

**Matters to Be Considered**

*November 8, 2000*

Budget Review/Update, Marine Protected Areas Report, Strategy for Development of "Views Paper" for Transition Team

*November 9, 2000*

Preparation of "Views Paper", Dialogue with Students of York College, Tour of Food and Drug Administration Laboratory in Queens

*November 10, 2000*

Steering Committee Report, Completion of "Views Paper"

Time will be set aside for public comment on agenda items.

**Special Accommodations**

These meetings are physically accessible to people with disabilities. Requests for sign language interpretation or other auxiliary aids should be directed to MAFAC (see ADDRESSES).

Dated: October 3, 2000.

**William T. Hogarth,**

*Deputy Assistant Administrator, National Marine Fisheries Service.*

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BILLING CODE 3510-22-S

**COMMODITY FUTURES TRADING COMMISSION****Application of onExchange<sup>SM</sup> Board of Trade, Inc. for Designation as a Contract Market in Five Year U.S. Treasury Note Futures Contracts**

**AGENCY:** Commodity Futures Trading Commission.

**ACTION:** Notice of availability of the terms and conditions of proposed commodity futures contracts.

**SUMMARY:** OnExchange<sup>SM</sup> Board of Trade, Inc. ("ONXBOT" or "Exchange") has applied for designation as a contract market for the automated trading of Five Year U.S. Treasury Note futures contracts on its electronic trading system, onTrade<sup>SM</sup>. The Exchange has not previously been approved by the Commodity Futures Trading Commission ("Commission") as a contract market in any commodity. Accordingly, in addition to the terms and conditions of the proposed futures contract, ONXBOT has submitted to the Commission proposed bylaws and rules pertaining to ONXBOT membership, governance, trading standards, disciplinary and arbitration procedures, and various other materials necessary to meet the requirements for a board of

trade seeking initial designation as a contract market, including a description of its trade-matching algorithm. ONXBOT's submission also includes various proposed bylaws and rules of the onExchange<sup>SM</sup> Clearing Corporation ("ONXCC"), an affiliate that would be responsible for clearing and settlement functions for the Exchange.

Acting pursuant to the authority delegated by Commission Regulation 140.96, the Division of Economic Analysis and the Division of Trading and Markets ("the Divisions") have determined to publish the Exchange's proposal for public comment. The Divisions believe that publication of the proposal for comment at this time is in the public interest, will assist the Commission in considering the views of interested persons, and is consistent with the Commodity Exchange Act. The Divisions seek comment pertaining to all aspects of ONXBOT's application and which address any issue commenters believe the Commission should consider.

**DATES:** Comments must be received on or before November 13, 2000.

**FOR FURTHER INFORMATION CONTACT:**

With respect to questions about the terms and conditions of ONXBOT's proposed futures contract, please contact Thomas M. Leahy, Jr., Chief of Financial Instruments, Division of Economic Analysis, Commodity Futures Trading Commission, Three Lafayette Centre, 1155 21st Street, NW, Washington, DC 20581; telephone number (202) 418-5278; facsimile number (202) 418-5527; or electronic mail: tleahy@cftc.gov. With respect to ONXBOT's and ONXCC's other proposed rules, please contact Lois J. Gregory, Special Counsel, Division of Trading and Markets, at the same address, by telephone at (202) 418-5483, by facsimile at (202) 418-5536, or by electronic mail at lgregory@cftc.gov; or Joshua R. Marlow, Attorney-Advisor, Division of Trading and Markets, at the same address, by telephone at (202) 418-5484, by facsimile at (202) 418-5536, or by electronic mail at jmarlow@cftc.gov.

**SUPPLEMENTARY INFORMATION:****I. Description of Proposal**

By letters dated September 12, 2000 and September 27, 2000, ONXBOT, a subsidiary of onExchange<sup>SM</sup>, Inc., has applied to the Commission for designation as a contract market for electronic trading of futures contracts in Five Year U.S. Treasury Notes. The Exchange has not previously been approved as a contract market in any commodity. Thus, in addition to the

terms and conditions of the proposed futures contract, ONXBOT has submitted, among other things, proposed bylaws and rules pertaining to ONXBOT membership rights and obligations, governance, trading standards, and disciplinary and arbitration procedures, along with a description of its trading system's trade-matching algorithm. ONXBOT's submission also includes various proposed ONXCC bylaws, rules, and procedures.

ONXBOT is organized as a Delaware corporation with one class of shares. All shares in ONXBOT are currently held by onExchange<sup>SM</sup>, Inc. OnExchange<sup>SM</sup>, Inc. is majority owned by its officers, employees, and venture capital investment firms. Once operational, the Exchange would be governed by a Board of Directors ("ONXBOT Board"), which would include seven directors elected by the shareholders and two public directors appointed by the seven non-public directors. The ONXBOT Board would appoint a Chairman of the Board, President, Secretary, and Treasurer, and the President would be the chief executive officer of the Exchange. ONXCC would similarly be governed by a Board of Directors that, among other things, would appoint a President as chief executive officer of the company.<sup>1</sup>

Trading privileges on ONXBOT would be limited to ONXBOT Subscribers, who would be required to qualify as Eligible Swap Participants under Commission Regulation 35.1(b)(2). Each Subscriber would be limited to trading for its own accounts, with no intermediation permitted. Subscribers could designate an unlimited number of Authorized Traders ("ATs") to exercise discretion over their trading accounts, and would be responsible for supervising all activities of their ATs relating to transactions effected on the Exchange or subject to its rules. Each Subscriber would also be responsible for training and testing its ATs with respect to the proper use of the Exchange and its rules. Any violation of the rules and bylaws of the Exchange by any AT would be deemed a violation of the AT's Subscriber.

<sup>1</sup> ONXCC is organized as a Delaware non-stock, membership corporation with two classes of members. Class A members of ONXCC are entitled to elect and remove directors, and decide all matters which require a vote of the corporation's members. Only the holders of Class A shares would be entitled to receive any dividends or distributions that may be declared or paid by the corporation. OnExchange<sup>SM</sup>, Inc. initially will be the sole Class A member. Class B members, comprised of all ONXBOT Subscribers, are not entitled to vote on any matter. ONXCC's Board would initially be comprised of three directors.

ONXBOT contracts would trade over onTrade<sup>SM</sup>, an electronic trading system developed by onExchange<sup>SM</sup> and accessed by Subscribers via the Internet.<sup>2</sup> Under the proposal, orders could be entered into onTrade<sup>SM</sup> only by ONXBOT Subscribers and their ATs. OnTrade<sup>SM</sup> would accept orders for purchase or sale of futures contracts, combination trades, and calendar spreads. Orders would be required to include user identity (including Subscriber identity), intention to buy or sell, quantity, designation as a "market order" or specification of a price limit, time period the order would remain open, and an activation price if designated as a stop order. Orders would be executed pursuant to a trade-matching algorithm that would give first priority to orders at the best prices, and then give priority among orders at the same price based upon time of entry into onTrade<sup>SM</sup>.<sup>3</sup>

ONXBOT also plans to permit Subscribers to execute block trades away from the trade matching system.<sup>4</sup> Both parties to the transaction must request a Block Order Trade ID from the Exchange in advance and then submit identical orders to ONXBOT within 10 minutes of obtaining such ID. The price designated for the block trade must be "fair and reasonable" in light of, among other factors, market liquidity, size of the transaction, and current market prices (including the underlying cash market and other related futures markets). ONXBOT would publicize details of the transaction immediately after receipt of such information.

All orders would be verified with ONXCC for sufficient margin assets prior to execution.<sup>5</sup> Upon execution, transaction data would be instantaneously transmitted to onClear<sup>SM</sup>, ONXCC's automated clearing system. The transaction would clear immediately, and electronic confirmation notices would then be sent to both parties. ONXCC would have a settlement account at each ONXCC

approved custody bank,<sup>6</sup> and would maintain at least one subcustody account for each ONXBOT Subscriber at an approved custody bank,<sup>7</sup> subject to the terms of an agreement between ONXCC and the custody bank.<sup>8</sup> Subscribers would deposit margin assets in these accounts for purposes of original margin, delivery margin, and variation margin.<sup>9</sup>

In the event of Subscriber default, ONXCC would take control of the Subscriber's open positions and would be empowered by ONXCC rules to take steps to ensure minimum market disruption, including the closing out of open positions and liquidation of margin assets. If such proceeds would be insufficient to cover the default, ONXCC could meet the shortfall from a number of sources, including its guaranty fund which will initially consist of \$10,000,000.<sup>10</sup>

ONXBOT's provisions for compliance and surveillance programs would include market surveillance, trade practice surveillance, disciplinary functions, financial surveillance in cases where onExchange<sup>SM</sup> is the Subscriber's designated self-regulatory organization, and arbitration. ONXBOT would secure an agreement with the National Futures Association to perform many of these functions. Investigations of any suspected violation of ONXBOT and ONXCC bylaws and rules by Subscribers or ATs would be presented to ONXBOT's Business Conduct Committee ("BCC"). If the BCC concludes that a violation may have occurred, it may authorize a settlement agreement, issue a warning letter, or

direct the enforcement staff to institute disciplinary proceedings. Disciplinary proceedings would be conducted in front of a hearing panel drawn from the Exchange's Hearing Committee, whose decision may be appealed to the Board. ONXBOT rules also would permit summary proceedings against Subscribers and ATs for certain violations. ONXBOT rules do not contemplate fines as penalties. Penalties resulting from disciplinary action would only include suspension or termination.

## II. Request for Comments

Any person interested in submitting written data, views, or arguments on the proposal to designate ONXBOT as a contract market should submit their comments by the specified date to Jean A. Webb, Secretary, Commodity Futures Trading Commission, Three Lafayette Centre, 1155 21st Street, NW, Washington, DC 20581. In addition, comments may be sent via facsimile to (202) 418-5521, or by electronic mail to [secretary@cftc.gov](mailto:secretary@cftc.gov). The Divisions seek comment on all aspects of ONXBOT's application for designation as a new contract market. Reference should be made to onExchange<sup>SM</sup> Board of Trade's application for designation as a contract market in Five Year U.S. Treasury Note futures contracts. Copies of the proposed contract's terms and conditions, as well as the proposed trading rules, clearing rules, and other governing rules of ONXBOT and ONXCC, are available for inspection at the Office of the Secretariat, or may be obtained at the above address or by telephoning (202) 418-5100.

Other materials submitted by ONXBOT may be available upon request pursuant to the Freedom of Information Act (5 U.S.C. 552), except to the extent that they are entitled to confidential treatment pursuant to 17 CFR 145.5 or 145.9. Requests for copies of such materials should be made to the Freedom of Information, Privacy and Sunshine Act compliance staff of the Office of the Secretariat at Commission headquarters in accordance with 17 CFR 145.7, 145.8.

Issued in Washington, DC, on October 10, 2000.

**Alan L. Seifert,**  
Deputy Director.

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<sup>2</sup> The proposed trading hours for Five Year U.S. Treasury Note futures would be from 8:20 a.m. to 3:00 p.m. EST.

<sup>3</sup> Subject to this priority, orders for combination trades would be executed, and the legs thereof would be priced, pursuant to an algorithm that gives priority to execution of each leg of the transaction as a separate transaction rather than to execution of the transaction at a differential, if the prices for the legs of the transaction are better than, or equal to, the differential price.

<sup>4</sup> ONXBOT also would permit Subscribers to execute exchanges of futures for physicals and exchanges of futures for swaps.

<sup>5</sup> OnExchange<sup>SM</sup>, Inc. representatives have informed Commission staff that this margin asset verification process would take place within a fraction of a second before trade execution.

<sup>6</sup> ONXCC rules do not preclude custody agreements with more than one custody bank. Initially, ONXCC plans to have only one custody bank, but might enter into other custody bank relationships in the future, in which case it would establish a master settlement account for the purpose of netting pays and collects across settlement accounts.

<sup>7</sup> Subscribers are permitted to have more than one trading account and more than one subcustody account.

<sup>8</sup> Assets in subcustody accounts would be held by ONXCC, subject to Commission regulations requiring segregation of funds at clearing organizations.

<sup>9</sup> Original margin will consist of an amount no less than any assets necessary to cover three consecutive days of "maximum price movement," as defined by each ONXBOT contract's terms and conditions.

<sup>10</sup> The guaranty fund would increase, as necessary, to provide an amount equal to 1% of the aggregate original margin required to be maintained by Subscribers at ONXCC. At no time, however, would it drop below \$10,000,000, regardless of the level of aggregate original margin, except when money from the fund has been applied to cover a Subscriber default. ONXCC would not have the power to impose assessments on non-defaulting Subscribers to cover shortfalls caused by the default of other Subscribers.