETARIAT

BY FAX

November 20, 1998

Nov 23 2 02 PM '98

COMMODITY FUTURES
TRADING COMMISSION
RECEIVED FOR
PUBLIC RECORD

Ms. Jean A. Webb, Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st St. NW
Washington, DC 20581
Fax: (202) 418-5521

COMMENT

RE: CFTC's Request for Comment on Federal Register Notice 98-28983, dated October 23, 1998, regarding the Chicago Mercantile Exchange's Proposed Amendments to Cash Settlement Provisions of CME Russian Ruble Futures Contract

Dear Ms. Webb:

With respect to the above captioned request, the Emerging Markets Traders Association ("EMTA") welcomes the opportunity to comment.

EMTA is the industry association representing the global Emerging Markets marketplace. Formed in 1990, EMTA is dedicated to promoting the orderly development of fair, efficient and transparent trading markets for Emerging Markets instruments and to helping integrate the Emerging Markets into the international financial marketplace.

EMTA is made up of over 140 financial institutions and other entities, which trade Emerging Markets Instruments or are interested in Emerging Markets.

EMTA supports the Chicago Mercantile Exchange's (the "CME") proposed amendments to its cash settlement procedures for the CME Ruble Futures Contract. The proposed amendments would extend to the CME Ruble Futures Contract the procedures that have been recommended by the Emerging Markets trading community and implemented with the introduction of the revised methodology (the "Methodology") for determining the daily CME/EMTA Reference Rate on October 14th.

Background

EMTA members are active participants in the Ruble/Dollar spot, futures and forward markets. When MICEX suspended its daily Ruble/Dollar spot auction market on August 26th, it was at the request of EMTA members that EMTA and the CME jointly developed the daily CME/EMTA Reference Rate. It was also at the request of EMTA members that the original Methodology for determining the daily CME/EMTA Reference Rate (one daily survey taken at 11:00 AM Moscow time) was reviewed and revised by the CME. Under the revised Methodology (1) two surveys are taken daily at randomly selected times and (2) a same-day rate is derived from actual today ("TOD") quotes, if available, or synthetic "implied" TOD rates (based upon available tomorrow ("TOM") quotes), if necessary. The changes to the Methodology were recommended by EMTA members in order to (1) lessen the susceptibility of the rate to excessive manipulation, (2) ensure that a rate could be determined despite unpredictable market conditions; and (3) produce a rate that is as representative as possible of the underlying cash market in the current environment.

EMTA members use both over-the-counter ("OTC") non-deliverable forwards ("NDF") and the CME Ruble Futures Contracts as risk management tools. Based upon feedback from our members, the daily CME/EMTA Reference Rate is currently the most reliable reference rate source for Ruble/Dollar pricing since the suspension of the MICEX fixing, and is currently being used by most market participants as the reference rate source for settling NDF transactions. Lack of certainty as to the procedures to be applied to the CME Ruble Futures Contract significantly lessens the benefits that these futures contracts would otherwise provide as risk management tools.

Specific Comments

1. The CFTC has asked whether the survey procedures will result in a cash settlement price that is reflective of the underlying cash market and otherwise meets the standard's of the CFTC's Guideline No. 1, which further requires that the rate be "reliable, acceptable, publicly available, timely and not readily susceptible to manipulation."

In asking this question, the CFTC has noted that the CME survey procedures are designed to obtain quotes for an exchange rate for same-day settlement during the afternoon MICEX session and that trading for same-day settlement is not currently permitted during that session.

EMTA believes that the CME's proposed procedures, that are currently being used to produce the daily CME/EMTA Reference Rate, result in a Ruble/Dollar rate that does reflect, to the greatest extent possible under the circumstances, the underlying cash market, and otherwise meets the requirements of the CFTC's Guideline No. 1.

a. Use of "implied" TOD rates: Since the Russian crisis began in mid-August, the Russian financial system has been characterized by unpredictability. Prior to the adoption of the revised Methodology for determining the CME/EMTA Reference Rate on October 14, 1998, same-day settlement of foreign exchange transactions in Russia was suspended nine times, initially without notice, and subsequently with notice (specifically, on 9/18, 9/25, 10/2, 10/6-10/13). On these occasions, particularly when the same-day settlement suspension occurred without notice, the CME conducted the daily survey and provided, for informational purposes only, the TOM rates obtained in the survey, as no TOD rates were being quoted. EMTA members immediately adapted to the lack of a TOD rate by taking the available TOM rate and, using the interest parity formula described in the Notice, interpolating a synthetic TOD rate. In fact, in order to facilitate this interpolation of TOM rates into reliable same-day rates, EMTA members requested that the CME routinely poll for overnight Ruble money market rates on any days when same-day rates proved unavailable, for whatever reason. The use of "implied" TOD rates in the absence of actual today rates was endorsed by the trading community and considered not only acceptable and reliable, but necessary in light of the current environment in Russia.

b. Conducting surveys during afternoon MICEX Session: When EMTA members were providing comments to the CME's proposed changes to the Methodology for determining the daily CME/EMTA Reference Rate from one daily survey to two daily surveys, the MICEX had just announced that it was to start conducting two trading sessions daily: one for exporters and importers that would take place in the morning, and one for financial transactions between commercial banks in the afternoon. On conference call, EMTA members debated whether one of the two random surveys should take place during the morning MICEX session reserved for importers and exporters. After extensive discussion, there was consensus that it would not be appropriate for a polling to be conducted during any special SELT session reserved for exporters or importers for two reasons: (1) the exporter/importer session was specifically designed to facilitate the buying and selling of Dollars between these domestic entities and the Russian Central Bank, and there was concern that the strong presence of the Central Bank in these sessions would, at least by perception, negatively impact the integrity of the rate and (2) there was uncertainty as to whether the special session would be around for an extended period. There was consensus that the afternoon session established for trade between commercial banks was the only reasonable session during which to conduct the polling, despite the lack of availability of same-day quotes.

EMTA members have expressed that the CME/EMTA Reference Rate is the most reliable Ruble/Dollar exchange rate available to market participants in light of current market conditions in Russia. It is widely disseminated on EMTA's Reuters page "EMTA" and the CME's normal quote distribution channels, and is officially included as a rate source in Annex A of the 1998 FX and Currency Option Definitions published by EMTA, the International Swaps and Derivatives Association (ISDA) and the Foreign Exchange Committee.

2. The CFTC has also requested comment on whether the CME procedure will result in a cash settlement price that is not readily susceptible to manipulation or distortion in light of the degree of liquidity in the Russian ruble market. Specifically, will the new procedures prevent potential manipulation by market participants.

In every domestic foreign exchange market there is a possibility that the currency exchange rate will be subject to some manipulation as it is each government's prerogative, if necessary or desirable for policy reasons, to intervene in the foreign exchange markets. While the Russian situation has been characterized at times by extreme illiquidity making intervention particularly effective, any intervention into the foreign exchange markets comes at a cost to the intervening entity. The goal of the revised CME survey procedures has been to guard against excessive manipulation to the greatest extent possible in the current environment.

The proposed amendments to the cash settlement procedures for the CME Ruble Futures Contract are designed to make such intervention (manipulation) prohibitively expensive to the intervening entity. With the two random surveys, an entity wanting to strengthen the Ruble would have to buy Dollars consistently for an entire day (or in some cases more than one day) in order to ensure that the Ruble/Dollar rates used in determining the CME/EMTA Reference Rate reflect this intervention. EMTA members are of the view that in the current environment, few market participants who might want to manipulate the rate by intervening for a sustained period would have the resources to succeed. EMTA members have acknowledged that the fear of manipulation of the daily CME/EMTA Reference Rate has been greatly alleviated with the adoption of the two random surveys approach. The two random surveys approach is particularly important to alleviate manipulation when a large number of positions fall due on one day, such as on the maturity dates of the CME Ruble Futures Contracts.

The fact that the names of the survey participants are confidential also alleviates the fear that survey participants may be colluding in providing quotes, and the participation of both Russian and non-Russian commercial banks in the survey gives the rate further integrity.

3. The CFTC also has asked whether in the current environment the CME Ruble Futures Contract is useful for hedging or price discovery.

The CME Ruble Futures Contract, along with OTC NDFs, are used for hedging and price discovery so long as the rate source used to cash settle these instruments is considered reliable. EMTA members were an integral part in developing and revising the Methodology for the daily CME/EMTA Reference Rate, which they view as the most reliable Ruble/Dollar exchange rate available. Therefore, EMTA supports an extension of these procedures to the final cash settlement provision of the CME Russian Ruble Futures Contract.

If you have any questions, please do not hesitate to contact Michael Chamberlin, EMTA's Executive Director, or me at (212) 908-5000.

Very Truly Yours,



Starla V. Cohen
Legal Counsel & Director for
Eastern Europe

CC: Mr. Michael A. Penick, Division of Economic Affairs