

15:44 14Sep2009 UPDATE 2-No plan to boost CME enforcement on limits -source

- * Source says no material changes after "routine" advisory
- * Timing said curious as CFTC mulls speculation crackdown

(Recasts, updates with additional comments, adds background; adds bylines)

By Joshua Schneyer and Jonathan Spicer

NEW YORK, Sept 14 (Reuters) - CME Group Inc <CME.O> will not boost enforcement of position limits on its exchanges, a source familiar with the plans told Reuters on Monday, after an advisory from the giant derivatives exchange warned traders of penalties for breaking the rules.

The source called the advisory on Friday "routine." The Commodity Futures Trading Commission has been mulling federal position limits on energy and other futures contracts to clamp down on speculators some say drive up energy prices.

Some traders and analysts noted the CME was under scrutiny as the Obama administration moves to overhaul financial markets. They suggested the exchange may be taking steps to preempt possible regulation that would hit trading volumes.

The source, who was not authorized to speak on the record, said the advisory was not in reaction to possible legislation.

"The advisory was simply trying to make it easier for clients. It's a routine thing and has nothing to do with CFTC," said the source, adding CME has no plans to change the process through which it grants exemptions to major traders to exceed nominal position limits for hedging purposes.

Chicago-based CME, which runs NYMEX, CBOT, and COMEX, has issued at least six "market regulation advisory notices" since the beginning of August. Asked whether the latest notice was linked to the CFTC's regulatory push, CME spokeswoman Mary Haffenberg said: "The advisory speaks for itself."

Still, traders and analysts expressed concern that Friday's market advisory notice, called Position Limits, Exemptions and Accountability, suggests CME's exchanges were preparing to toughen position limits or to stop offering exemptions.

The advisory comes as the CFTC and other agencies push to boost regulation of trading to curb speculation and volatile price swings in commodities. On Thursday, 20 U.S. lawmakers called on the CFTC to limit the number of energy

futures contracts that speculators can control. [ID:nN10394053]

"They're probably trying to show an effort to meet the CFTC halfway, in order to avert more significant regulation," said Roger Freeman, analyst at Barclays Capital, who added CME's intentions were still unclear.

Diego Perfumo, analyst at Equity Research Desk in Connecticut, said: "What the CME wants to do is move in line before the CFTC comes with a very strong approach. Clearly this (advisory) is related to oil and natural gas -- that's the area that they are mostly concerned."

TOUGH TALK

Friday's advisory contained tough language about enforcement of position limits on CME-controlled exchanges, with fines or penalties for violations. [ID:nN11461892]

"People seem worried about position limit fines and are covering," said one natural gas trader, requesting anonymity.

But the source said CME's advisory language is routine, and implies no material changes to the way position limits are enforced or exemptions granted.

CME official Chris Reinhardt told Reuters Friday the advisory was "housekeeping after the merger" to unify the rules of its exchanges. CME acquired the New York Mercantile Exchange in 2008 and the Chicago Board of Trade in 2006.

Some energy and commodities traders, as well as exchange executives, have warned that a possible regulatory crackdown on trading could drive traders to overseas markets.

"Speculators play a crucial role in markets on the long and short side. By eliminating a good chunk of the market, liquidity will suffer and dwarf the problem they are trying to correct," said Chris Jarvis, senior analyst at Caprock Risk Management, in Hampton Falls, New Hampshire.

Tighter position limits could hit trading on the CME as well as rival IntercontinentalExchange Inc <ICE.N>. ICE, subject to the position limits that CME sets in futures-linked contracts, has said it would prefer the CFTC set such limits. [ID:nN10394053] and [ID:nN03507775]

Edward Ditmire, analyst at Fox-Pitt Kelton, noted that futures exchanges tended to deal with firms that tripped position or accountability limits by ramping up supervision, so long as market integrity wasn't harmed, with the aim

of quickly returning to conformity.

"In today's climate of increased regulatory scrutiny, I think the exchange realizes that these procedures can be misconstrued as being too permissive of potentially dangerous situations, and has adopted a low or zero-tolerance policy in response," Ditmire said.

(Reporting by Joshua Schneyer and Jonathan Spicer; Additional reporting by Eileen Moustakis and Joe Silha; Editing by David Gregorio)

((Email: joshua.schneyer@thomsonreuters.com; +1 646-223-6051; Reuters Messaging: joshua.schneyer.reuters.com@reuters.net))

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