

From: Joseph Ott <jott@kcbt.com>
Sent: Thursday, October 7, 2010 9:28 AM
To: OCR <OCR@CFTC.gov>
Cc: Berdansky, Rachel <rberdansky@CFTC.gov>; Pujol Schott, Sebastian <sps@cftc.gov>
Subject: FW: Account Ownership and Control Report
Attach: 20101007082157274.pdf

Attached is the KCBT comment letter regarding the account ownership and control report.

Regards,

Joe Ott

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KANSAS CITY BOARD OF TRADE

October 7, 2010

SENT VIA E-MAIL
OCR@cftc.gov

Mr. David Stawick
Secretary of the Commission
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, D.C. 20581

Re: Account Ownership and Control Report

Dear Mr. Stawick:

In response to your request for public comment on the Ownership and Control Report, ("OCR") the Kansas City Board of Trade ("KCBT") offers the following:

KCBT agrees that the account ownership and control information report currently being proposed by the Commodity Futures Trading Commission ("CFTC" or "Commission") will enhance market transparency, increase the Commission's trade practice and market surveillance capabilities, leverage existing surveillance systems and data and facilitate the Commission's enforcement and research programs. The unprecedented changes recently seen in the futures industry occurring as a result of the shift in the style of trading from pit trading to electronic trading has necessitated many changes in the manner in which our markets are regulated. The anonymity of the market participants in electronic trading has made it difficult to identify traders and trading accounts quickly. It has been our experience that some clearing members struggle with identifying the user and/or account number for a particular trade unless other information is given to them (e.g. session ID, firm ID, trader ID).

Market transparency is a crucial element of any market surveillance system. The integration of large trader and trade register data into the OCR will exponentially increase market transparency. Once the implementation of the OCR takes place, both the CFTC (Division of Market Oversight, Division of Enforcement and the Office of the Chief Economist) and the Exchange Compliance staffs will benefit greatly from the wealth of information at their disposal regarding the identity of market participants and the relationships that exist among them.

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However, KCBT believes that the most efficient way for the information to be submitted to the CFTC is for the futures commission merchants and clearing members ("root data sources") to submit the information directly, just as they currently do with KCBT large trader reporting. The root data sources are in possession of the specific data points being proposed, therefore it makes the most sense for the root data sources to report this information directly to the Commission. Of the specific data points required by the proposed Ownership and Control Report, the only data point KCBT currently has in our possession is the trading account number as reported in our trade register (tags 448 and 452, Party Role 24 in the Trade Capture Report). All KCBT trade register information that is in our possession is sent to the CFTC on a daily basis through the Trade Capture Report. There is no KCBT trade register information that is excluded from the CFTC. KCBT does not manipulate any account number in our trade register. Every account number reflected in the Trade Capture Report is a pass-through from the clearing member.

The CFTC is already in possession of many of the specific data points required by the OCR thru large trader information (CFTC Form 102 "Identification of Special Accounts") as well as exchange trade register information. Therefore the CFTC is in a better position than the KCBT to integrate these existing resources and supplement them with ownership and control information for all trading accounts. It seems unnecessary to put a third party in the middle to submit the information to the Commission.

Of the files to be used by the firms for the OCR, the firms currently receive end of day trades files (current files received) that contain executing user ids that are passed through from the trading engine. Firms also receive audit trails from their front-end trading platform that contain the executing user id and account numbers for all trades, orders, modifies and cancels.

The current files received by the firms on an end of day basis should suffice for the firm to create account number relationship files to tie trading accounts with platform user ids. Trading accounts (executing accounts) may be tied to platform user ids. Clearing accounts (accounts used in give up processing) may not be tied directly to platform user ids. Only executing (trading) platform ids are used and passed through to the firms. KCBT does not have a platform user id system for the clearing processes (give-ups and allocations).

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Requiring each contract market to report the information for every active account would result in duplication as the same account number may trade in similar commodities across multiple exchanges. (e.g. the same account number trades KCBT, CME and MGE wheat contracts). Thus, the KCBT, CME and MGE would all be reporting the information for the same account. In addition, there are currently certain KCBT clearing members (for open interest reporting purposes) that have their home office (Chicago or New York) report their positions to their Kansas City branch office who in turn reports to the Clearing Corporation. If this same logic was used for the OCR then the information would have to be reported three times (home office to branch office to KCBT to CFTC) before reaching the CFTC.

KCBT agrees that uniform reporting protocols are an absolute necessity. The CFTC has standardized the content and format of all trade registers submitted to them which are now required to be FIXML Trade Capture Reports. Therefore it would seem logical that the Commission and root data sources could develop a similar industry-wide standard for the OCR. It would seem to make the most sense to have the CFTC and the root data sources come up with an industry-wide reporting standard directly into the Commission versus all of the exchanges having to build a system for the root data sources to report into. The CFTC could use their existing large trader reporting system to accomplish the goals of the OCR by requiring that each root data source report the required information for all active accounts.

Regarding the specific data points required by the Ownership and Control Report, KCBT questions whether the date of birth for each active account is a necessary data point to collect. Neither current CFTC Regulations nor NFA Rules and Regulations require a futures commission merchant to collect the customer's date of birth. Currently, NFA Compliance Rule 2-30 only requires that an FCM record an approximate age of the customer. Effective January 3, 2011 NFA rules will require the FCM to record an approximate age or date of birth. Requiring a first, middle and last name as well as the address of their primary residence should be sufficient to achieve a unique identification for each active account.

The OCR information will be difficult to obtain from omnibus accounts because the underlying accounts are not carried on the clearing member's books. Historically, non-disclosed omnibus accounts have been carried on the clearing member books under the name of the omnibus account only. The clearing member has never reflected the individual names of the accounts within the omnibus accounts. KCBT feels that it is best to continue this practice and reflect

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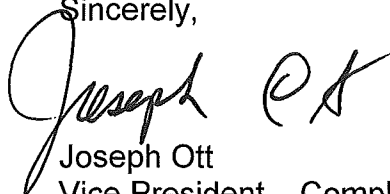
the non-disclosed omnibus accounts on the OCR under the name of the omnibus account only. If further information on an account within the omnibus account is deemed necessary then the omnibus account (not the clearing member) should be contacted. Furthermore, certain omnibus accounts may be non-members of the KCBT which raises a question as to the regulatory authority the KCBT would have over them. The CFTC would have regulatory authority over all futures commission merchants and hence another reason why the root data sources should report directly to the Commission.

We are currently not in a position to state with any certainty what the costs (hardware, software, personnel, one-time start-up costs and on-going operational costs) would be for the exchange to provide the OCR until further details are forthcoming regarding an industry approved standard for the OCR's content, format and the time and manner of its transmission. Once more details become available, we will be in a better position to estimate the time frame necessary for completion and the costs associated with such. However, it is clear that each contract market will incur significant server storage and programming costs to ensure they have the ability to store the information received if the CFTC requires each contract market to receive, collate and correlate the data into a single record for active accounts in our market and to transmit the information to the CFTC. Thus you would have programming and server storage costs at each level, whereas if the information was submitted by each root data source directly to the CFTC, you could eliminate one layer of these costs. It seems the best method for reporting would be for the information to be submitted by the root data sources directly to the CFTC.

KCBT feels it is best to assemble an industry-wide committee (including the CFTC) to discuss the issues and how to implement the OCR in a manner that will both satisfy the CFTC's regulatory needs and avoid being an undue burden to the root data sources and designated contract markets.

KCBT appreciates the opportunity to comment on the Ownership and Control Report currently being proposed. If you have any questions please feel free to contact me at 816-753-7500 or jott@kcbt.com.

Sincerely,

A handwritten signature in black ink, appearing to read "Joseph Ott", with a stylized flourish at the end.

Joseph Ott
Vice President – Compliance