

stated that improvements to existing audit trail systems could demonstrate good faith efforts to comply with enhanced audit trail requirements. The Commission also has completed comprehensive testing on four large exchanges to determine, among other things, the status of their audit trails towards meeting the enhanced trade timing and sequencing standards. Based on the test results, each of those exchanges has been informed as to the specific actions that would be needed to demonstrate good faith towards meeting Section 5a(b)(3). In addition, the Commission evaluates exchange systems on a routine basis when conducting rule enforcement reviews. As mandated by Section 5a(b)(5)(A)(i) of the Act, the Commission is in the process of exempting from the requirements of Section 5a(b)(3), small exchanges that have effective trade monitoring systems.

This Advisory on flashed orders is a further step towards achieving exchange compliance with existing statutory and regulatory requirements. The Commission is concerned that the exchanges sometimes are not adequately enforcing the requirements with respect to flashed orders. Among other things, Commission staff has identified instances in which an entry timestamp apparently was recorded after an order was flashed, resulting in an inconsistency between the order ticket timestamp and the pertinent time and sales print. Such action is a direct violation of Commission Regulation 1.35(a-1)(2)(i), which specifically requires that an entry timestamp be recorded on an order ticket before the order is flashed to a broker.

II. Current Flashed Order Practices

The Commission has observed that the precise mechanics involved in flashing orders vary from firm to firm and exchange to exchange. For example, in Chicago, where flashing is most common, flashed orders usually are transmitted to the floor broker by hand-signal.¹ In New York, most flashed orders are transmitted through verbal communication. There is also some variation in how exchanges define

¹ Flashing is most prevalent in the Chicago financial markets because of the need for instantaneous trade execution. Trading in the financial markets on the Chicago exchanges comprises 67 percent of all trading volume in the United States and 49 percent of all world volume. The CBT has stated that nearly 100 percent of the customer orders executed in its financial markets are flashed to the broker. Similarly, the CME estimates that 80-100 percent of the customer orders in its interest rate markets and 60-80 percent of customer orders in its currency markets are flashed.

flashed orders. Specifically, one exchange considers all orders hand-signalled into a trading pit to be flashed orders, while another exchange considers only those orders that are hand-signalled into the trading pit immediately upon receipt at the trading desk to be flashed orders. Further, not all exchanges currently have recordkeeping procedures to distinguish flashed orders from other paper orders for audit trail purposes.

In the recent notification by the Commission to the CBT and CME concerning the audit trail test results, the Commission recommended, among other things, that each Exchange require a trade submission indicator for flashed orders. Both Exchanges now require clearing firms to enter a special indicator into the clearing system for flashed orders. The Commission also recommended that the Exchanges aggressively enforce timestamping procedures for flashed orders. The Commission has not made similar recordkeeping or enforcement recommendations for the New York exchanges, where flashed orders are much less common. However, because of the Commission's concern that the exchanges are not always rigorously enforcing existing timestamp requirements for flashed orders, the Commission is setting forth in this Advisory its interpretation of relevant audit trail requirements and its expectations for all exchanges subject to Section 5a(b)(3) of the Act.

III. Standards for Flashed Orders to Comply With the Objectives of Section 5a(b)(3) of the Act

Any exchange subject to Section 5a(b)(3) of the Act, seeking to have its audit trail deemed in good faith compliance with Section 5a(b)(3), must assure compliance with the following standards:

(1) In accordance with Commission Regulation 1.35(a-1)(2)(i), an entry timestamp must be recorded on an order ticket before an order is flashed into a trading pit.

(2) In accordance with Commission regulation 1.35(a-1)(4), upon report of an order fill from the trading pit, an exit timestamp must be immediately recorded on the corresponding order ticket.

(3) Each flashed order must be identified as a flashed order on the corresponding order ticket. Identification of these orders will distinguish them from other paper

orders and improve the audit trail for flashed orders.²

(4) Maintain effective surveillance and enforcement procedures, including without limitation, floor surveillance, periodic review of trading documents, and disciplinary action as necessary.

(5) Order tickets must accurately reflect the customer's instructions when received, including whether the order is a market or price order.

Dated: November 16, 1995.

By the Commission:

Jean A. Webb,

Secretary to the Commission.

[FR Doc. 95-28700 Filed 11-22-95; 8:45 am]

BILLING CODE 6351-01-M

Chicago Mercantile Exchange Options on the Butter Futures Contract, and Amendments to the Dormant Butter Futures Contract

AGENCY: Commodity Futures Trading Commission.

ACTION: Notice of availability of the terms and conditions of a proposed commodity option contract and amendments to the underlying futures contract.

SUMMARY: The Chicago Mercantile Exchange (CME or Exchange) has applied for designation as a contract market in options on its butter futures contract. In addition, the CME proposes to amend the dormant butter futures contract that would underlie the proposed contract, and it has filed a request to list butter futures and option contracts. The Director of the Division of Economic Analysis (Division) of the Commission, acting pursuant to the authority delegated by Commission Regulation 140.96, has determined that publication of the proposals for comment is in the public interest, will assist the Commission in considering the views of interested persons, and is consistent with the purposes of the Commodity Exchange Act.

DATES: Comments must be received on or before December 26, 1995.

ADDRESSES: Interested persons should submit their views and comments to Jean A. Webb, Secretary, Commodity Futures Trading Commission, 2033 K Street NW., Washington, DC 20581. Reference should be made to the CME butter futures option contract and the request to reactivate trading in the butter futures contract.

² The Commission believes that identification of flashed orders on the trade register required under Commission Regulation 1.35(e) would further enhance the audit trail and exchange trade surveillance, and thus, should be a goal of all exchanges subject to Section 5a(b)(3) of the Act.

FOR FURTHER INFORMATION CONTACT:

Please contact Fred Linse of the Division of Economic Analysis, Commodity Futures Trading Commission, Three Lafayette Centre, 1155 21st St., NW., Washington, DC 20581, telephone 202-418-5273.

SUPPLEMENTARY INFORMATION: The amended butter futures contract would call for the delivery of 40,000 pounds of Grade AA fresh or storage butter, packaged to conform to the requirements of the Commodity Credit Corporation for bulk butter, in carload lots containing only 25-kilogram or 68-pound net capacity boxes. Butter would be deliverable in store in Exchange-approved warehouses (not including plant storage facilities) within the 48 contiguous states. Delivery would be at par in Chicago and at location differentials to be determined by the Exchange at locations outside Chicago.

Trading would be conducted in the contract months of January, March, May, July, September, and November. Prices would be quoted in dollars and cents per pound. The minimum price fluctuation would be \$0.00025 per pound. The maximum price fluctuation would be \$0.025 per pound, which could be expanded to \$0.05 per pound under certain conditions.

Delivery could be made on any business day of the contract month on or after the third business day following the first Friday of the contract month. Trading in an expiring contract month would end on the business day immediately preceding the last five business days of that month.

Butter options would trade in the same months as the futures contract, but would expire on the first Friday of the contract month. Thus, delivery on the futures contract would not be made until after the corresponding option had expired. Strike prices for the option would be listed at 2¢ per pound intervals above and below the previous day's closing price.

Speculative traders of the futures and option contracts would be subject to a combined position limit of 900 futures and futures equivalent option contracts net long or short in any contract month. In addition, futures positions held by speculative traders after the first Friday of expiring contract months would be subject to a limit of 300 contracts.

Copies of the terms and conditions will be available for inspection at the Office of the Secretariat, Commodity Futures Trading Commission, Three Lafayette Centre, 1155 21st St., NW., Washington, DC 20581. Copies of the terms and conditions can be obtained through the Office of the Secretariat by

mail at the above address or by phone at (202) 418-5097.

Other materials submitted by the CME may be available upon request pursuant to the Freedom of Information Act (5 U.S.C. 552) and the Commission's regulations thereunder (17 CFR part 145 (1987)), except to the extent they are entitled to confidential treatment as set forth in 17 CFR 145.5 and 145.9. Requests for copies of such materials should be made to the FOI, Privacy and Sunshine Act Compliance Staff of the Office of the Secretariat at the Commission's headquarters in accordance with 17 CFR 145.7 and 145.8.

Any person interested in submitting written data, views, or arguments on the proposed terms and conditions, or with respect to other materials submitted by the CME, should send such comments to Jean A. Webb, Secretary, Commodity Futures Trading Commission, Three Lafayette Centre, 1155 21st St., NW., Washington, DC 20581 by the specified date.

Issued in Washington, DC, on November 15, 1995.

John R. Mielke,
Acting Director.

[FR Doc. 95-28701 Filed 11-22-95; 8:45 am]
BILLING CODE 6351-01-P

New York Mercantile Exchange Proposed Futures Contract in Permian Basin Natural Gas

AGENCY: Commodity Futures Trading Commission.

ACTION: Notice of availability of the terms and conditions of proposed commodity options contract.

SUMMARY: The Commodity Futures Trading Commission previously published in the Federal Register a proposal of the New York Mercantile Exchange (NYMEX or Exchange) for designation as a contract market in Permian Basin natural gas futures (60 *Fed. Reg.* 53913). The Commission has determined, in this instance, to extend the comment period.

DATE: Comments must be received on or before December 18, 1995.

ADDRESS: Interested persons should submit their views and comments to Jean A. Webb, Secretary, Commodity Futures Trading Commission, Three Lafayette Centre, 1155 21st Street, NW., Washington, DC 20581. Reference should be made to the NYMEX Permian Basin natural gas futures contract.

FOR FURTHER INFORMATION CONTACT: Please contact Richard Shilts of the Division of Economic Analysis,

Commodity Futures Trading Commission, Three Lafayette Centre, 1155 21st Street, NW., Washington, DC 20581, telephone 202-418-5275.

SUPPLEMENTARY INFORMATION: Copies of the terms and conditions will be available for inspection at the Office of the Secretariat, Commodity Futures Trading Commission, Three Lafayette Centre, 1155 21st Street NW., Washington, DC 20581. Copies of the terms and conditions can be obtained through the Office of the Secretariat by mail at the above address or by phone at (202) 418-5097.

Other materials submitted by the NYMEX in support of the application for contract market designation may be available upon request pursuant to the Freedom of Information Act (5 U.S.C. 552) and the Commission's regulations thereunder (17 CFR Part 145 (1987)), except to the extent they are entitled to confidential treatment as set forth in 17 CFR 145.5 and 145.9. Requests for copies of such materials should be made to the FOI, Privacy and Sunshine Act Compliance Staff of the Office of the Secretariat at the Commission's headquarters in accordance with 17 CFR 145.7 and 145.8.

Any person interested in submitting written data, views, or arguments on the proposed terms and conditions, or with respect to other materials submitted by the NYMEX, should send such comments to Jean A. Webb, Secretary, Commodity Futures Trading Commission, Three Lafayette Centre, 1155 21st Street NW., Washington, DC 20581 by the specified date.

Issued in Washington, DC, on November 16, 1995.

Jean A. Webb,

Secretary of the Commission.

[FR Doc. 95-28702 Filed 11-22-95; 8:45 am]
BILLING CODE 6351-01-M

Customer Orders

AGENCY: Commodity Futures Trading Commission.

ACTION: Order.

SUMMARY: The Commodity Futures Trading Commission ("Commission") is defining a specified category of customer orders transmitted to and reported from exchange trading pits in an extremely rapid manner. With regard to such orders, an exchange can demonstrate substantial compliance with the objectives of Section 5a(b)(3)(B) of the Commodity Exchange Act ("Act") without its audit trail recording a transmittal timestamp on the order ticket.