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DEPARTMENT OF THE TREASURY WASHINGTON, D.C.

December 18, 2003

Ms. Jean A. Webb Office of the Secretariat Commodity Futures Trading Commission
Three Lafayette Center

1155 21st Street N.W. Washington, DC 20581

Dear Ms. Webb:

In a letter dated November 5, 2003, the Commodity Futures Trading Commission ("CFTC") delivered to the Treasury Department a copy of the U.S. Futures Exchange L.L.C. ("USFE") application for designation as a contract market, as required by section 2(a)(9)(B)(ii) of the Commodity Exchange Act ("CEA"). The CFTC also delivered draft contract specifications for U.S. Treasury futures and futures-options. Treasury has reviewed the application and the draft contracts, including any potential effect on the debt financing requirements of the United States Government, and on and the continued efficiency and integrity of the underlying market for government securities.

Derivatives contracts, both exchange-traded and over-the-counter, are integrally linked to the Treasury securities cash market. Treasury futures contracts already are some of the most liquid futures contracts in terms of their trading volume, open interest, and market depth. The introduction of additional Treasury security derivatives potentially could lead to an increase in trading volumes and enhancement of liquidity in such products, as well as the facilitation of hedging and risk management programs. These in turn have the potential to enhance liquidity in the secondary market for Treasury securities and reduce trading and clearing costs and risk.

The Treasury Department is supportive of proposals that have the potential to improve liquidity, facilitate hedging, and reduce costs for Treasury securities, as well as for corporate and mortgage-backed securities, since these often are hedged using Treasury securities and derivatives.

The fact that USFE is a foreign-owned entity is not objectionable. A majority of the primary dealers in Treasury securities are foreign owned, and a large percentage of the publicly-held marketable U.S. Treasury debt is held by foreign entities. Their participation has had a positive effect on the primary and secondary Treasury markets. Competition in financial markets, both domestic and global, improves our economy by fostering innovation and efficiency.

The CEA prescribes specific designation criteria in section 5(b) and core principles in section 5(d) for recognition by the CFTC as a contract market. All applicants, domestic

and foreign, must demonstrate compliance with these requirements. The Commission has indicated that it intends to create **a level** regulatory playing field for all applicants, including USFE. USFE's request for approval should be evaluated using the same criteria applied to other

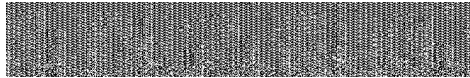
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exchanges, and the merits of the application can be addressed in the context of those requirements.

Consequently, the Treasury Department does not object to the CFTC approving USFE as a designated contract market if the CFTC finds that USFE meets the requirements of the CEA.

Sincerely,



Brian C. Roseboro
Acting Under Secretary for Domestic Finance

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