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October 21, 1999

Ms. Jean A. Webb
Secretary to the Commission
Commodity Futures Trading Commission
1155 21st Street NW
Washington, D.C. 20581

Re: **Cantor Financial Futures Exchange, Inc. - Proposed Amendments to Rules Permitting Block Trading - Submitted Pursuant to Commission Regulations §§1.41(c) 1.38(a), Fed Reg – (October 1999)**

Dear Ms. Webb:

The Futures Industry Association ("FIA") Law & Compliance Division is pleased to submit the following comments on the proposed new Rules 4-A and 305-A and amended Rules 300, 302 and 306 of the Cantor Financial Futures Exchange, Inc. ("CFFE"), which were submitted for the Commission's approval pursuant to Section 5(a)(12)(A) of the Commodity Exchange Act, as amended (the "Act"), and Commission Regulation §§1.41(c) and 1.38(a), in order to permit the execution of Block Trades (as defined below) on the terms and subject to the conditions described in such Rules (such new and amended Rules collectively, the "Block Trading Rules"). FIA, a not-for-profit corporation, is a principal spokesman for the futures industry. Its members include approximately sixty of the largest futures commission merchants ("FCMs") in the United States. Among its associate members are representatives from virtually all other segments of the futures industry, both national and international. Reflecting the scope and diversity of its membership, FIA estimates that its members effect more than eighty percent of all customer transactions executed on United States contract markets.

FIA supports the proposed CFFE Block Trading Rules subject to the following comments. In submitting the following comments, FIA does not wish our comments to be construed as objections to, or to have the effect of delaying the Commission's approval of, the Block Trading Rules. Rather, FIA submits these comments with the desire that they be considered by the Commission, CFFE and any other contract markets contemplating the adoption of similar alternative execution procedures, to enable them to understand how FIA believes such procedures can be best designed to maximize their utility and benefits. We strongly encourage other exchanges to propose similar rules for upstairs trading.

As indicated in CFFE's letter to the Commission, dated September 15, 1999, with which CFFE submitted its proposal, the Block Trading Rules are designed to permit the execution of large orders by negotiation between the parties to a trade rather than through CFFE's electronic market system (the "Cantor System"). Certain qualified market participants will be permitted to agree among each other the terms of a trade and to report such trade back to CFFE upon execution (each such transaction, a "Block Trade").

As the Commission is aware, FIA has previously expressed its view that there is a compelling need for alternative procedures to facilitate the execution of large orders in all contract markets in order to enhance the ability of these markets to meet the needs of institutional participants concerning transaction size and price. In fact, both The London International Financial Futures and Options Exchange and EUREX now offer block trading facilities through their automated systems. Due to the dramatic growth in institutional participation in the futures markets during the last twenty years and the increasing integration of the financial futures and securities markets (including government securities), market participants increasingly wish to be able to trade large numbers of futures contracts as part of larger, structured capital markets transactions. Such transactions require size and price certainty in order to be implemented smoothly, efficiently and cost effectively.

Absent rules permitting alternative execution procedures, such as block trades, market participants must submit futures transactions for execution on exchange floors or in electronic markets and are prohibited from negotiating such transactions off the floor or outside the electronic market. The sizes and prices obtained for such transactions merely reflect the liquidity available on the floor or in the trading system in a particular contract at a particular time. These sizes and prices fail to achieve desired economic objectives or to reflect accurate actual supply and demand of the market at large, thus resulting in volume and price distortions. While on-floor and electronic market trading methods are intended to achieve competitive trading and best execution, they may not always produce the intended results in such circumstances, and may result in aberrant pricing.

For the reasons set forth above, FIA supports the proposed CFFE Block Trading Rules. FIA believes, however, that they impose a number of specific requirements which may have the effect of limiting the potential utility and benefits of Block Trades.

First, under proposed CFFE Rule 305-A(a)(1), if a trader or any of its Affiliates (as defined in the Rules) executes a Block Trade on a proprietary basis, such trader or any of its Affiliates must be a "Primary Market Maker" and must be satisfying its obligations as such in the relevant contract market. As currently drafted, proposed Rule 305-A(a)(1) could be read as referring to a requirement that only the trader's obligations as a Primary Market Maker ("PMM") can be satisfied in order to comply with the rule. If a trader is relying on its Affiliate being a PMM, it should be clear that the rule is not violated so long as the Affiliate is satisfying such Affiliate's obligations as a PMM. More importantly, however, the FIA does not believe that the PMM requirement is necessary nor warranted. FIA recognizes that there is a need to promote active trading of futures contracts on the electronic markets. The Primary Market Maker ("PMM") plays such a role. For purposes of the Block Trading Rules, however, this PMM requirement would appear to promote this goal by requiring firms desiring to make a market in the contract to do so at certain minimum levels in the Cantor System. FIA believes that the PMM requirement is unnecessary for achieving this goal, and thus that Block Trades should be permitted on a proprietary basis without the PMM requirement. For various reasons, some firms may not wish to commit to the obligations of being a PMM. Such firms may have existing trading relationships with institutional market participants that would be interested primarily in Block Trades, but which lack direct trading relationships with other PMMs. Permitting non-PMM firms to engage in Block Trades on a proprietary basis without requiring them to be PMMs would have the effect of increasing the volume and size of Block Trades. Similarly, firms acting as PMMs should not be held to this requirement as well. The corresponding increase in open interest from such Block Trades should attract even more trading of the contracts electronically on the Cantor System, thereby increasing liquidity. Proposed Rule 305-A(a)(5) separately imposes a requirement that each party to a Block Trade must qualify as an "Eligible Participant" within the meaning of Commission Regulation §36.1, subject to an exception described below. Therefore, FIA believes that it is unnecessary to impose a requirement that a trader or its Affiliate be a PMM in order to trade on a proprietary basis.

Proposed Rule 305A(a)(1) may also have the inadvertent effect of precluding from the Block Trading market some of an FCM's customers that, through the FCM's guarantee, become screen based traders or foreign screen based traders. Under the proposed rule, it is unclear whether such customers wishing to engage in Block Trading would be required to become PMMs by virtue of their status as screen based traders trading on a proprietary basis or would they be required to be PMMs only if they are making a market in the relevant futures contract. As explained more fully below with respect to proposed Rule 305-A(a)(2), it is unclear to what extent an FCM would be liable if it is deemed to have actual or constructive notice of whether a customer should be a PMM. Thus, this uncertainty may create a chilling effect on the ability of such customers to be party to Block Trades.

FIA's third concern is that proposed CFFE Rule 305-A(a)(1) prohibits Block Trades directly between two PMMs, or between a PMM represented by an agent and another PMM. FIA believes that this proposed rule imposes an unnecessary burden on a firm trading on a proprietary basis to determine whether its counterparty is a PMM. Arguably, the firm will be deemed to have constructive, if not actual, notice of the fact that a counterparty is a PMM by virtue of the fact that CFFE will be publishing a list of PMMs. It is not enough to say that the firm merely needs to give its traders a list of PMMs. With each trade, the firm would need to ask another PMM that is an FCM whether the FCM is interested in doing the Block Trade as agent for a customer, which may be permitted, or whether it is acting for its own account, which is prohibited. The complexity may have the effect of discouraging use of the Block Trading facility. Thus, the effect of the proposed rule may be to reduce competition. As indicated above, FIA does not believe that a PMM requirement is needed to achieve the goal of promoting active trading of futures contracts on the electronic market. Permitting two PMMs to engage in Block Trades directly with each other would have the effect of increasing the volume and size of Block Trades. The corresponding increase in open interest should attract even more trading of the contracts on the electronic market, thereby enhancing liquidity.

Similarly, FIA has concerns regarding proposed CFFE Rule 305-A(a)(2), which requires that if a clearing member, screen based trader or foreign screen based trader, acting as an agent for a customer or another third party, executes a Block Trade by matching such customer's or third party's order with that of another customer or third party, then neither of the customers or other third parties may make a market in Block Trades unless it is a PMM in the relevant contract market. FIA believes that this proposed rule imposes an unnecessary and potentially unworkable burden on firms to determine whether customers or other third parties are PMMs.

Proposed Rule 305-A(a)(2) appears on its face to exclude the executing clearing member, screen based trader or foreign screen based trader from responsibility for determining whether the customer or third party for which it is acting is making a market and is in compliance with the PMM requirement. Nonetheless, it is unclear what the extent of a firm's liability will be in the case of actual or constructive notice of whether a customer or other third party is a PMM. This concern is especially acute in light of the fact that CFFE will be publishing a list of PMMs. As indicated above, FIA does not believe that a PMM requirement is needed to achieve the goal of promoting active trading of futures contracts on the electronic market. Permitting a member firm or trader to act as an agent for a customer or other third party that is making a market in Block Trades would have the effect of increasing the volume and size of Block Trades, regardless of whether such customer or third party is a PMM.

Fifth, FIA wishes to comment regarding proposed CFFE Rule 305-A(a)(3), which provides that the minimum number of contracts that are to be the subject of a Block Trade order will automatically increase from 50 to 75, 100, 200 and 250 once the average monthly trading volume on the Cantor System with respect to the relevant Contract has exceeded 15,000, 30,000, 100,000 and 150,000 Contracts, respectively, during three consecutive months. FIA does not believe it is appropriate to increase the minimum order size as the relevant Contract's liquidity increases. If 50 contracts are deemed an appropriate minimum order size at current trading volumes, it is certainly at an appropriate level as trading volumes increase. Any increases in minimum order size would cause unnecessary confusion and likely discourage the use of Block Trades and thereby undermine their utility and benefits. In any case, if the minimum order size must increase, FIA believes such increases should not occur automatically. A requirement of automatic increases imposes an unnecessary burden on FCMs and clearing members to monitor trading volumes and to have procedures to ensure that larger orders are required immediately after the trading volume increases are triggered.

FIA supports the provision in proposed CFFE Rule 305-A(a)(3) permitting the aggregation of orders for different accounts in the case of a commodity trading advisor registered under the Act, including any investment adviser registered as such with the Securities and Exchange Commission ("SEC") that is exempt from regulation under the Act or Commission regulations thereunder, with total assets under management exceeding US $50 million. Likewise, FIA supports the provision in proposed Rule 305-A(a)(5), which states that if a Block Trade is entered into on behalf of customers by a similarly registered commodity trading advisor or investment adviser, with total assets under management exceeding US$50 million, the individual customers need not qualify as an Eligible Participant. In both cases, however, FIA believes that the provisions should be broadened in scope to include advisers not required to be registered as commodity trading advisors under the Act or as investment advisers with the SEC (e.g., an adviser operating outside the United States with customers outside the United States, or an adviser with less than 15 clients and that is not otherwise holding itself out as a commodity trading advisor).

FIA's seventh comment relates to the requirement in proposed CFFE Rule 305-A(a)(4) that the price at which a Block Trade is executed must be fair and reasonable in light of (i) the size of such Block Trade and (ii) the price and size of other trades in the same Contract at the relevant time. FIA is concerned that such a standard is vague and unnecessary. FIA believes that such a pricing requirement is not appropriate for the proposed Block Trading Rules or any other alternative execution procedure. The prices of other trades in the same contract as executed in the electronic market may not necessarily be representative of the market for the larger orders that may be executed as Block Trades. The parties should be free to negotiate and agree to enter into a Block Trade at any price. If the Commission is concerned that such an approach might lead to fraud or market manipulation, it should note that adequate safeguards already exist to prevent such abuse. First, Block Trades would be subject to the other requirements of the Block Trading Rules, which will have been approved by the Commission. Second, the antifraud and antimanipulation provisions of the Act would remain applicable to Block Trades. Third, CFFE would remain responsible for market surveillance and rule enforcement, subject to Commission oversight. Given these safeguards, the utility and benefits of Block Trades should not be impaired by the pricing requirement in the proposed rule.

Finally, FIA wishes to comment regarding proposed CFFE Rule 305-A(c). That provision generally requires that information identifying the relevant contract, contract month, price, quantity, time of execution and counterparty clearing member for each Block Trade must be reported to CFFE within the 10 minutes immediately following execution of such Block Trade. FIA is concerned that this timing requirement may be burdensome during a period of highly active trading. Moreover, the 10 minute reporting requirement is not appropriate in the case in which a trader must work a large order in several parts. FIA recommends that the reporting requirement be established at 60 minutes. If the Commission is concerned that such an approach might lead to fraud or market manipulation, it should note that the safeguards described in the previous paragraph already exist and are adequate to prevent such abuse.

FIA appreciates the opportunity to submit these comments on CFFE's proposed Block Trading Rules. If you have any questions regarding this letter, please contact me at (212) 526-0236 or Barbara Wierzynski, FIA's General Counsel at (202) 466-5460.

Sincerely,

Ronald H. Filler

Ronald H. Filler
President

cc: Honorable William J. Rainer
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