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From: PamelaDThornton@aol.com
Sent: Tuesday, November 04, 2008 8:03 AM
To: secretary
Subject: proposed rules for trading off centralized market

2008 NOV -4 AM 11: 52

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COMMENT

C.F.T.C. OF THE SECRETARIAT

2008 NOV -4 AM 9: 37

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Dear Sir/Madam

Would like to contribute the following comment to the discussion about block trading

I have been, for almost 30 years, a physical commodity trader with experience primarily in softs. I have worked for large organizations, such as Cargill and Phibro, but currently work for a commodity fund. I have been a NYBOT cocoa committee member for many years. The views expressed herein are mine rather than those of my employers.

Careful analysis is needed before we make adjustments that could have serious consequences for the long-term health of the markets. This is because all markets are not the same. The depth, liquidity and diversity of a global market, such as crude, is not comparable to that of a small "niche" market such as cocoa.

I believe that allowing unregulated "block" trading represents one such adjustment. In theory, it enables large financial houses to do business in a convenient user-friendly way. In reality, it allows big houses to agree trades at prices that are not set in the marketplace but rather the result of discussion between 2 private entities. These trades then, almost surreptitiously, enter into the historical record of the open marketplace, thereby potentially impacting the positions and exposure of an un-quantifiable number of other users, none of whom have had the opportunity to participate in said trades. In one fell swoop, they represent a complete abandonment and reversal of long-standing CFTC "sacred cows" – the need for trades to be neither pre-arranged nor non-competitive. Further, in so far as block trades are not limited to proprietary traders, there is a risk that even while allowing large customer orders to be executed, (the main rationale for the trades?) they also expose said customers to specially arranged prices which are not necessarily reflective of market conditions. As per general economic commonsense, not allowing an open marketplace normally leads to price distortions.

While acknowledging that, at least until recently, there was growing investment interest in commodity trading, I believe that permitting block trades will potentially eliminate the market-makers who provide liquidity and drive out the smaller, less-well capitalized proprietary businesses who cannot expose their balance sheets to the risks such large trades pose. When the investment community moves on to a "hotter" sector, they could, as a consequence, leave behind an empty

shell .

I would propose that the CFTC seeks to accommodate large trades by freely allowing market players to discuss potential trades away from the market place but unless, and until, the existing marketplace proves demonstrably unable to handle such orders ,insists that the trades themselves are placed on the various trading platforms in order that the entire trading community can participate if desired.If it is deemed absolutely necessary that certain types of trades be "blocked" then the conditions (probably largely ones of volume, timing and reporting) under which such trades are permitted, should be determined in the old time-tested way.This required proposals to be discussed in depth by the individual commodity committees who would then make recommendations to the main board of directors. Such committees are made up experienced users from all market sectors-physical trade houses,industry,fcms,funds etc and as such they should represent the views of all stake-holders. Decisions are taken by vote-with important ones by a secret ballot.This helps ensure the independence of the voters who in their role as committee members are supposed to consider the best interests of the market as a whole,not just those of their particular special interest group. This seems preferable to the current situation whereby maximising the short-term profits of existing exchange shareholders,seems to be the principal operating procedure.

I should add that allowing the committees to establish the optimal trading hours for their markets would also be beneficial as these represent the human beings who press the buttons to trade.The platform is an inanimate object that does not require sleep but while the markets are open,regardless of whether a trader wants to trade,they have potential exposure on open positions. Giving the trading community input into hours of operation would help ensure long-term liquidity.

Yours truly

Pam Thornton

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