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## CFTC Glossary

### A Guide to the Language of the Futures Industry

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#### Co

**Combination:** [Puts](#) and [calls](#) held either long or short with different [strike prices](#) and/or [expirations](#). Types of combinations include [straddles](#) and [strangles](#).

**Commercial:** An entity involved in the production, processing, or merchandising of a commodity.

**Commercial Grain Stocks:** Domestic grain in store in public and private elevators at important markets and grain afloat in vessels or barges in lake and seaboard ports.

**Commercial Paper:** Short-term promissory notes issued in bearer form by large corporations, with maturities ranging from 5 to 270 days. Since the notes are unsecured, the commercial paper market generally is dominated by large corporations with impeccable credit ratings.

**Commission:** (1) The charge made by a [futures commission merchant](#) for buying and selling futures contracts; or (2) the fee charged by a futures broker for the execution of an order. Note: when capitalized, the word Commission usually refers to the CFTC.

**Commitments of Traders Report (COT):** A weekly report from the CFTC providing 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. Open interest is broken down by aggregate [commercial](#), non-commercial, and non-reportable holdings.

**Commitments:** See [Open Interest](#).

**Commodity:** A commodity, as defined in the [Commodity Exchange Act](#), includes the agricultural commodities enumerated in Section 1a(4) of the Commodity Exchange Act, 7 USC 1a(4), and all other goods and articles, except onions as provided in Public Law 85-839 (7 USC 13-1), a 1958 law that banned futures trading in onions, and all services, rights, and interests in which contracts for future delivery are presently or in the future dealt in.

**Commodity Credit Corporation:** A government-owned corporation established in 1933 to assist American agriculture. Major operations include price support programs, foreign sales, and export credit programs for agricultural commodities.

**Commodity Exchange Act:** The [Commodity Exchange Act](#), 7 USC 1, et seq., provides for the federal regulation of commodity futures and options trading. See [Commodity Futures Modernization Act](#).

**Commodity Exchange Authority:** A regulatory agency of the U.S. Department of Agriculture established to administer the [Commodity Exchange Act](#) prior to 1975. The Commodity Exchange Authority was the predecessor of the [Commodity Futures Trading Commission](#).

**Commodity Exchange Commission:** A commission consisting of the Secretary of Agriculture, Secretary of Commerce, and the Attorney General, responsible for administering the [Commodity Exchange Act](#) prior to 1975.

**Commodity Futures Modernization Act:** The [Commodity Futures Modernization Act of 2000](#) (CFMA), Pub. L. No. 106-554, 114 Stat. 2763, reauthorized the [Commodity Futures Trading Commission](#) for five years and overhauled the [Commodity Exchange Act](#) to create a flexible structure for the regulation of futures and options trading. Significantly, the CFMA codified an agreement between the CFTC and the [Securities and Exchange Commission](#) to repeal the 18-year-old ban on the trading of [single stock futures](#).



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**Commodity Futures Trading Commission (CFTC):** The Federal regulatory agency established by the Commodity Futures Trading Act of 1974 to administer the [Commodity Exchange Act](#).

**Commodity-Linked Bond:** A bond in which payment to the investor is dependent to a certain extent on the price level of a commodity, such as crude oil, gold, or silver, at maturity.

**Commodity Option:** An [option](#) on a commodity or a futures contract.

**Commodity Pool:** An investment trust, syndicate, or similar form of enterprise operated for the purpose of trading commodity futures or option contracts. Typically thought of as an enterprise engaged in the business of investing the collective or "pooled" funds of multiple participants in trading commodity futures or options, where participants share in profits and losses on a pro rata basis.

**Commodity Pool Operator (CPO):** A person engaged in a business similar to an investment trust or a syndicate and who solicits or accepts funds, securities, or property for the purpose of trading commodity futures contracts or commodity options. The commodity pool operator either itself makes trading decisions on behalf of the pool or engages a [commodity trading advisor](#) to do so.

**Commodity Price Index:** Index or average, which may be weighted, of selected commodity prices, intended to be representative of the markets in general or a specific subset of commodities, e.g., grains or livestock.

**Commodity Trading Advisor (CTA):** A person who, for pay, regularly engages in the business of advising others as to the value of commodity futures or options or the advisability of trading in commodity futures or options, or issues analyses or reports concerning commodity futures or options.

**Commodity Swap:** A [swap](#) in which the payout to at least one [counterparty](#) is based on the price of a commodity or the level of a commodity index.

**Confirmation Statement:** A statement sent by a [futures commission merchant](#) to a customer when a futures or options position has been initiated which typically shows the price and the number of contracts bought and sold. See [P&S \(Purchase and Sale Statement\)](#).

**Congestion:** (1) A market situation in which [shorts](#) attempting to cover their positions are unable to find an adequate supply of contracts provided by [longs](#) willing to liquidate or by new sellers willing to enter the market, except at sharply higher prices (see [Squeeze](#), [Corner](#)); (2) in [technical analysis](#), a period of time characterized by repetitious and limited price fluctuations.

**Consignment:** A shipment made by a producer or dealer to an agent elsewhere with the understanding that the commodities in question will be cared for or sold at the highest obtainable price. Title to the merchandise shipped on consignment rests with the shipper until the goods are disposed of according to agreement.

**Contango:** Market situation in which prices in succeeding delivery months are progressively higher than in the nearest delivery month; the opposite of [backwardation](#).

**Contract:** (1) A term of reference describing a unit of trading for a commodity future or option; (2) an agreement to buy or sell a specified commodity, detailing the amount and [grade](#) of the product and the date on which the contract will mature and become deliverable.

**Contract Grades:** Those [grades](#) of a commodity that have been officially approved by an exchange as deliverable in settlement of a futures contract.

**Contract Market:** A board of trade or exchange designated by the [Commodity Futures Trading Commission](#) to trade futures or options under the [Commodity Exchange Act](#). A contract market can allow both institutional and retail participants and can list for trading futures contracts on any commodity, provided that each contract is not readily susceptible to [manipulation](#). Also called **designated contract market**. See [Derivatives Transaction Execution Facility](#).

**Contract Month:** See [Delivery Month](#).

**Contract Size:** The actual amount of a commodity represented in a contract.



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**Contract Unit:** See [Contract Size](#).

**Controlled Account:** An account for which trading is directed by someone other than the owner. Also called a [Managed Account](#) or a [Discretionary Account](#).

**Convergence:** The tendency for prices of physicals and futures to approach one another, usually during the delivery month. Also called a "narrowing of the [basis](#)."

**Conversion:** A position created by selling a call option, buying a put option, and buying the underlying instrument (for example, a futures contract), where the options have the same [strike price](#) and the same [expiration](#). See [Reverse Conversion](#).

**Conversion Factors:** Numbers published by futures exchanges to determine [invoice prices](#) for debt instruments deliverable against bond or note futures contracts. A separate conversion factor is published for each deliverable instrument. Invoice price = Contract Size X Futures Settlement Price X Conversion Factor + Accrued Interest.

**Core Principle:** A provision of the [Commodity Exchange Act](#) with which a [contract market](#), [derivatives transaction execution facility](#), or [derivatives clearing organization](#) must comply on an ongoing basis. There are 18 core principles for contract markets, 9 core principles for derivatives transaction execution facilities, and 14 core principles for derivatives clearing organizations.

**Corner:** (1) Securing such relative control of a commodity that its price can be [manipulated](#), that is, can be controlled by the creator of the corner; or (2) in the extreme situation, obtaining contracts requiring the delivery of more commodities than are available for delivery. See [Squeeze](#), [Congestion](#).

**Corn-Hog Ratio:** See [Feed Ratio](#).

**Correction:** A temporary decline in prices during a [bull market](#) that partially reverses the previous rally. See [Bear Market Rally](#).

**Cost of Tender:** Total of various charges incurred when a commodity is certified and delivered on a futures contract.

**COT:** See [Commitments of Traders Report](#).

**Counterparty:** The opposite party in a bilateral agreement, contract, or transaction, such as a swap. In the retail foreign exchange (or Forex) context, the party to which a retail customer sends its funds; lawfully, the party must be one of those listed in Section 2(c)(2)(B)(ii)(I)-(VI) of the Commodity Exchange Act.

**Counterparty Risk:** The risk associated with the financial stability of the party entered into contract with. Forward contracts impose upon each party the risk that the counterparty will default, but futures contracts executed on a designated [contract market](#) are guaranteed against default by the [clearing organization](#).

**Counter-Trend Trading:** In [technical analysis](#), the method by which a trader takes a position contrary to the current market direction in anticipation of a change in that direction.

**Coupon (Coupon Rate):** A fixed dollar amount of interest payable per annum, stated as a percentage of principal value, usually payable in semiannual installments.

**Cover:** (1) Purchasing futures to offset a short position (same as Short Covering); see [Offset](#), [Liquidation](#); (2) to have in hand the physical commodity when a short futures sale is made, or to acquire the commodity that might be deliverable on a short sale.

**Covered Option:** A short call or put option position that is covered by the sale or purchase of the underlying futures contract or other underlying instrument. For example, in the case of options on futures contracts, a covered call is a short call position combined with a long futures position. A covered put is a short put position combined with a short futures position.

**Cox-Ross-Rubinstein Option Pricing Model:** An [option pricing model](#) developed by John Cox, Stephen Ross, and Mark Rubinstein that can be adopted to include effects not included in the [Black-Scholes Model](#) (e.g., early exercise and price



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supports).

**CPO:** See [Commodity Pool Operator](#).

**Crack Spread:** (1) In energy futures, the simultaneous purchase of crude oil futures and the sale of petroleum product futures to establish a refining margin. See [Gross Processing Margin](#). (2) Calculation showing the theoretical market value of petroleum products that could be obtained from a barrel of crude after the oil is refined or cracked. This does not necessarily represent the refining margin because a barrel of crude yields varying amounts of petroleum products.

**Credit Default Option:** A put option that makes a payoff in the event the issuer of a specified [reference asset](#) defaults. Also called **default option**.

**Credit Default Swap:** A bilateral over-the-counter (OTC) contract in which the seller agrees to make a payment to the buyer in the event of a specified [credit event](#) in exchange for a fixed payment or series of fixed payments; the most common type of [credit derivative](#); also called **credit swap**; similar to [credit default option](#).

**Credit Derivative:** An over-the-counter (OTC) derivative designed to assume or shift credit risk, that is, the risk of a [credit event](#) such as a default or bankruptcy of a borrower. For example, a lender might use a credit derivative to hedge the risk that a borrower might default or have its credit rating downgraded. Common credit derivatives include [credit default options](#), [credit default swaps](#), [credit spread options](#), [downgrade options](#), and [total return swaps](#).

**Credit Event:** An event such as a debt default or bankruptcy that will affect the payoff on a credit derivative, as defined in the derivative agreement.

**Credit Rating:** A rating determined by a rating agency that indicates the agency's opinion of the likelihood that a borrower such as a corporation or sovereign nation will be able to repay its debt. The rating agencies include [Standard & Poor's](#), [Fitch](#), and [Moody's](#).

**Credit Spread:** The difference between the yield on the debt securities of a particular corporate or sovereign borrower (or a class of borrowers with a specified credit rating) and the yield of similar maturity Treasury debt securities.

**Credit Spread Option:** An option whose payoff is based on the [credit spread](#) between the debt of a particular borrower and similar maturity Treasury debt.

**Credit Swap:** See [Credit Default Swap](#).

**Crop Year:** The time period from one harvest to the next, varying according to the commodity (e.g., July 1 to June 30 for wheat; September 1 to August 31 for soybeans).

**Cross-Hedge:** Hedging a cash market position in a futures or option contract for a different but price-related commodity.

**Cross-Margining:** A procedure for margining related securities, options, and futures contracts jointly when different [clearing organizations](#) clear each side of the position.

**Cross Rate:** In foreign exchange, the price of one currency in terms of another currency in the market of a third country. For example, the exchange rate between Japanese yen and Euros would be considered a cross rate in the U.S. market.

**Cross Trading:** Offsetting or noncompetitive match of the buy order of one customer against the sell order of another, a practice that is permissible only when executed in accordance with the [Commodity Exchange Act](#), CFTC rules, and rules of the exchange.

**Crush Spread:** In the soybean futures market, the simultaneous purchase of soybean futures and the sale of soybean meal and soybean oil futures to establish a processing margin. See [Gross Processing Margin](#), [Reverse Crush Spread](#).

**CTA:** See [Commodity Trading Advisor](#).

**CTI (Customer Type Indicator) Codes:** These consist of four identifiers that describe transactions by the type of customer for



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which a trade is effected. The four codes are: (1) trading by a person who holds trading privileges for his or her own account or an account for which the person has discretion; (2) trading for a clearing member's proprietary account; (3) trading for another person who holds trading privileges who is currently present on the trading floor or for an account controlled by such other person; and (4) trading for any other type of customer. Transaction data classified by the above codes is included in the trade register report produced by a clearing organization.

**Curb Trading:** Trading by telephone or by other means that takes place after the official market has closed and that originally took place in the street on the curb outside the market. Under the [Commodity Exchange Act](#) and CFTC rules, curb trading is illegal. Also known as [kerb trading](#).

**Currency Swap:** A [swap](#) that involves the exchange of one currency (e.g., U.S. dollars) for another (e.g., Japanese yen) on a specified schedule.

**Current Delivery Month:** See [Spot Month](#).

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