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April 22, 1999

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

COMMENT

Dear Ms. Webb,

We are sending herewith the OSE's comments on the new rules proposed by CFTC concerning order routing and electronic access to futures exchanges operating primarily outside the U.S.

Please note that our comments are subject to change depending on the situation in the future.

With best regards,

Sincerely yours

Tomochika Ito

Tomochika Ito
Executive Director

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Comments on the New Rules Proposed by CFTC Concerning Order Routing and Electronic Access to Futures Exchanges Operating Primarily Outside the U.S.

The Osaka Securities Exchange
April 19, 1999

We basically agree with the New Rules recently proposed by the CFTC, since these Rules are likely to expand the world's futures trading markets, including these at the Osaka Securities Exchange, by improving the opportunities for investors who reside in the United States to have access to exchanges under the jurisdiction of regulatory authorities outside the U.S., or exchanges operating primarily outside the U.S. (hereinafter referred to as Outside-the-U.S.-Exchange(s)). The following points, however, should be taken into consideration in the course of implementation of these Rules.

1. Identification of Reasons for Regulating Electronic Trading

According to the new Rules, the CFTC intends to regulate only electronic trading (automated trading system), except for trading in Outside-the-U.S.-Exchanges that is executed on "traditional open outcry exchanges". This we deem agreeable as long as the intention is to protect U.S. investors from the risks characteristic of electronic trading (e.g. a system breakdown in the host computer, circuit troubles, etc.).

In our view, however, the proposal disclosed is not clear in this regard. We request that the reason for the above regulation be set forth clearly and definitely.

2. Duplicative Regulation

The failure of Griffin made us, as well as the CFTC, fully realize the risks involved in electronic trading. It is understandable, therefore, from the standpoint of protecting customers, that the CFTC needs to know about automated trading systems employed in Outside-the-U.S.-Exchanges and DES or AORS system specifications, security and history and other factors stipulated by the CFTC. It is also understandable that the existence of satisfactory information sharing arrangements between the three of an Outside-the-U.S.-Exchange, the regulatory authority thereof, and the CFTC is essential. However, we deem the other obligations and provisions in Rule 30.11 unnecessary for the following reasons:

It is provided in provisions, including Rule 1.71(b)(2) that, in the event that an Outside-the-U.S.-Exchange files a petition for an exemption order under Rule 30.11 and the petition is approved by the CFTC, those trades that can be exercised by customers residing in the U.S. using AORS or DES are lawful in the U.S. For the commodities dealt with by the Outside-the-U.S.-Exchanges, such as foreign options or foreign futures specified in Rule 30.1(a) and (b), to be lawful in the U.S., a procedure is required for the CFTC to issue a "no action letter" to the relevant Outside-the-U.S.-Exchange, advising it not to take any actions concerning the launch and subsequent sale of such commodities, under articles 2(a)(1)(B)(v), 4(a) and 12(e) of the Commodity Exchange Act. Since the CFTC is supposed to already have checked the commodity's merchantability and the regulatory system in the Outside-the-U.S.-Exchange's home country at the time the issuance of such "no action letter" is applied for, we consider it is unnecessary to again disclose such information which the CFTC has already ascertained upon petition for an exemptive order under Rule 30.11. We believe requiring disclosure of such information again as set forth in these proposed Rules could constitute a duplicative regulation. Such duplicative regulation, which delays investment opportunities for investors residing in the U.S., who desire to trade foreign futures or foreign options with facile access, will prevent the global futures marketplace from favorable growth.

Basically, we believe the only difference between traditional open outcry trading that involves human intervention and electronic trading is the risks inherent in the electronic trading system. Therefore, we are of the opinion that by disclosing to the CFTC information only on automated trading systems employed in Outside-the-U.S.-Exchanges and DES or AORS system specifications, security and history the CFTC stipulates, and by satisfactory information sharing arrangements between the three of an Outside-the-U.S.-Exchange, the regulatory authority thereof, and the CFTC, the two objectives of the CFTC - public interests and protection of customers - will be attained. In this regard, we would urge the Commissions' reconsideration.

3. Consultation with the OSE and Competent Authorities

Should we, the Osaka Securities Exchange, or one of its members be punished by the CFTC under these new Rules with the relevant U.S. laws after we have filed a petition for an exemption order under Rule 30.11, it may seriously affect our securities market depending on the content of the punishment. Therefore, it is most desirable that the CFTC will not exercise its punishment rights one-sidedly, but consult in advance with the Osaka Securities

Exchange and the competent authorities for our organization, the Japanese Ministry of Finance, or the Financial Supervisory Agency.

4. Defining the Manner for Handle Orders Placed through Information Service Providers

Concerning the definition of AORS, the CFTC explains that it would regulate such cases as accessing commodity exchanges operating outside the U.S. through the Internet. But it is not clear whether the cases in which American investors place orders through information service providers' terminals are included or not. As seen from the SEC's release (34-40161) that exempted Tradepoint of Britain, who operates an cash stocks market, from registration as a national exchange upon receiving orders from the U.S. through information service providers, placing orders through information service providers is expected hereafter to become the megatrend. Therefore, how to handle orders placed in this manner should be clearly set forth in the new Rule.