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IPE sees off first Nymex assault
Buoyant trading on floor and screen

SGX fires salvo in Asian e-war
Brokers ask if system can take the strain

Election over, eyes turn to CFTC

CBoT delays Denali

IPE moves to block latest Nymex Brent ploy

Case building for NQLX Eurodollar

Fimat Sydney powers up

October volume round-up

Brumfield prepares to testify

Share windfall for Merc execs

Hunt for TT prior art

Little prospect of exchanges paying TT

New Eurex software closes ground on Connect

Scott Johnston interview

Editorial

Briefs

People

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IPE sees off first Nymex assault

Buoyant trading on floor and screen

Elliott Aykroyd

International Petroleum Exchange (IPE)'s 1 November switch of the morning Brent crude trading session from pit to screen seems so far to be paying off despite the challenge from New York Mercantile Exchange (Nymex)'s newly-launched Dublin trading floor.

Volumes at IPE were strong in the first three days of competition, with Nymex yet to make a serious dent in market share. IPE's morning electronic-only session saw around 14,000, 20,000 and 29,000 trades on the first three days respectively. Floor volumes in the afternoons were also healthy at 94,000, 73,000 and 80,000 for the corresponding days. In addition, volume for the overnight session between 2am and 10am has also picked up to around the 7-8,000 mark, compared with previous volume of around half that amount.

By contrast, volumes in Dublin began modestly and declined page 6 ▸

SGX fires salvo in Asian e-war

Brokers ask if system can take the strain

Rupert Lee

Singapore Exchange (SGX)'s early success in its e-Nikkei contract could see the electronic rollout of SGX's Taiwan index and Euroyen contracts by the first quarter of next year. The move will draw Taiwan Futures Exchange (Taifex) and Tokyo International Financial Futures Exchange (Tiffe), which offers competing products, into the 'e-war' that has been raging in the US and Europe.

SGX's 1 November launch saw more than 2,500 e-Nikkei lots traded during the day session, equivalent to15% of total SGX Nikkei (pit and electronic) day volumes. By day four, the percentage had risen to 25%.

Robert Tan, Head of Refco Asia, told *FO Week*, "the contract has been a success and more of our customers are now planning to move to electronic trading."

A source close to the exchange said, "broker support is there and more firms are enquiring about joining as market makers." SGX already has several but has declined to name the firms. "Rival exchanges might put pressure on the market page 4 ▸

THIS ISSUE:

▸ Election over, eyes turn to CFTC 2
▸ CBoT delays Denali 2
▸ IPE moves to block latest Nymex Brent ploy 3
▸ Case building for NQLX Eurodollar 3
▸ Fimat Sydney powers up 4
▸ October volume round-up 6
▸ New Eurex software closes ground on Connect 9
▸ Hunt for TT prior art 16
▸ **Scott Johnston interview 8,9**
▸ Briefs 10
▸ People 11
▸ Diary 12,13
▸ Comment 13
▸ Data 14,15

TT0103980

Election over, eyes turn to CFTC

Jim Kharouf

Following last week's election victory for President George Bush and the extension of the Republican majority in both houses, Congress is poised to address personnel issues at Commodity Futures Trading Commission (CFTC) and look at possible changes to futures legislation during the commission's reauthorisation.

The imminent change expected is the appointment of a Democrat to a commissioner's post at CFTC. Fred Hatfield, who served as chief of staff to Louisiana Senator John Breaux, is widely expected to gain Congressional approval, having been named by Bush last month (see *FO Week* Vol 9 No 41). Acting chairman Sharon Brown-Hruska is expected to be given a full term as chairman.

Along with current commissioner Walt Lukken, that would give CFTC three commissioners with two seats remaining vacant. Some industry sources say a package deal may be in the works between the two political parties to fill the remaining seats with a Republican and a Democrat. CFTC rules state that no more than three of the five commissioners can be from the same political party. Brown-Hruska and Lukken are both Republicans.

In the meantime, a subcommittee of the House Agriculture Committee plans to canvass exchanges and firms for a list of changes they would like to see implemented. Kansas Congressman Jerry Moran, head of the Subcommittee on General Farm Commodities and Risk Management, told *FO Week* that he plans to host hearings with exchanges and firms in Chicago and New York to get their input early next year, as well as Congressional hearings in Washington for regulators, legislators and futures participants.

"The CMFA [Commodity Futures Modernisation Act] currently gets a favourable response from the industry and there are not glaring problems," Moran said. "I think it is more likely that we will make minor adjustments rather than wholesale changes. But that will be determined by the hearing process."

CFTC's authorisation expires at the end of September next year, but Moran said he believes there will be a push to complete the process on time.

Futures Industry Association (FIA) executives have focused on changes to the self-regulatory powers of exchanges. There is also interest in clarifying CFTC's oversight powers of OTC fx trading, which is being challenged in court.

"With self-regulation, we believe it isn't perfect right now," said John Damgard, president of FIA. "My members have long felt that firms who have been competitive with open outcry have been fined for rules passed by guys with a floor mentality for the expressed purpose of punishing them."

Single stock futures also continue to draw some attention. OneChicago executives advocate changing rules to reduce margins from 20% to 15%. They also would like to see 60/40 tax treatment given to traders and would like regulators to allow portfolio margining. Having said that, OneChicago officials also say they believe they can continue to grow the product despite such obstacles.

Despite all of the talk of changes to the CFMA, there is some discussion about whether the act should be reopened at all. At a panel on reauthorisation during the FIA Expo in Chicago, exchange and trade group executives said opening the CFMA for minor changes can give an opening to unintended or unwelcome changes from Congress. For example, CFTC has been a strong opponent of major changes to exchange and OTC energy regulation.

Brown-Hruska said during the panel that opening the CFMA may give a foot in the door for legislators who want to apply much stronger regulations to that sector.

"If I look at the energy area in the last year, some of the things circulated around Capitol Hill as solutions to perceived problems are just an anathema," Hruska said. "They could have a real destructive effect on this industry and broadly on consumers."

CBoT delays Denali

Laurence Davison

Chicago Board of Trade (CBoT) has delayed the launch of Denali, a project designed to bring processing economies to trading pits, to 18 January next year. The project was initially slated for 25 October.

Explaining the delay, an spokesperson told *FO Week*, "CBoT is committed to delivering enhanced technology to its open auction trading floors in order to further improve upon the high quality trading environment offered by the exchange. Extending the implementation date will give us additional opportunity to incorporate and thoroughly test new functionality recently requested by the user community."

Testing on the new system was meant to occur between 4 October and 15 October, but no indication was given as to whether that happened.

The most important functionality included in Denali will be a trade matching application to link trades entered into the hand-held devices used by floor traders.

TT0103981

IPE moves to block latest Nymex Brent ploy

Elliott Aykroyd

International Petroleum Exchange (IPE) has moved to block a plan by New York Mercantile Exchange (Nymex) to offer exchanges of futures for futures (EFFs) in Brent crude. Nymex is considering offering EFFs, which would allow traders easily to move their open interest from IPE to Nymex's new Dublin trading floor.

However, IPE informed members that taking advantage of such a scheme would breach exchange rules. A circular stated, "we understand that another exchange is proposing to offer EFF on the IPE Brent crude futures contract… Members should be aware that the exchange does not offer EFF facilities and any pre-negotiation involving such a facility may result in members being in breach of their existing obligations under exchange regulations."

A spokesperson for Nymex told *FO Week*, "EFF would be something we'd like to do, but we are still reviewing regulatory issues."

IPE head of compliance Mike Sayers told *FO Week* the exchange has no demand for EFFs from members and "no method of entering into such a transaction,… although Nymex would be happy to accept exchange positions we don't think there's a facility under our rules which allows them to be transferred off our exchange".

The move is reminiscent of a recent rule interpretation by Chicago Mercantile Exchange that prohibited simultaneous block trades on two exchanges, effectively hindering large shifts of Eurodollar open interest to Euronext Liffe (see *FO Week* Vol 9 No 27).

Separately, IPE has defended its market against Nymex by introducing fee waivers on its own Brent contract for the morning electronic trading session and the afternoon's open outcry. Exchange transaction fees have been waived for electronically traded IPE Brent futures until 2pm UK time until 31 December and fees have been waived for white badge locals on IPE Brent open outcry futures until the same date.

In a bid to attract traders to Dublin, Nymex has implemented a waiver of all exchange fees for Brent crude futures, including out of hours transactions on the exchange's Access electronic platform. It is also offering a weekly stipend of $1,000 to traders who maintain a regular presence of at least four out of five working days on the Dublin floor. In addition, certain Brent trades are eligible for a 50 cent rebate per contract per side.

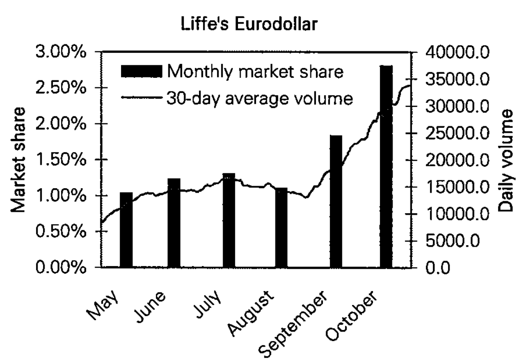
Case building for NQLX Eurodollar

Laurence Davison

Gradually increasing trading volume and open interest, combined with an increase in participation from US traders, could tip the balance in favour of listing Eurodollar futures on NQLX, according to a Euronext Liffe official.

George Anagnos, Liffe's head of business development in North America, said, "As open interest rises, I think our customers will start to say that there are too many advantages being missed by not listing on NQLX.… We have an enduring commitment to developing both the Eurodollar and our US market, and that's one of the reasons why we've kept the [NQLX] listing."

Trading in NQLX's single stock futures contracts will end next month. If there are no transactions page 4 ▸



TT0103082

Fimat Sydney powers up

Rupert Lee

Fimat Sydney has launched a brokerage service for Australia's annual 218 terawatt hour (TWh) electricity derivatives market.

The firm has hired a three-person Melbourne-based electricity broking team that was previously with Next Generation. The unit will compete with five other brokerages operating in the market, including ICAP, Prebon and Man Financial.

Toby Lawson, Managing Director of Fimat Sydney, told *FO Week* the team will broker all types of OTC electricity derivatives, renewable energy certificates, green power rights, gas certificates, carbon based products, weather derivatives and listed futures and options on Sydney Futures Exchange (SFE).

The exchange offers six electricity contracts under a joint venture with D-Cypha, a subsidiary of state-owned Transpower New Zealand. The SFE contracts, which effectively offer credit clearing, have seen more than 11,000 contracts traded so far in 2004, equivalent to around 28 TWh or 20% of the turnover in Australia's wholesale spot electricity market.

The electricity derivatives market consists of around 90 participants, although only 30 or so are active derivatives hedge players. Banks involved include Westpac, ANZ and SG. Lawson says SG's electricity trading desk is independent of Fimat's business.

Fimat says the turnover ratio between the spot physical market and the derivatives market has room to grow with the market considered "still in a growth phase".

NQLX Eurodollar

◂ page 3 in the following six months, the exchange will be considered dormant and have to be re-examined by Commodity Trading Futures Commission prior to future product launches.

Liffe has said that it plans to retain NQLX – the only US futures exchange wholly-owned by a non-US exchange – for new product listings. It has also said repeatedly that it is considering launching Eurodollars on NQLX, but has given few hints as to when a decision could be made.

One of the potential advantages of an NQLX Eurodollar listing would be the possible introduction of 60/40 tax status to Liffe's contracts; US participants trading Eurodollars on Chicago Mercantile Exchange currently receive the favourable tax treatment.

However, Liffe has so far held back on the listing because it would require trading to be handed over from Liffe to NQLX on a daily basis, which would complicate matters for European traders.

But if volume and open interest keep rising the case for listing on NQLX could prove compelling, according to Anagnos. He said Liffe has seen more trading in its Eurodollars from the US over the past two months, from both proprietary and institutional traders. The exchange set a daily volume record on 1 November, with 75,928 contracts traded, followed by another record – 93,115 – two days later. Open interest, meanwhile, has passed the 120,000 mark.

Anagnos added that LCH Clearnet (LCH-C) would be a "natural fit" to clear Eurodollar contracts on NQLX since being awarded Designated Clearing Organisation status in the US, but that no decision had been made. LCH-C has repeatedly said that its own plans for the extension of its US clearing business are also yet to be finalised.

■ Additional reporting by Mike Topping.

SGX fires salvo in Asian e-war

◂ page 1 makers to quit SGX," said the source.

However, some market participants have expressed concern that SGX does not have the required trading infrastructure in place to cope with the expected volume. A Singapore based broker told *FO Week* that the exchange needs to quickly lift capacity and iron out bugs before volumes increase.

"SGX is faced with problems that I believe to be structural in their race to meet the [launch] dateline. Should [electronic] volumes pick up, we may see further stress on the infrastructure," he said, adding that there has been a total of three periods of SGX lines being down since the launch of the new system in August. In addition, "some of the testing done by the exchange had been under sterile conditions with no considerations to bandwidth utilisation under real market conditions," he said.

However, others were more sanguine. A proprietary trader said, "people forget that Singapore's futures community has so little exposure to electronic trading. Events of the past few months with Globex and Liffe Connect are still reverberating. This is the first time members have had any significant demand for an electronic product. Some are only now connecting while a few vendors have only recently connected to the overhauled SGX back-end, so one would expect some teething problems."

Another dealer said, "Logically, the next step for the exchange is to rollout electronic day trading for the Taiwan index and the Euroyen. So increasing capacity and improving the system would already be a high priority for SGX."

Brokers say the rollout could be as early as Q1 2005 for the Taiwan index. As a result, Taifex, and eventually Tiffe when SGX's Euroyen is 'e-launched,' will be drawn into an increasingly global electronic war.

Meanwhile, Osaka Securities Exchange (OSE), which also offers the Nikkei 225 contract, has implemented moves to protect its turf. The exchange will extend its trading hours next month to start at the same time as SGX. OSE announced last week that it was widening its price limits (see *FO Week* Vol 9 No 43). Recently it updated its order processing capacity by 44% for Nikkei 225 futures. An OSE spokesperson told *FO Week* that "the trading system in Nikkei 225 Options [developed by Hitachi and designed by OSE] will be enhanced by the end of November."

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