

# THE OPENING CALL

*Newsletter of the Commodity Floor Brokers and Traders Association*

## Bunched Orders Need "Short Codes"

**F**loor brokers and traders face CFTC sanctions and fines if their tickets for bunched orders are missing account identifier codes that represent the ultimate customer breakdowns. "It's not good enough to have the order number and time, you need either the account numbers or "short codes," Vincent White, NYBOT Manager of Special Investigations told CFBTA members at their fall meeting. He warned traders not to fill the orders and then get the identifier (or "short codes") because that can be viewed as an abuse of high and low allocations.

It does, however, put the floor broker in an awkward position. If a trade comes to the floor without the account identifier, the broker must then decide to either turn the business down or fill the order without the identifier. This issue is not new since floor brokers

have been arguing for years that the upstairs broker or CTAs should be held accountable for providing the codes. The CFTC, however, in recent actions has placed responsibility on the floor.

In one such case, a New York floor broker settled, without admitting guilt, when the CFTC found that his clerk received futures orders from an introducing broker and prepared floor order tickets without immediately obtaining and recording account identification on those floor order tickets. Instead, according to the CFTC finding of October 25, the clerk simply indicated that the introducing broker had placed the orders. The order further found that the broker did not receive customer account identification for the orders until after they were executed. The CFTC found the trader in violation, imposed a penalty of \$7,500, restricted his registration and activities for two

years and sought his cooperation against other respondents.

White said that there are at least four other similar cases pending.

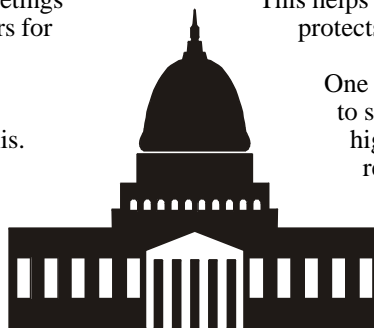
While regulators debate ultimate responsibility for customer protection in these cases, the exchanges are looking at both parties to these actions. "We want to go after both parties, not just the floor broker," said NYBOT Investigator White. "We're trying to force the broker/dealer to provide the identifier to the member, since CFTC regulations and NFA rules require it."

"This is high on our list for discussion with the new CFTC commissioners," said Chairman A. George Gero. "The floor alone cannot be held accountable for providing this information. Back offices have to step up and take responsibility."

## Meeting With New CFTC Commissioners Set for Dec. 9

CFBTA is off to Washington again – with meetings scheduled with two new CFTC commissioners for December 9th. Representing CFBTA will be Chairman A. George Gero, President John Hanemann, Member Gordon Rutledge, and Public Directors Sam Abernethy and Mel Falis. Meetings will be with new Commissioners Sharon Brown-Hurska and Walk Lukken.

"We have new CFTC commissioners and need to introduce ourselves," said Gero. "We need to have a good working relationship with the Commissioners.



This helps keep the markets open, honest and ultimately, protects the customers."

One issue CFBTA Director Scott Hess would like to see addressed is the disparity between the highly regulated futures exchanges and the non-regulated over-the-counter markets. "I'd like to see us put on equal footing," Hess told *Opening Call*. Another issue to be discussed is floor broker responsibility for customer codes on bunched orders. (See related story, above) Other issues on the

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*Representing our members in areas of concern encompassing the exchange' trading floors and regulatory agencies.*

## NYBOT Move to NYMEX Set for Summer 2003

Come July 4<sup>th</sup>, NYBOT members should be celebrating their much-anticipated move into the NYMEX building at 1 North End Avenue. As of mid-November, construction had already begun on back office space for NYBOT on the 8<sup>th</sup> and 13<sup>th</sup> floors, and a re-design of the 7<sup>th</sup> floor trading space was expected to begin by month's end when \$23.3 in federal, state and city grant money was expected.

"We're very excited about it...it couldn't happen soon enough," said Fred Schoenhut, NYBOT relocation team member. He explained discussions on the move began before September 11, but hastened after NYBOT lost its building at 4 WTC due to the terror attacks on lower Manhattan. Grant

money is covering 60-70% of the construction which, when completed, will give NYBOT a little over half the trading space on the 7<sup>th</sup> floor, as well as back office and data space on other



floors. NYBOT members will have access to the 7<sup>th</sup> floor cafeteria and executive dining rooms, but not the health club, or cafeterias on the 3<sup>rd</sup> and 5<sup>th</sup> floors.

The lease runs for 10 years with a five-year renewal option. NYBOT relocation team members, in addition to Schoenhut, are Thomas Butler, Richie Esposito and Harry Falk. The NYMEX team consisted of Mitch Steinhouse and Gary Rizzi.

"We couldn't be happier about the NYBOT move," said CFBTA President John Hanemann, "All the New York exchanges share a common culture, function and economic purpose. We belong together to keep open outcry competitive with electronic and overseas markets."

## Stock Futures Debut; Traders Cautiously Optimistic

After a two-decade ban, trading of futures on individual stocks began in early November with as much fanfare as the stock market itself is receiving these days. Industry observers are optimistic about the products, but expect interest to increase gradually over time. Two exchanges offered the new products – NASDAQ Liffe LC, a joint venture between the National Association of Securities Dealers and London International Financial Futures and Options Exchange – and OneChicago LLC, an alliance among Chicago's three existing derivatives exchanges. NASDAQ Liffe offered futures on 10 stocks and 4 exchange-traded funds while One Chicago offered futures on 21 stocks. Volumes were about 9000 total, with NASDAQ reporting slightly higher numbers. New York commodity exchanges are sitting on the sidelines for now, with no such products imminent. However, two other exchanges — Island Futures Exchange and Amex SSF — plan to open contracts later this year.

"I think we'll see a steady climb of volume and open interest," said Ryan Byrne, vp at Prudential Securities. "It's a real change from an educational standpoint." He sees the new contracts

as a way to hedge stock options positions and perfect in today's volatile stock market. At SLK, Director Peter Meyer views the opening as lukewarm at best, and has adopted a wait-and see attitude. He gives the contracts till mid 2003 to see if enough depth and liquidity will exist to attract business. Right now, professional traders are in the market, but banks, the retail trade and hedge funds are on the sidelines, observers say. The Futures Industry reports that market makers accounted for 60 percent of first day volume, customers 36 percent and firms the remaining 4 percent.

"We always welcome new trading opportunities in this industry," said CFBTA Chairman A. George Gero. "Remember, it took almost two decades to obtain these products and they will need some time to take hold, especially considering the state of the stock market today."

Some of the most active contracts in opening days were Microsoft, the NASDAQ 100, ExxonMobil, Johnson & Johnson, and Nokia. To increase awareness of the contracts and provide information on trading them, the CFTC also added pages to its website — [www.cftc.gov](http://www.cftc.gov). — and the Options

Clearing Corp. has an investor service center for the contracts at 1-888-OPTIONS.

### Broker Registration

Brokers who want to trade the new single stock futures contracts must take a web-based tutorial, available on the NFA ([NFA.Futures.Org](http://NFA.Futures.Org)) and NASD websites, according to NFA New York Associate Director Jennifer Augustyn. She explained that there are five components to the tutorial: securities, futures, security futures products, regulations of these products and, supervision of these products. If a broker already has a Series 3, he does not need to take the futures module. Likewise, if a broker already has a Series 7, that module can be skipped. And, if he will not be supervising brokers, that component can also be skipped.

Brokers do not get a score when they complete the training – only a certificate. If the NFA's website is used, a record will be available on their system.

## Spotlight on CFBTA Members

*Opening Call would like to periodically spotlight accomplishments of CFBTA members.*

If a member has news of interest, please forward to Mary Ann Matlock at [mampr1@aol](mailto:mampr1@aol).

### Internet Sports Business

CFBTA website manager Nick Mangano has launched a new internet business for sports memorabilia at [cooperstown.com](http://cooperstown.com). While specializing in baseball autographs and souvenirs, other sports will also be served by his new online web store. If the items that you are looking for are not listed, just email him and he will try to locate the items for you.



There is also a lodging request list for individuals traveling the Baseball Hall of Fame and Cooperstown, New York, area. Just fill out the online form with the dates and accommodations needed and his lodging request members will contact you regarding availability and pricing.

Also in the works is a real estate section for properties in the Central Letherstocking area. Nick can be reached at [ncm@cooperstown.com](mailto:ncm@cooperstown.com) or by phone at 718/843-7189. He will continue to serve CFBTA by maintaining the website.

### Trading Book

*The Logical Trader*, by Mark Fisher, provides an in-depth look at a trading

system that any trader can use anywhere on almost anything. Published by John Wiley & Sons in late summer, the 256-page book has received four-star reviews on [amazon.com](http://amazon.com).

Amazon's description of the book: "The ACD method developed and refined by Mark Fisher after many years of successful trading provides price points at which to buy and sell as determined by the opening range of virtually any stock or commodity. This comprehensive guide details a widely used system that is profitably implemented by many computer and traders at major New York exchanges. The author's highly accessible teaching style provides readers of *The Logical Trader* with a full examination of the theory behind the ACD method and the examples and real-world trading involved in it." Cost of the book is \$41.97 on [amazon.com](http://amazon.com).

Mark is founder of MBF Clearing Corp., the largest clearing firm on NYMEX.

### 9/11 Grants

In late October, 34 NYBOT floor traders and brokers were awarded grants totaling \$290,000 to aid in their recovery from business lost as a result of the September 11 attacks. Grants ranging from \$5,000 to \$20,000 were awarded through the Civil Corporation, a charitable affiliate of the New York City Investment Fund. The grants are intended to help brokers who are struggling to bring their business back to pre-September 11 levels. Seat holders with the largest declines in trading volume during the first six

months of 2002 versus the same period in 2001 were identified by NYBOT for program eligibility. Recipients are to repay the grant at the end of five years if they have sufficient funds to do so.

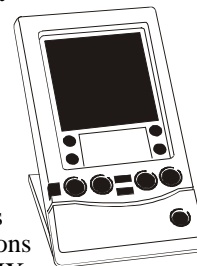
The Terrorism Relief Act exempts charitable contributions and relief payments to individuals from federal taxes. However, the tax treatment does not yet extend to grants that government agencies made to businesses affected by the World Trade Disaster.

### Government Relations

CFBTA member Madeline Boyd has been named co-chair of the NYMEX Government Relations Committee. Congratulations!

### PitTrader

CFBTA member David Wender has launched an advanced options pricing and risk management system for floor traders – PitTrader. The new system, launched in early November, uses a standard tablet PC with specialized software that enables traders to: enter options trades onto the NYMX clearing system; reflect a traders total positions; analyze positions through 3-4 standard reports or customized reports. Several traders are now testing the system. For further information, contact David at [dwender@upperhandtrading.net](mailto:dwender@upperhandtrading.net)



## CFBTA Washington Trip Set for This Month

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agenda: a possible transaction tax in light of growing budget deficits; tax treatment of disaster payments (now, small businesses that received 9/11 disaster payments are liable) and, additional regulation of energy markets.

"Over the past 12 years, we have worked diligently and relentlessly behind the scenes to make sure the

Washington decision-makers understand our business needs," Hanemann told *Opening Call*. "In many instances, we have been successful, but we cannot afford to rest on past laurels...New issues are always arising as administrations change."

CFBTA has had much success in its meetings over the past 12 years with

CFTC commissioners and Washington legislators. Some issues that CFBTA has been instrumental in: defeating proposed increases in transaction taxes; defeating proposals to eliminate the 60/40 tax status for commodity trades; eliminating the trader's burden to report fines levied against them by the exchanges to the NFA; and relaxing the look-back period for broker licensing to three from five years.

## In Brief...

### Treasury Balance

At their October meeting, Treasurer Joe Salvatore reported a balance of \$30,000 in CFBTA accounts, with over 400 members paid for 2002. Current membership is necessary for participation in CFBTA exclusive programs, such as its health insurance program coordinated through Warren Rosen & Co.

### Stipend Increased

NYMEX has increased its members' subsidy for benefits to \$300 per month, up from \$150 effective October 1. This is for members to use for major medical, dental, individual life or long-term care insurance plans, including those coordinated through Warren Rosen & Co. For questions, stop by the Rosen booth on the 3<sup>rd</sup> floor, next to the NYMEX help desk or call 212/949-9200.

### Charitable Foundation

Over \$475,000 was raised at the NYMEX Charitable Foundation's annual auction on Nov. 21 held this year at the New York City Police Museum. Members who could not attend were eligible to win door prizes including dinner for four at the Brasserie and tickets to the Conan O'Brien television show if donations were made by the auction date.

### Back-Up Facility

In late October, NYMEX completed construction on a back-up trading facility on Long Island. The site includes 25,000-sq. ft. of trading space and 10,000-sq. ft. for back office and booth operations. The site is part of the exchange's contingency plan for future disasters. It did not have such a facility when terrorist attacks of September 11 curtailed access to 1 North End Avenue. "Hopefully, we'll never have to use it," said NYMEX Vice Chairman Mitch Steinhouse. "Our mock trading there went great...a lot of people showed up...all systems worked flawlessly."

### NFA Registrations On-Line Ethics Requirement Dropped

Firms and individuals can now register on-line with the National Futures Association (NFA) through their website – nfa.futures.org. CFBTA has provided a link to this site through its own website – cfbta.org. NFA's Associate Director for New York Jennifer Augustyn visited CFBTA members at the October meeting to explain that those who are computer shy can visit the NFA at 120 Broadway for help. Registrations, which once took weeks, now can be done in a matter of minutes.

Regarding ethics training, she said the NFA no longer requires it to be updated every three years, but firms and exchanges may have other rules.

### Futures Volume Jumps

FIA statistics show that worldwide trading in futures, options on futures and options on securities reached 4.32 billion contracts in the first nine months of 2002, up 40% from the same period in 2001. Volume at U.S. futures exchanges was 787.7 million contracts, up 36 percent in the first nine months of 2002 versus the same period in 2001.

### Congressional Aide Visit

In late November, a record high of 44 Congressional staff members spent the day at NYMEX, learning the markets and actively participating through seminars and a mock trading session. CFBTA Director Scott Hess teaches in this educational program, helping introduce aides to life in the "pits." "It's a wonderful program," Hess told *Opening Call*. "When issues about our markets come up for their senators/congressmen, they are experts for their bosses..." Congressional staffers represented influential senators and congressmen from energy/commerce, financial services/banking and agriculture committees as well as the department of energy. The seminar has become well known in Washington as a "must do." CFBTA lauds its members who help make this happen.

## 2002 Officers and Directors

### Officers

Chairman: George Gero  
Vice Chairman: Robert DeMartino  
President: John Hanemann  
Vice President: David Wender  
Secretary:  
Treasurer: Joe Salvatore  
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**COMEX:** Michael Devaney, Steve Karvellas, John Moore, Bob Pellegrino, Al Pennisi, Charles Rasher, Mike Wagner, Bruce Zins

**COMEX OPTIONS:** Michael Hammer, John McNamara, Rob Panzera

**COTTON:** Marc Brenner, Stan Meierfeld, Thomas Butler

**CSCE:** Sebastian Angelico, Mike Belmont, Steve Forman, Fred Mascia, Fred Schoenhut, Jan-Willem van den Dorpel, Steven Winter

**NYFE:** Walter Fair, Al Peras

**NYMEX:** Madeline Boyd, Rich Buccellato, Robert Coakley, David Greenberg, Jeff Grossman, Z. Lou Guttman, Scott Hess, Gary Rizzi, Richard Schaeffer

**CPA Member:** Alan Berk, CPA

**Counsel:** Sam Abernethy, Esq.

**Legal Committee:** Mel Falis, Esq., James Gargan, Esq., Mike Wagner, Esq.

**Assoc. Member Reps:** Thomas LoBue, John Sakulick, Don Tierney

**Open Outcry:** Mary Ann Matlock