SUPPLEMENTARY INFORMATION: Under current rules for the CME Brazilian Real futures contract, the cash settlement price is the reciprocal of the exchange rate of reais per commercial U.S. dollars for cash delivery, according to the provisions of Resolution No. 1690/'90 of the Brazilian National Monetary Council. That rate is defined as the average transaction rate calculated by the Central Bank of Brazil (Central Bank), according to its criteria, and broadcast by SISBACEN, transaction PTAX 800, option 5–L,[1] on the last day of trading. In the event that the Central Bank does not determine and/or SISBACEN does not broadcast that exchange rate, CME rules provide for the declaration of an emergency pursuant to existing Exchange rule 3022.J.

The Exchange proposes to adopt, in its rules, backup procedures that would be used if the Central Bank does not determine, and/or SISBACEN does not disseminate, the exchange rate of Brazilian reais per commercial U.S. dollar on the last trading day of the subject contract. The backup cash settlement price would be based on the exchange rate derived from the CME's survey of financial institutions on the last day of trading. By implementing backup procedures in its rules, the CME would be able to avoid an emergency declaration in the event that the primary cash settlement price is not determined or published.[2]

The CME survey is conducted as follows. The CME surveys eight reference institutions from a list of at least twelve institutions that are active participants in the market for spot and/or non-deliverable forward markets. Beginning at 6:00 p.m. (Sao Paolo time), each randomly selected participant is asked for its perception of the average dollar offered rate at which spot transactions for Brazilian reais per commercial U.S. dollar occurred during the trading day, calculated in accordance with the Central Bank's methodology for transaction PTAX 800, option 5–L. The highest two and the lowest two offer rates are eliminated. The remaining four offer rates are averaged and the reciprocal of that average is the final settlement price.

If the CME is unable to obtain eight responses, but is able to obtain at least five responses, then the CME eliminates the highest and the lowest offer rate and averages the remaining offer rates. The final settlement price is the reciprocal of that average. If fewer than five responses are received, then the CME would invoke its existing emergency provisions.

The CME proposes to implement the changes to the proposed amendments to the cash settlement provisions upon Commission approval for application to existing and newly listed contracts beginning with the February 1999 contract month which expires on January 29, 1999.

The Division requests comment on the proposed changes and the proposal to implement the amendments to existing positions.

Copies of the proposed amendments will be available for inspection at the Office of the Secretariat, Commodity Futures Trading Commission, Three Lafayette Centre, 1155 21st St., NW, Washington, D.C. 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 amendments, 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 December 11, 1998.

John R. Mielke,

Acting Director.

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[1] According to the CME, the PTAX rate is the weighted average Brazilian real per U.S. dollar price of all transactions for that day plus the current value of 0.0004 real per U.S. dollar to obtain the average offered rate.

[2] In addition, the CME proposes a nonsubstantive amendment to clarify that the final settlement price is the reciprocal of the weighted average offered rate, rather than the weighted average transaction rate that is calculated by the Central Bank.

COMMODITY FUTURES TRADING COMMISSION

Proposed Amendments to the Standards for Deliverable Lumber on the Chicago Mercantile Exchange Random Lengths Lumber Futures Contract, Submitted Under Fast Track Review Procedures

AGENCY: Commodity Futures Trading Commission.

ACTION: Notice of availability of proposed contract market rule amendments.

SUMMARY: The Chicago Mercantile Exchange (CME or Exchange) has proposed amendments to the random lengths lumber futures contract to change the standards for deliverable lumber. Specifically, the Exchange proposes to disallow delivery of lumber produced from Alpine fir, to provide that lumber produced from hemlock-fir is not deliverable if the lumber is manufactured in Canada or in specified areas of Washington, Oregon, and California; to provide that lumber produced from spruce-pine fir is not deliverable if it is manufactured in those specified areas in Washington, Oregon, and California, and to clarify that lumber produced from species under the Engelmann Spruce/Lodgepole Pine designation is deliverable as a group. The proposals were submitted under the Commission's 45-day fast track procedures. The Acting 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 the proposals are of major economic significance, and that publication for comment is in the public interest, will assist the Commission in considering the views of interested persons, and is consistent with the purpose of the Commodity Exchange Act.[1]

DATES: Comments must be received on or before January 4, 1999.

[1] Section 5a(a)(12) of the Act, which requires the Commission to publish proposed rules of ''major economic significance,'' does not define the meaning of that term. Moreover, section 5a(a)(12) provides that the Commission's determination that proposed exchange rules are of major economic significance under that section is final and not subject to judicial review. The Commission staff has interpreted the meaning of ''major economic significance'' broadly as proposed rules which may have an effect on the pricing of a contract, on the value of existing contracts, on a contract's hedging or price basing utility, or on deliverable supplies. Section 5a(a)(12) does not define rules of ''major economic significance'' based upon a specific dollar impact on the economy or other such measures used in other statutes, such as those used in determining whether an agency rule is a ''major rule'' under 5 U.S.C. section 804(2).

ADDRESSES: 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. In addition, comments may be sent by facsimile transmission to facsimile number (202) 418–5521, or by electronic mail to secretary@cftc.gov. Reference should be made to CME random lengths lumber futures contract.

FOR FURTHER INFORMATION CONTACT: Please contact John Forkkio of the Division of Economic Analysis, Commodity Futures Trading Commission, Three Lafayette Centre, 1155 21st Street NW, Washington, DC 20581, telephone (202) 418–5281. Facsimile number: (202) 418–5527. Electronic mail: jforkkio@cftc.gov.

SUPPLEMENTARY INFORMATION: Under the rules of the random length lumber futures contract, lumber made from a variety of species is deliverable, including species grouped under the terms ''Spruce-Pine-Fir'' (SPF) and ''Hemlock-fir'' (HF). The CME noted that SPF number has been the pricing basis of the futures contract for many years, and that remains the benchmark for cash lumber prices. The CME further noted that futures deliveries of HF lumber have increased in recent months, due to a decline in HF lumber cash prices relative to the prices of SPF lumber. This has been caused by diminishing export demand for HF lumber to Asian countries resulting from the recent economic difficulties, which have adversely affected their construction industries.

The CME explained that, after receiving complaints about HF lumber deliveries and following a review of the market, it determined that many domestic cash market buyers view HF lumber as an undesirable product. In this regard, the CME stated:

* * * The Hemlock species is the source of this dissatisfaction, as it is said to produce lumber with working qualities that are inferior to SPF lumber even if the grade level is the same. Although Hemlock cannot be entirely separated from HF lumber, certain areas produce HF lumber that contains more Hemlock than other areas. Similarly, SPF lumber made from Alpine fir or Sitka Spruce (SS), predominantly U.S. coastal species, is seen as inferior. Most production of SPF lumber containing these species can be geographically separated from other areas of production.

To eliminate the areas where the proportion of Hemlock produced is greatest, the Exchange proposes that HF lumber produced in Canada and the Pacific coastal areas of the United States be eliminated from delivery. In addition, SPF lumber produced in the U.S. Pacific coastal area will be eliminated. Lastly, it is proposed that the species grouped under the term ''Engelmann Spruce/Lodgepole Pine (ES/LP)'' be made eligible for delivery as it is an acceptable substitute for SPF lumber. The separate species are already deliverable and the addition of this grouping will clarify the delivery species.

The [proposed] restricted areas [for ineligible SPF and HF lumber] * * * roughly correspond to those bounded by the Pacific Ocean and the summit of the Cascade Mountain range. The boundaries for Washington and Oregon are those defined by the Western Wood Products Association, a number of grading agency used by most western mills. The restricted areas are those that contain the highest proportion of lumber made from Hemlock, Alpine Fir and Sitka Spruce. The boundaries in California and Canada also delineate similar areas of production, as noted by industry representatives.* * *

The Exchange asserted that the proposed amendments would not raise concerns about potential manipulation of the futures contract, even though deliverable supplies would be somewhat diminished. This is due to the ready availability of lumber meeting the revised quality standards and the spot month speculative limit of 600 contracts which represents only 4.8% of monthly production, according to the Exchange. Finally, the CME notes that:

* * * fairly recent and rapid change has manifested itself in futures deliveries and caused uncertainty as to which species of lumber is being priced in the futures market. It is not yet clear what the longer term relationship will be between SPF and HF lumber prices. What is clear is that the uncertainty has resulted in a disruption of both long and short hedgers' basis relationships. This disruption has caused numerous participants to state that they will decrease their hedging activity. Long hedgers find themselves at risk of receiving delivery of product that was assumed to be SPF lumber but may actually be HF lumber with a lower cash value that the SPF lumber that they used as the basis for their futures contract purchase. In other words, they will get less than they paid for. Short hedgers who product SPF lumber are reluctant to sell futures contracts that may be priced at the lower prices that reflect HF lumber values. As SPF is the dominant lumber species, the loss of this hedging activity will severely affect the level of trading activity and reduce the usefulness of the futures contract for the lumber industry.

The CME proposes to implement the amendments for application to newly listed contracts only.

The Division requests comments on the proposed changes to the random length lumber futures contract. Specifically, the Division requests comment on the input of the proposals on deliverable supplies for the futures contract. Also, commenters are requested to comment on the extent to which the proposed charges would improve the hedging and pricing utility of the contract.

The proposed amendments were submitted pursuant to the Commission's fast track procedures for streamlining the review of futures contract rule amendments and new contract approvals (62 FR 10434). Under those procedures, the proposals, absent any contract action by the Commission, may be deemed approved at the close of business on January 19, 1999, 45 days after receipt of the proposals. In view of the limited review period provided under the fast track procedures, the Commission has determined to publish for public comment notice of the availability of the terms and conditions for 15 days, rather than 30 days as provided for proposals submitted under the regular review procedures.

Copies of the proposed amendments 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 can be obtained through the Office of the Secretariat by mail at the above address, by phone at (202) 418–5100, or via the internet on the CFTC website at *www.cftc.gov* under ''What's New & Pending''.

Other materials submitted by the CME is support of the proposals may be available upon request pursuant to the Freedom of Information Act (5 U.S.C. 552) and the Commission's regulations thereunder (17 C.F.R. Part 145 (1997)), except to the extent they are entitled to confidential treatment as set forth in 17 C.F.R. 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 Secretariat at the Commission's headquarters in accordance with 17 C.F.R. 145.7 and 145.8.

Any person interested in submitting written data, views, or arguments on the proposals, 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 Street NW, Washington, DC 20581 by the specified date.

Issued in Washington, DC, on December 11, 1998.

John R. Mielke,

Acting Director.

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