

RECEIVED  
C.F.T.C.

Chicago Board of Trade

99-34  
18

David P. Brennan  
Chairman of the Board

Thomas R. Donovan  
President and  
Chief Executive Officer

1999 OCT -6 P 4

RECEIVED  
RECORDED  
June 16, 1999

OFFICE OF THE SECRETARY

1999 JUN 21 P 12:05

RECEIVED  
C.F.T.C.

# COMMENT

Mr. David Spears, Acting Chairman  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21<sup>st</sup> Street, N.W.  
Washington, D.C. 20581

Re: Interim Final Rules Allowing Trade Options on Enumerated Agricultural Commodities, 63 Fed. Reg. 18821 (April 16, 1998)

Dear Chairman Spears:

The Chicago Board of Trade (CBOT) asks the Commission to revise its three-year pilot program to allow agricultural trade options (ATOs) that are otherwise banned. The CBOT believes that the following modifications in the pilot program will help to stimulate participation while maintaining confidence in the integrity of these products:

- 1) Allow cash settlement of ATOs. Delete Regulation 32.13(a)(3), which requires physical delivery. This change will provide participants with greater flexibility and allow ATOs to respond to the realities of agricultural cash markets.
- 2) Simplify the registration requirement for agricultural trade option merchants (ATOMs) set forth in Regulation 3.13.
- 3) Allow dispute resolution under industry arbitration procedures such as the National Grain and Feed Association (NGFA) trade rules.
- 4) Eliminate the exemption set forth in Regulation 32.13(g) that applies when the buyer and seller of ATOs have a net worth of \$10 million. Since the primary purpose of the pilot program is to test the use of ATOs, requiring that all participants be subject to the program's regulations will allow the Commission to collect more complete information about the effectiveness of the program. As the Commission gains experience with ATOs, it may want to reconsider the appropriate level of this exemption.

- 5) Simplify reporting, record keeping and risk disclosure requirements. We support reporting of ATO transactions by ATOMs (Regulation 32.13(d)) on no less than a monthly basis and recommend that Commission report data on the volume of ATOs by commodity to the public such as is done with the Commitments of Traders Reports for exchange-traded products.
- 6) Improve risk disclosure. The risk disclosure statement required by Regulation 32.13(a)(7)(i) should include a statement that ATOs are not issued by, guaranteed by, or traded on or subject to the rules of the CBOT or any other contract market.

In the past the CBOT expressed concerns that ATOs could create additional risk in the agricultural markets and would place exchange-traded products at a competitive disadvantage. However, we believe these recommended changes will not significantly increase the risk associated with ATOs while providing a more user-friendly regulatory framework that could lead to increased participation in ATOs. Regarding the issue of competitive parity, the CBOT continues to strongly believe that equivalent exchange-traded and off-exchange traded derivatives products should receive similar regulatory treatment.

Thank you for your consideration of these modifications to the CFTC's agricultural trade option pilot program. We would be happy to discuss these proposals with you at your earliest convenience.

Sincerely,



Thomas R. Donovan



David P. Brennan