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PART III



COMMODITY FUTURES TRADING COMMISSION

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**NEW YORK COFFEE AND
SUGAR EXCHANGE,
MINNEAPOLIS GRAIN
EXCHANGE, AND
KANSAS CITY BOARD OF
TRADE SPOT CASH
COMMITTEES**

Inquiry Into Operations; Public Hearings

COMMODITY FUTURES TRADING COMMISSION

SPOT CASH COMMITTEES OF THE NEW YORK COFFEE AND SUGAR EXCHANGE, THE MINNEAPOLIS GRAIN EXCHANGE, AND THE KANSAS CITY BOARD OF TRADE

Inquiry Into Operations; Public Hearings

Commencing at 10:00 A.M. on Wednesday, February 23, 1977, at 2033 K Street, N.W., 5th Floor Hearing Room, Washington, D.C., and at 10:00 A.M. on Friday, February 25, 1977, at Federal Building, 450 Golden Gate Avenue, Room 2007, San Francisco, California, the Commodity Futures Trading Commission ("Commission") will hold public hearings to receive oral presentations and written submissions from interested persons concerning the function and operation of the two Spot Sugar Quotation Committees of the New York Coffee and Sugar Exchange, Inc. Commencing at 10:00 a.m. on Wednesday, March 9, 1977, at Federal Building, U.S. Court House, Room 4, 6th Floor, 110 South Fourth Street, Minneapolis, Minnesota, and at 10:00 a.m. on Friday, March 11, 1977, at Federal Building, 601 East 12th Street, Room 140, Kansas City, Missouri, the Commission will hold public hearings to receive such presentations and submissions concerning the function and operation of the eight Spot Cash Quotation Committees of the Minneapolis Grain Exchange and the three Spot Cash Committees of the Kansas City Board of Trade.

Under section 5a(12) of the Commodity Exchange Act ("Act"), 7 U.S.C. 7a(12) (Supp. V, 1975), each contract market is required to submit for Commission approval all of its rules which relate to terms and conditions in contracts of sale to be executed on or subject to the rules of such contract market or relate to other trading requirements except those relating to the setting of levels of margins. In approving any contract rule so submitted, the Commission is required by section 15 of the Act, 7 U.S.C. 19 (Supp. V, 1975),¹ to "take into consideration the public interest to be protected by the antitrust laws and endeavor to take the least anticompetitive means" of achieving the objectives of the Act, as well as its policies and purposes. Section 15 imposes the same requirement upon the Commission "in requiring" any contract market rule.²

¹Section 15 Provides: The Commission shall take into consideration the public interest to be protected by the antitrust laws and endeavor to take the least anticompetitive means of achieving the objectives of (the) Act, as well as the policies and purposes of (the) Act, in issuing any order or adopting any Commission rule or regulation, or in requiring or approving any bylaw, rule, or regulation of a contract market or registered futures association established pursuant to section 17 of this Act.

²Under section 8a(7) of the Act, 7 U.S.C. 12a(7) (Supp. V, 1975), the Commission is empowered to alter or supplement contract market rules (except those relating to the setting of levels of margin) if a contract market does not make changes in its rules

On September 17, 1976, the Commission addressed the issue of the applicability of section 5a(12) to contract market rules relating exclusively to the cash market and stated that, for the present time, it would not direct its Division of Trading and Markets to alter its "no-action" position regarding a contract market's failure to submit such rules for Commission approval prior to their being placed into effect, 41 FR 40091 (September 17, 1976).³ In that connection, however, the Commission also stated that:

should the Commission determine that its responsibilities under the Act, and under Section 15 in particular, require it to review certain cash market rules prior to their being placed into effect by the contract markets, the Commission will inform the contract markets of the inapplicability of this no-action position to such rules.⁴

The Commission has been reviewing the rules and practices of the New York Coffee and Sugar Exchange, the Minneapolis Grain Exchange, and the Kansas City Board of Trade which establish and govern the operation of spot cash committees in sugar and certain grains, respectively.⁵ In the course of that review certain facts have come to the Commission's attention which, in light of its responsibilities under section 15 of the Act, the Commission believes necessitate further study and additional information.

Spot prices are quoted daily by the Spot Domestic Sugar Quotation Committee and by the Spot World Sugar Quotation Committee of the New York Coffee and Sugar Exchange. These prices are reportedly used widely in decisions involving the purchase, production, marketing and sale of both raw and white sugars. To the extent that such spot prices are so used, they have a direct effect on the economic efficiency of the sugar market including an effect—both direct and indirect—on the level of futures prices of sugar.

The spot prices quoted by the eight Spot Cash Quotation Committees of the

and practices requested by the Commission and after appropriate notice and opportunity for hearing, the Commission determines that such changes are necessary or appropriate for the protection of persons producing, handling, processing, or consuming any commodity traded for future delivery on such contract market, or the product or by-product thereof, or for the protection of traders or to insure fair dealing in commodities traded for future delivery on such contract market.

³This issue was addressed in connection with the Commission's adoption of substantial amendments to regulation 1.41, which governs the submission of contract market rules under section 5a(12).

⁴41 FR 40097 (September 17, 1976). In the Commission's view, the same considerations apply regarding cash market rules in effect on July 18, 1975, and which contract markets are required to enforce pursuant to regulation 1.53, 17 CFR 1.53 (1976).

⁵Proposed amended Bylaw Section 16(r), 16(s), 44a, and 45 of the New York Coffee and Sugar Exchange; Rules 301 and 519 of the Minneapolis Grain Exchange; and Rules 401.1, 401.3, 403 and 1602 of the Kansas City Board of Trade.

Minneapolis Grain Exchange (wheat, durum, corn, oats, barley, rye, flaxseed, soybeans) and the three Spot Cash Committees of the Kansas City Board of Trade (wheat, coarse grains, and mill feed) are also reportedly used widely in decisions involving the purchase, production, marketing and sale of these grains. Similarly, to the extent that such spot prices are so used, they have a direct effect on the economic efficiency of the grain markets, including an effect—both direct and indirect—on futures prices of the respective grains.

The Commission is endeavoring to determine whether the method of operation of these committees in quoting spot prices comports with the section 15 standard of "least anticompetitive means of achieving the objectives of [the] Act." Concern exists about the amount of discretion utilized by these committees to quote prices. Such discretion may result in the reporting of prices which might artificially influence both cash and futures prices. Therefore, the Commission is seeking comments and information regarding the existence and operation of these committees from persons in the affected industries and from other interested persons. The information which the Commission receives at the public hearings or through written submission will assist the Commission in evaluating whether the rules and practices of the Committees comport with section 15 of the Act. In addition, information obtained may assist the Commission in evaluating possible suggestions which may enhance the accuracy of spot price data for each of the commodities. Greater availability and accuracy of such data are of importance to the Commission in carrying out its regulatory role.

At the public hearings the Commission is interested in receiving information regarding the following:

1. The competitive implications of the operating procedures for quoting prices of the spot price committees of the New York Coffee and Sugar Exchange, Inc., the Minneapolis Grain Exchange, and the Kansas City Board of Trade, including the role and composition of the committees and the method of member selection. Discussions should include whether and to what extent discretion and judgment are used by committee members in quoting the spot prices and what effect judgment and discretion have on the accuracy of spot prices.

2. The use made by the industry of the spot prices as currently quoted by the Committees; and the impact of these prices on the price discovery process for each commodity, respectively.

3. Means for improving the accuracy and enhancing the dissemination of spot prices of each of the commodities. Commentators should show how their suggestion would improve the accuracy of spot price quotes for the respective commodities. They should also describe the likely impact their suggestion would have on the cost and availability of spot quotes as well as the benefits to be obtained by consumers and the various segments of the industry.

4. The methods utilized by other cash commodity markets to report spot cash data for use by various segments of the industry. A discussion of the applicability of such methods to the spot price data reported by the New York Coffee and Sugar Exchange, the Minneapolis Grain Exchange, and the Kansas City Board of Trade should be included.

The listing of the above items is not intended, in any way, to restrict or limit comment with respect to other matters related to the operation of these committees.

Participants in the hearings may be accompanied by persons of his or her own choosing, who may advise or assist the speaker in responding to questions

or otherwise assuring that full information is developed for the use of the Commission. Oral presentations will be limited to 15 minutes. During and subsequent to any person's oral presentation, questions may be asked either by members of the Commission or the Commission staff. The Commission recognizes that members of the public may have questions; therefore, provision will be made for persons having questions to submit those questions in informal written form to a member of the Commission staff who may in his or her discretion ask such questions. In addition, interested persons will be permitted, for 10 days after the last day of oral hearings, to submit written comments on all

matters presented at the hearings or any other related topic, including written rebuttals to oral presentations.

Persons interested in participating in the Commission's hearings should contact Ms. Jane Stuckey, Commodity Futures Trading Commission, 2033 K Street, N.W., Washington, D.C. 20581, (202) 254-6126.

Issued in Washington, D.C. on January 31, 1977.

By the Commission.

WILLIAM T. BAGLEY,
*Chairman, Commodity Futures
Trading Commission.*

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