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EMF FINANCIAL PRODUCTS, LLC

OFFICE OF THE SECRETARIAT

June 30, 2005

Office of the Secretariat at CFTC
3 Lafayette Center
1155 21st Street NW
Washington, D.C. 20581

Dear Secretary,

The recent CBOT proposal to limit open interest on financial futures starting with the December 2005 contracts is deeply flawed for several reasons. First among the reasons is that both the CBOT and the CFTC have repeatedly assured us and other market participants that there would be no changes in specifications made to contracts with existing open interest. Open interest in TYZ5 as of June 29, 2005 was 109,702 contracts, or nearly $11 billion in cash equivalents. As traders, we rely on the word of the CBOT and the CFTC in building our book of trades. Accordingly, we relied on the affirmative assurance that there would be no changes to the TYZ5, but that there could be changes to TYH6.

Further, it is extremely important to realize that the contract does not exist in a vacuum, but in fact, is an expression of the value of the underlying deliverable securities. When you change position limits, you affect the likely open interest in the contract. This affects the financing value of those securities most likely to be delivered. If open interest is large then the financing value of the CTD is likely to be very strong. If you reduce open interest, then you reduce the value of the CTD issue in financing. A change in the term financing of the CTD affects the value of the CTD security directly. It is demonstrable that an action which limits open interest reduces the value of the term financing for the CTD which reduces the value of the CTD in the cash market. This in turn affects the value of the futures contract which is a derivative of that basket of deliverable securities. In the case of TYZ5, the CTD issue, 8/12, cheapened in term financing from 2.25% to 2.50% on the day following the proposed rule change. A 25 basis point change in a 6 month term financing is worth $1,250 per million, or approximately 4/32nds. The key point is that TYZ5, 8/12 cash, and 8/12 term financing are inextricably intertwined. It is specious to argue that changes in position limits do not affect the value of the contract. Generically, anything that limits open interest affects the financing and cash value of probable CTD issues and therefore the value of the contract.

If the CBOT deferred the implementation of the proposed position limits until March 2006 they would both respect their promise to not change specifications on contracts with existing open interest, and would avoid damaging futures customers with open interest in December contracts who relied on that promise. Since there is effectively no open interest in any futures contract to March 2006, we are formally requesting that the implementation of the proposed open interest limitations be deferred until the March 2006 cycle.

Very truly yours,

Em F

Eric M. Flanagan
President

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