***Disaggregated Commitments of Traders* Report**
Explanatory Notes

The Commodity Futures Trading Commission (Commission) began publishing a *Disaggregated Commitments of Traders* (Disaggregated COT) report on September 4, 2009. The first iteration of the report covered 22 major physical commodity markets; on December 4, 2009, the remaining physical commodity markets were included.[1]

The Disaggregated COT report increases transparency from the legacy COT reports by separating traders into the following four categories of traders: Producer/Merchant/Processor/User; Swap Dealers; Managed Money; and Other Reportables. The legacy COT report separates reportable traders only into "commercial" and "non-commercial" categories.

All of the COT reports provide a breakdown of each Tuesday's open interest for markets in which 20 or more traders hold positions equal to or above the reporting levels established by the CFTC. The reports are published in futures-only formats as well as futures-and-options-combined formats. The data are available in both a short format and a long format.[2]

The Disaggregated COT report is being published side-by-side with the legacy COT formats at least through the end of 2009. The Commission is soliciting comment on the new report and will review whether to continue to publish both side-by-side or to replace the legacy report with the new report.

This initiative for providing market transparency arises from the recommendation to disaggregate the existing "commercial" category in the Commission's September 2008 *Staff Report on Commodity Swap Dealers & Index Traders*.[3] Specifically, that report recommended:

> **Remove Swap Dealer from Commercial Category and Create New Swap Dealer Classification for Reporting Purposes:** In order to provide for increased transparency of the exchange traded futures and options markets, the Commission has instructed the staff to develop a proposal to enhance and improve the CFTC's weekly *Commitments of Traders* Report by including more delineated trader classification categories beyond commercial and non-commercial, which may include at a minimum the addition of a separate category identifying the trading of swap dealers.

[1] As a separate endeavor, staff is working to create a new disaggregated COT for all of the financial markets in a form that will improve the transparency of those markets. This may be different than the disaggregation being applied to the physical markets.

[2] The short format of the Disaggregated COT shows open interest held by the four categories of reportable traders. The data show, for each specific category of traders, the positions, the changes from the previous report, the percents of open interest, and the numbers of traders. The long format, in addition to the information in the short format, shows the total size of positions held by nonreportable traders (derived by subtracting total long and short "Reportable Positions" from the total open interest); the data by crop year, where appropriate; and shows the concentration of positions held by the largest four and eight traders.

[3] That report is available at http://www.cftc.gov/stellent/groups/public/@newsroom/documents/file/cftcstaffreportonswapdealers09.pdf

The *Disaggregated Commitments of Traders* Report

The Commission, by regulation, collects confidential daily large-trader data as part of its market surveillance program. The data, which also support the legacy COT report, is separated into the following categories:[4]

1) "Producer/Merchant/Processor/User,"
2) "Swap Dealers,"
3) "Managed Money," and
4) "Other Reportables."

Trader Classification

Staff use Form 40 data[5] and, where appropriate, conversations with a trader and other data available to the Commission regarding a trader's market activities to make a judgment on each trader's appropriate classification.

Some multi-service or multi-functional organizations have centralized their futures trading. In such cases, their Form 40 may show more than one of the new categories. Division of Market Oversight staff place each reportable trader in the most appropriate category based on their predominant activity. In most cases, the choice of category is clear, but in some cases judgment must be exercised by Commission staff as to what is a trader's predominant activity.[6]

Some parent organizations set up separately reportable trading entities to handle their different businesses or locations. In such cases, each of these entities files a separate Form 40 and is analyzed separately for determining that entity's proper Disaggregated COT classification.

A trader's classifications may change over a period of time for a number of reasons. A trader may change the different ways it uses the markets, may trade additional or fewer commodities, and may find that its client base evolves. These changes may lead to changes in classifications and categories and/or changes in the commodities to which a trader's various classifications apply. Moreover, a trader's classification may change because the Commission has received additional information about the trader.

[4] The four categories in the Disaggregated COT are derived from trader responses on the Form 40 (version of May 2000), including information contained on Schedule 1 of that form. (Available at http://www.cftc.gov/stellent/groups/public/@forms/documents/file/cftcform40.pdf).

[5] The Form 40 is required under CFTC Regulation 18.04 to be completed by reportable traders. Failure to file a Form 40, or failure to answer truthfully, is a violation of the Commodity Exchange Act and CFTC regulations, and violators are subject to criminal or administrative sanctions. An updated Form 40 is requested of a trader every 2 years, or more often at the discretion of CFTC staff, if the trader remains reportable. The Form 40 is subject to audits or spot checks as conditions warrant. CFTC staff members are available to large traders and their representatives to answer questions about the proper way to complete a Form 40 and to help interpret it in unusual circumstances.

[6] For example, a trader that has filed for an exemption from Federal position limits on the basis of their corn processing requirements would likely be placed in the producer/merchant/processor/user category, whereas an investment bank that seeks an exemption on the basis of their swaps activity in corn would likely be placed in the swap dealer category.

Content of the *Disaggregated Commitments of Traders* Report

Producer/Merchant/Processor/User
A “producer/merchant/processor/user” is an entity that predominantly engages in the production, processing, packing or handling of a physical commodity and uses the futures markets to manage or hedge risks associated with those activities.

Swap Dealer A **“**swap dealer” is an entity that deals primarily in swaps for a commodity and uses the futures markets to manage or hedge the risk associated with those swaps transactions. The swap dealer’s counterparties may be speculative traders, like hedge funds, or traditional commercial clients that are managing risk arising from their dealings in the physical commodity.

Money Manager A **“**money manager,” for the purpose of this report, is a registered commodity trading advisor (CTA); a registered commodity pool operator (CPO); or an unregistered fund identified by CFTC.[7] These traders are engaged in managing and conducting organized futures trading on behalf of clients.

Other Reportables
Every other reportable trader that is not placed into one of the other three categories is placed into the **“**other reportables” category.

Spreading
The Disaggregated COT sets out open interest by long, short, and spreading for the three categories of traders**—**“swap dealers,” “managed money,” and “other reportable.” For the “producer/merchant/processor/user” category, open interest is reported only by long or short positions. “Spreading” is a computed amount equal to offsetting long and short positions held by a trader. The computed amount of spreading is calculated as the amount of offsetting futures in different calendar months or offsetting futures and options in the same or different calendar months. Any residual long or short position is reported in the long or short column. Inter-market spreads are not considered.

Numbers of Traders
The sum of the numbers of traders in each separate category typically exceeds the total number of reportable traders. This results from the fact that, in the “swap dealers,” “managed money,” and “other reportables” categories, “spreading” can be a partial activity, so the same trader can fall into either the outright “long” or “short” trader count, as well as into the “spreading” count. Additionally, a reportable “producer/merchant/processor/user” may be in both the long and the short position columns. In order to preserve the confidentiality of traders, for any given commodity where a specific category has fewer than four active traders, the size of the relevant positions will be provided but the trader count will be suppressed (specifically, a “•” will appear for trader counts of fewer than four traders).

[7] An unregistered fund may have a Part 4 exclusion from CTA/CPO registration or be a non-U.S. entity that is unregistered. So called “hedge funds” are included in this category, regardless of whether they are registered.

Historical Data

Historical data for the Disaggregated COT report are (or soon will be) available back to June 13, 2006. Note that CFTC does not maintain a history of large-trader classifications, so, recent classifications had to be used to classify the historical positions of each reportable trader. Due to shifts in trader classifications over time (as discussed above), this "backcasting" approach diminishes the data's accuracy as it goes further back in time. Nonetheless, the data back as far as 2006 should be reasonably representative of trader classifications over that period.

Potential Limitations of the Data

Commission staff reviews the reasonableness of a trader's classification for many of the largest traders in the markets based upon Form 40 disclosures and other information available to the Commission. As described above, the actual placement of a trader in a particular classification based upon their predominant business activity may involve some exercise of judgment on the part of Commission staff. Some traders being classified in the "swap dealers" category engage in some commercial activities in the physical commodity or have counterparties that do so. Likewise, some traders classified in the "producer/merchant/processor/user" category engage in some swaps activity. Moreover, it has always been true that the staff classifies traders not their trading activity. Staff will generally know, for example, that a trader is a "producer/merchant/processor/user" but we cannot know with certainty that all of that trader's activity is hedging. Staff is working on improvements to the Form 40 and other methodologies in order to improve the accuracy of the trader classifications. When large reporting or classification issues are found, an announcement is made and corrections are published as quickly as possible.

Comparison of the *Disaggregated Commitments of Traders* Report to the Legacy *Commitments of Traders* Report and the *Commodity Index Trader Supplement* to the *COT* Report

The legacy COT reports divide reportable traders into the two broad categories of "commercial" and "non-commercial." The "commercial" trader category has always included producers, merchants, processors and users of the physical commodity who manage their business risks by hedging. It has also included swap dealers that may have incurred a risk in the over-the-counter (OTC) market and then offset that risk in the futures markets, regardless of whether their OTC counterparty was a commercial trader or a speculator. Those two categories of what has been reported as "commercial" traders are separately reported in the Disaggregated COT. The "non-commercial" category of the legacy COT included professional money managers (CTAs, CPOs, and hedge funds) as well as a wide array of other non-commercial (speculative) traders. These two categories of what has been reported as "non-commercial" traders are separately reported as "money managers" and "other reportables" in the Disaggregated COT.

The commodity index trader (CIT) supplement to the COT has been published for 12 agricultural commodities since January 2007. There is some relationship between "index traders" positions in that supplement and "swap dealer" positions in the Disaggregated COT, but there are specific differences. The "swap dealer" category of the Disaggregated COT includes some swap dealers that do no commodity index business and are, therefore, not in the Index Traders category of the CIT Supplemental. Also, the "index trader" category of the CIT supplement includes pension and other investment funds that place their index investment directly into the futures markets rather than going through a swap dealer. Those traders are classified as "managed money" or "other reportables" in the Disaggregated COT, depending on the specific details of their business and trading.