

MEMORANDUM

March 18, 1980

TO: Chairman Williams

FROM: Douglas Scarff, Director 
Division of Market Regulation

RE: Need for speculative activity in the
futures and options markets

This responds to your memorandum of December 4, 1979, requesting our views as to whether the observation of Leo Melamed, Special Counsel for the Chicago Mercantile Exchange is valid and/or applicable to options. Mr. Melamed suggested that in order to be viable a futures market probably must have at least 50 percent investor or speculative activity. 1/

Set forth below is a discussion of the contribution of speculators to the viability of the futures market followed by an examination of speculation in the options market. Because of the close structural and functional similarities between the two markets, we have no basis for concluding that the minimum amount of speculative participation necessary to maintain viability deviates significantly. We believe, however, that certain controls designed to diminish the potentially adverse aspects of speculation exist in the options market which are not present in the futures market. In particular, the presence of marketmakers on the floors of the options exchanges with the obligation to trade in a manner consistent with the maintenance of a fair and orderly market is designed to reduce the impact of short-term price volatility caused by speculative trading. Secondly, the existence of stringent suitability standards discourages the participation of investors for whom speculative strategies would be inappropriate.

With respect to this analysis, however, several caveats are in order. By stating that a certain minimum amount of speculative activity is necessary to maintain a viable futures market, Mr. Melamed is not commenting on the amount of speculator participation actually present in the market, but

1/ For purposes of this discussion the terms "investor activity" and "speculative activity" are treated as synonymous, and are referred to solely as "speculative activity" or "speculator participation" in order to avoid confusion when applied to the options market.

rather is presenting an unverified (and perhaps unverifiable) hypothetical proposition. Accordingly, our response is based primarily on inferences drawn from a comparison of the options and futures markets, rather than on direct observations made of the options market. Because of the hypothetical nature of our response, certain of the conclusions reached may not fully be borne out under the scrutiny of empirical study (assuming such a study were possible). It also should be noted that Mr. Melamed's statement and our response are generalizations and individual markets may deviate from the norm.

THE FUTURES MARKET

The futures market in commodities is composed of various organized exchanges whose purpose is to facilitate formalized trading in standardized commodity futures contracts. Commodity futures contracts are agreements to purchase or sell a specified quantity of a given commodity to be delivered during a designated month in the future at a price agreed upon at the time the contract is formed. Although a futures contract binds the seller to deliver or the purchaser to accept the underlying commodity at the contract price, it is estimated that only between one and three percent of all futures contracts actually result in delivery. The remainder are closed out prior to the delivery date through the purchase or sale of an offsetting futures contract, thereby extinguishing the delivery or acceptance obligations. 2/

The economic justification for the existence of the commodity futures market is that it serves as a medium through which the risks of short-term fluctuations in commodity prices are transferred from risk-avoiders to risk-seekers. Success in accomplishing this objective is the standard for measuring the viability of the futures market.

Risk-avoiders, collectively characterized as hedgers, either expect an adverse movement in the price of the underlying commodity, or recognize the possibility of such an occurrence. Generally, hedgers are entities whose commercial operations involve ownership of specific commodities for varying lengths of time, but whose earnings are derived primarily or exclusively from activities other than commodities trading. Hedgers include intermediaries such as warehousemen that engage

2/ Commodities Futures Trading Commission Regulation 1.46(a) (17 CFR 1.46) requires any futures commission merchant ("FCM") purchasing or selling a futures contract for the account of a customer, which will result in the customer simultaneously holding a long and a short position in the same contract, to immediately close out the customer's positions. Regulation 1.46(d), however, exempts purchases and sales constituting bona fide hedging transactions, and sales for purposes of making delivery during the delivery period.

in commodity futures trading to protect the value of their inventory by offsetting long cash positions with simultaneous short futures positions of equal magnitude. Hedgers customarily also include originators and consumers of commodities that seek to manage the risk exposure associated with commodities by entering into futures contracts in order to establish in advance cost and revenue factors for purposes of profit maximization and price regularization.

In order to accommodate successfully the commercial demand for hedging transactions, entities must exist that are willing to take opposite and equal positions. To a certain extent, the need for parties to take both sides of a futures contract can be fulfilled exclusively by hedgers. For example, an originator of a commodity seeking downside price protection can enter into a futures contract with a consumer of that commodity interested in fixing in advance a component of its operating expense. The demand for hedging transactions can be satisfied solely by hedgers, however, only if the demand for long positions is counterbalanced by the demand for short positions (or, alternatively stated, if the demand for long positions is counterbalanced by the supply of long positions). If this equilibrium is not achieved, a portion of the demand for hedging transactions will remain unsatisfied.

The facilitation of hedging by taking positions which hedgers are unwilling to assume is the institutional role of the speculator. A speculator is a risk-seeker whose profit is derived solely from fluctuations in commodity prices over fixed time intervals. A speculator generally has no interest in the underlying commodity, but rather takes either a long or an uncovered short position in a futures contract with the hope of closing out the contract at a profit prior to the delivery date. By assuming the risk that hedgers are seeking to avoid the activities of speculators complement the commercial needs of hedgers.

The reward offered the speculator in exchange for the assumption of risk is the potential for earning a substantial rate of return on a highly leveraged investment. A speculator purchasing a commodity to be delivered on a future date (i.e. taking a long position) profits to the extent the market price of the commodity on the close-out date, as reflected in the price of the futures contract, exceeds the contract price by an amount in excess of the transaction costs. Conversely, a speculator selling a commodity for future delivery (i.e. taking a short position) similarly profits by a decline in the market

price of the commodity. 3/ Since money does not change hands until the delivery date, the only investment required of purchasers and sellers of futures contracts is the amount of the margin deposit fixed by the futures exchanges. 4/ This limited investment entitles the investor to the full benefit of changes in the price level of the futures contract, which as a general rule fluctuates on a direct dollar-for-dollar basis with the cash or spot market price of the underlying commodity.

The minimum amount of speculator participation necessary to maintain a viable futures market depends primarily on the nature of the market and the character of its participants. In the futures market viability has dual aspects. In one sense speculators are needed to take the positions in the market opposite hedgers for which there is no participatory interest on the part of other hedgers. The extent to which speculators serve this purpose is, in part, contingent upon the diversity of views concerning future price fluctuations. When there is a broad range of price expectations, there is a greater tendency for hedgers unwilling to assume the risk of significant price deviations to be found on both sides of the hedge. Conversely, a high degree of consensus among prospective hedgers with respect to anticipated price movements would tend to create an imbalance in the supply and demand factors. For example, if a significant price decline is uniformly anticipated, the demand for short positions to hedge existing long positions would substantially exceed the supply, since the anticipated price decline would serve as a disincentive to hedge a short position. When supply and demand among prospective hedgers are in disequilibrium, speculators are required to compensate for the deficiency. Therefore, as price expectations among prospective hedgers tend toward uniformity, the proportionate need for speculators increases.

3/ All participants maintaining positions in the futures market are in contractual privity with the clearinghouse. When a contract is closed out cash settlements reflecting the difference between the contract prices of the long and short positions are made by or with the clearinghouse. The accounts of non-clearinghouse members must be cleared and settled through clearinghouse members.

4/ In futures trading, "margin" refers to the sum of money deposited by both buyers and sellers of futures contracts with the futures commission merchant as a guarantee of performance. Both initial and maintenance margin are set by the futures exchanges and usually represent about 5 to 10 percent of the value of the contract. A customer's futures position is periodically marked-to-market to assure that the funds on deposit remain sufficient to compensate for a default. See, T. Hieronymus, Economics of Futures Trading (2d ed. 1977), pp. 65.

In a second sense speculation contributes to the viability of a futures market by providing liquidity. In order for a futures market to function efficiently there must be a continuous availability of market participants willing to buy and sell futures contracts without substantial price concessions. In the absence of liquidity sufficient to provide price continuity, there is a tendency for the market to display short-term price fluctuations unrelated to the commercial market forces that control the prices of the underlying commodity. Since most participants have no intention of taking delivery of the underlying commodity, their participation in the market is contingent upon the ability to close out contracts prior to the delivery date at a price bearing a reasonable relationship to the market value of the contract. Price distortions resulting from inadequate liquidity increase the cost to all participants and, if persistent, eventually will cause the futures market to fail due to disuse.

The amount of speculative participation necessary to create adequate liquidity in a particular market depends upon the volume of the trading activity contributed by hedgers. If the number of hedging transactions, either in the form of inter-hedger or hedger-speculator transactions, is insufficient to create a reasonable degree of price continuity, then additional speculator participation consisting of inter-speculator transactions is required to supplement market volume.

The volume of trading necessary to create an adequately liquid futures market would appear to be less than the level of activity required in a conventional cash market. The futures market, unlike the cash market, operates within the boundaries of a limited time frame. 5/ Since most holders of futures contracts intend to close them out prior to the delivery date, the deadline imposed by the delivery date serves to generate liquidity by increasing the volume of transactions, thereby permitting a futures market to attain viability with relatively fewer participants. Because of this feature, attempts by participants to convert the futures market from a risk shifting medium to a delivery mechanism tend to give rise to significant liquidity problems, a concern most recently encountered in the silver futures market. The utilization of the futures market as a means of acquiring the underlying commodity by insisting

5/ The maximum duration of a futures contract varies according to the particular commodity. On the average trading is initiated approximately one year prior to the designated delivery date.

upon delivery diverts the function of the futures market from its original purpose and is contrary to the expectations of substantial portion of its participants. As the percentage of deliveries increases, pressure is exerted on the holders of uncovered short positions who find it increasingly difficult to execute close-out transactions. 6/ To avoid the resulting price discontinuity and the prospect of eventual market demise, greater participation is required to reduce the proportion of contracts on which delivery is requested to a level consistent with the maintenance of price continuity and market viability. 7/ The volume of participation necessary to produce a sufficiently liquid market, therefore, would appear to bear a direct relationship to the percentage of contracts that result in delivery. If, in order to provide adequate liquidity, the participation of speculators is required to supplement the volume of trading activity supplied by hedgers, the extent to which such speculation is necessary will similarly be directly related to deliveries.

THE OPTIONS MARKET

The options market, although displaying minor structural differences, performs the same economic function as the futures market. Whereas a futures contract, unless closed out, will culminate in delivery of the underlying commodity at the contract price on a specified date in the future, an options contract grants to the holder the right, which he may or may not exercise, to purchase in the case of a call, or sell in the case of a put, the underlying security at the strike price any time prior to the expiration of the contract. Beyond this difference, the markets are essentially comparable. Both are derivative markets that operate within the context of a fixed time intervals. The primary purpose of both is to serve as a medium for shifting risks of short-term price movements associated with asset ownership. Each, in addition, provides

6/ In an attempt to prevent a possible price squeeze or a cornering of the silver futures market the New York Commodities Exchange ("Comex") and the Chicago Board of Trade recently took steps to restrict the number of contracts potentially resulting in delivery. Trading was limited to liquidation contracts, preventing the opening of new contract positions. A ceiling was placed on the number of contracts any individual was permitted to hold, with the requirement that positions in excess of the ceiling to be liquidated according to a fixed schedule. New York Times, Jan. 7, 1980, p. D1, Jan. 9, 1980, p. D1, Jan. 22, 1980, p. D. 1.

7/ Any increase in the volume of speculator activity needed to infuse additional liquidity must consist of speculators that intend to execute close-outs rather than take delivery. If the additional participants intend to take delivery, the liquidity problem is merely compounded.

the opportunity for speculation by creating a highly leveraged investment instrument that offers the possibility of large profits, with the corresponding risk of substantial losses.

Hedging in the options market consists of the use of puts and calls to protect against adverse movements in the price of the underlying security. Investors with a long position in a security can insulate the value of their investment against a decline in the market value of the security by purchasing a put exercisable at the current market price. Similarly, investors maintaining a short position in a security can hedge against an increase in the market price through the purchase of a call. Entities that frequently use the options market for hedging purposes include securities professionals that employ options to control the risk exposure associated with dealer activities. For example, block positioners often utilize options to reduce the level of risk that accompanies the commitment of their own capital in order to facilitate block transactions. Hedgers also include institutional investors such as managers of investment funds and fiduciary accounts that employ the strategy of covered call writing for the purpose of adjusting the risk/reward parameters of a given portfolio or in an attempt to augment portfolio earnings. The writing of covered calls reduces the volatility in the rate of return of a particular portfolio by producing a steady income flow from the sale of call options, but, in turn, sacrifices the potential for earning large speculative profits, since the stock will be called away in the event the market price of the stock rises above the strike price. ^{8/} Because the writing of covered calls provides a cushion in the event of a price decline limited to the amount of the premium, the strategy serves only as a partial hedge.

As in the futures market, the facilitation of hedging activities requires the participation of speculators that seek to profit from short-term price movements in the underlying security. The strategies employed by speculators include the purchase of options without a position in the underlying security and the writing of uncovered options. A pure options

^{8/} Studies, including the Merton, Scholes and Gladstein Study cited in the Report of the Special Study of the Options Markets ("Options Study Report") (Dec. 22, 1978) casts considerable doubt on whether a covered call writing strategy will in the long-run increase portfolio earnings. The study concluded that realized capital losses and foregone capital gains will more than offset an augmented current earnings stream. Options Study Report, pp. 117-120.

buying strategy creates the opportunity for highly leveraged profits measured by the appreciation in the value of the option less transaction costs, but exposes the purchaser to the risk of losing his entire investment. Conversely, the sale of uncovered options provides a profit limited to the amount of the premium received less transaction costs, but at the risk of theoretically unlimited losses in the case of calls, and losses limited only by the exercise price in the case of puts. At any point during the term of the option, however, a party to an options contract can choose to convert unrealized gains or prevent the accumulation of further losses by liquidating an open position through the execution of a close-out transaction.

Although speculation of various degrees can be found among the full range of market participants, pure speculation would appear to be most prominent among public retail customers and professional marketmakers. The Harris study cited in the Options Study Report found that among individuals investing a total \$2,500 or less in options, 49 percent used some type of pure buying strategy without owning either the underlying stock or fixed-income securities. 9/ Similarly, marketmakers trading for their own accounts seek to profit from options trading by taking unhedged option positions either in anticipation of price movements or in response to perceived price disparities in the market. 10/

As in the futures market, the minimum level of speculator participation necessary to maintain the viability of the options market depends upon the extent to which the participation of hedgers alone can absorb the demand for hedging transactions and provide the necessary liquidity. Because of the close structural and functional resemblance of the options and futures markets, we perceive no basis for concluding that the minimum level of speculator involvement necessary to produce a viable market would deviate significantly.

9/ A Survey of Investors In the Listed Options Market, Louis Harris Associates for the American Stock Exchange, Inc., May 1976. Options Study Report, p. 115.

10/ The term "marketmaker" refers to market professionals designated as "marketmakers" on the Chicago Board Options Exchange, Incorporated ("CBOE"), the Midwest Stock Exchange, Incorporated ("MSE"), and the Pacific Stock Exchange, Incorporated ("PSE"); and professionals designated as "options specialists" or "registered options traders" on the American Stock Exchange, Inc. ("AMEX") and the Philadelphia Stock Exchange, Inc. ("PHLX").

Perhaps one of the most significant features common to both markets is the limited time frame in which they function. Since both markets operate within the context of fixed time parameters, the impending delivery date has the similar impact of reducing the threshold level of participation necessary to maintain viability. Although the number of contracts concluded by delivery in the options market marginally exceeds the percentage of deliveries in the futures market, 11/ this slight difference at a relatively low exercise rate would not seem to have a pronounced effect on liquidity. To the extent the higher delivery rate would have a tendency to impair liquidity, the impact would at least partially be offset by a reduced demand for close-out transactions resulting from the expiration of unexercised out-of-the-money options. 12/

Although the basic functional and structural similarities between the options and futures markets, in our view, dictates the conclusion that they do not differ significantly in terms of the minimum amount of speculator activity necessary to maintain viability, the following discussion presents three possible differences between the markets which theoretically could affect the relative amounts of necessary speculator participation.

1. Nature of the Market Instrument

In both the options market and the futures market the party purchasing a contract pays a premium. In the futures market the premium is included in the contract price and is represented by the increment by which the futures price exceeds the market price of the underlying commodity at the time the futures contract is formed. The premium generally reflects the carrying cost of the underlying commodity for the duration of the contract adjusted by price expectations. In the options market the premium is severed from the exercise price and becomes a separately identifiable and freely traded security, the acquisition of which requires an immediate cash outlay. The presence of this additional variable in the options market may conceivably broaden the range of possible hedging strategies and thereby, induce entry into the market of a more diverse body of hedging participants. In particular, the strategy of writing covered calls available only in the options

11/ As previously indicated, approximately 1 to 3 percent of futures contracts result in delivery. On the CBOE during a five year period from 1973-1977, 5.1 percent of opening purchase transactions in calls and 4.7 percent in puts culminated in delivery. Options Study Report, p.77.

12/ On the CBOE during the period from 1973-1977, 27.1 percent of all calls, and 12.6 percent of all puts expired unexecuted. Options Study Report p. 77.

market, ^{13/} may increase the opportunities for inter-hedger transactions, and thereby reduce the need for speculators to offset hedging demand. If, in fact, the existence of the additional variable creates a more diverse population of potential hedgers and such diversity produces a broader range of price expectations, then a conclusion that the option market requires proportionately less speculation would be indicated.

2. Nature of the Participants

As discussed previously, the need for speculators is partially a function of the diversity of price expectations among prospective hedgers. Hedgers in the futures market are originators or consumers of a particular commodity. Hedgers in the options market are investors in equity securities. Since it is probable that investors in securities represent a more heterogeneous group than owners of users of commodities, it is conceivable that potential hedgers of securities positions manifest a broader range of expectations regarding possible price movements than do prospective hedgers of commodity positions. On this basis it might be concluded that the options market could remain viable with a smaller proportion of speculators, assuming a higher volume of speculation was not required for liquidity purposes.

3. Quality of Market Information

In both the futures and options markets hedgers are motivated by the expectation of adverse price movements or the recognition of the possibility of such movements. Consequently, a market with a high degree of price forecastability

^{13/} While it is generally considered theoretically possible to match in the options market any position taken in the futures market through use of various stock/option combinations, whether the converse can be achieved is less clear. For example, the seller of an uncovered call option by applying the proceeds to the purchase of a put option in the same underlying security can duplicate the risk/reward parameters created by the sale of a futures contract. It would not seem, however, that the premium received upon the sale of an option could be duplicated by a futures trading strategy. Furthermore, when the factor of transaction costs is introduced, positions that in theory are equivalent may not be comparable as a practical matter.

would have a greater need for speculators, since the price expectations of hedgers would tend to converge on a consensus. Because price forecastability is, in part, a function of the availability of reliable information, presumably the market with the more predictive flow of information concerning factors affecting future prices would require a greater proportion of speculators.

The disclosure provisions of the Securities Act of 1933 and the Securities Exchange Act of 1934 make vast quantities of information potentially affecting stock and, therefore option, prices available to market participants. Such information encompasses both current market information, including last sale reports and current quotations, as well as information required to be disclosed by the issuers of securities. In the futures market similar facilities exist for the dissemination of last sale and quotation information, but there is no mandated disclosure by producers or originators of commodities. Participants in the futures market tend to rely on information that indicates impending shifts in the factors of supply and demand with respect to the underlying commodity as a basis for predicting future price changes. Whereas the information made available through mandated corporate disclosure presumably provides a reasonable basis for the projection of future earnings and the capitalization of projected earnings streams, future commodity prices more often have a tendency to be affected by the intervention of factors that are unpredictable. ^{14/} On the assumption that the disclosure requirements of the securities markets makes securities prices more predictable or that commodity prices are inherently less predictable, it is possible to conclude that a greater percentage of speculators are needed in the options market.

It is impossible to substantiate, without empirical study, whether the three factors discussed above, either individually or in the aggregate, have a perceptible impact on the relative amount of minimum speculator involvement. Without the benefit of such information we are not prepared to take a firm position, although we suspect that the impact of these distinctions in terms of necessary speculator participation is not appreciable.

As indicated, the function of speculation, in addition to accomodating the demand of hedging transactions, is to

^{14/} For example, factors such as weather, discovery of new sources of supply, labor disputes, and United States foreign trade policy have a significant impact on the performance of commodity prices. Price predictability is measured by the ability of participants in the futures market to anticipate changes in these factors.

contribute to market liquidity. When the hedging transactions alone are insufficient to provide the liquidity necessary to maintain market viability, speculators are needed to augment the volume of market activity. In this respect, we are likewise unable to discern any distinctions based on the nature of the markets which would dictate a significant deviation in the minimum level of speculator participation. There is, however, a particular feature of the options market which probably to some degree affects the necessary level of speculative activity. This feature does not relate the nature of the markets or their participants, but rather to regulatory controls. Current exchange rules prohibit any person or persons acting in concert, whether for hedging or speculative purposes, from maintaining a position in any options class in excess of 1000 contracts on the same side of the market. 14/ In contrast, bona fide hedging transactions in the futures market are exempt from the CFTC's position limit rules. 15/ By preventing certain prospective hedgers, particularly institutional investors and trading professionals, from engaging in hedging transactions they might otherwise undertake, the options position limits may have the effect of increasing the proportion of speculator participation needed to satisfy liquidity requirements. 16/

RESTRAINTS ON SPECULATION

While, in our view, the maintenance of viable options markets undoubtedly requires that some proportion of total

14/ CBOE rule 4.11 which is typical of these rules, prohibits a member from making an opening transaction for any account in which it has an interest or for the account of any customer if the transaction would result in "an aggregate position in excess of 1000 option contracts (whether long or short) of the put class and the call class on the same side of the market covering the same underlying security."

15/ 17 CFR 150.1(c)(1).

16/ While removal of position limits on bona fide hedging transactions would remove an impediment to greater hedger participation, it is uncertain to what extent the removal would merely produce larger block transactions, rather than enhance general market liquidity.

market activity be supplied by speculators, controls have been developed in the options markets that are designed to minimize the adverse effects of speculation. These controls can be contrasted with the restraints imposed on speculation in the futures markets.

A primary concern is that excessive speculation may have an adverse effect on fair and orderly markets by increasing the frequency of large price fluctuations caused by temporary imbalances between supply and demand. To minimize excess price volatility caused by speculative forces, the Commission and the options exchanges have adopted rules imposing on options marketmakers the obligation to conduct their trading activities in a manner consistent with the maintenance of fair and orderly markets. ^{17/} In contrast, entities performing a marketmaking function do not exist on the futures exchanges. Speculative swings in futures prices of considerable magnitude are sought to be contained by the imposition of daily price limits that establish a range within which prices can freely fluctuate, but cannot exceed, on a given day.

The existence of marketmakers in the option market is intended to provide market liquidity, depth and continuity by assuring, within reasonable limitations, that market participants are available to absorb short-term imbalances in supply and demand. Unlike the marketmaking system, however, the daily limit restrictions impose significant constraints on liquidity. When the market price of a futures contract moves beyond the daily limit trading is effectively halted. For example, when the market price falls below the daily limit, traders holding futures contracts can not liquidate their positions. This feature tends to render both hedging and speculation in futures considerably more risky than trading in options, and artificially restricts the operation of competitive market forces.

A second concern is that market participants engaged in speculation may include persons for whom the risks involved are inappropriate. To discourage speculation by such persons, the options exchanges have adopted customer suitability standards. For example, the rules of the CBOE provide that in order to recommend the sale of put option contract or the writing of uncovered call, a broker-dealer, after reasonable inquiry into a customer's investment objectives and financial circumstances,

^{17/} For example, CBOE Rule 8.7(a) provides that "(t)ransactions of a Market-Maker should constitute a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market, and no Market-Maker should enter into transactions or make bids or offers that are inconsistent with such a course of dealings.

must have "a reasonable basis for believing at the time of making a recommendation that the customer has such knowledge and experience in financial matters that he may reasonably be expected to be capable of evaluating the risks of such transaction, and such financial capability as to be able to carry such position in the option contract." 18/ In comparison, customer suitability standards for futures trading, to the extent that they exist, are generally less rigorous. In some cases the establishment of such standards is the responsibility of each individual futures commission merchant ("FCM"), thereby creating a competitive incentive to reduce standards to the lowest common denominator. 19/

CONCLUSION

Speculation serves a necessary function in the options market. By accomodating the demand to enter into hedging transactions and enhancing general market depth and liquidity, speculation contributes to the maintenance of a viable market. The porportion of speculation required to maintain options market viability, while probably not measurable, is nevertheless significant.

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18/ CBOE Rule 9.9 is comparable to the suitability standards of the other exchanges. The options exchanges have proposed, pursuant to a recommendation of the Options Study Report, to amend the rule by expanding this more rigorous suitability standard to include all opening transactions in options contracts.

19/ See, e.g. the suitability rule described by the Kansas City Board of Trade in its proposal before the CFTC to insitute trading in a futures contract based on the Value Line Index which specifies that each FCM develop an in-house customer suitability program to be filed with the KCBT.