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08-9  
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secretary

From: jeremy galland [jeremygalland@gmail.com]

Sent: Wednesday, October 29, 2008 7:31 PM

To: secretary

Subject: CFTC's proposed rules for TRADING OFF THE CENTRALIZED MARKET

10/30/08

OFFICE OF THE SECRETARIAT

2008 OCT 30 AM 10:02

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Referencing PROPOSED RULES FOR TRADING OFF THE CENTRALIZED MARKET

Attention: Office of the Secretariat

**COMMENT**

Suggesting a strict minimum volume rule of 1% of total open interest as it relates to the related underlying futures market for the many smaller commodity products of Chicago and NY.

The off-the-floor block trading and trading away from the centralized market has been implemented, enforced, and practiced in a way that should be seen as an embarrassment to the CFTC and the US exchanges involved.

There are too many re-proposed rules, guidance and acceptable practices. There are too few knowledgeable employees at the US exchanges to handle a review of each trade that occurs off the centralized market or even the many suspect trades identified by market participants.

As it relates to options trading in the smaller markets of the Chicago and New York commodity products, the current rules and the push by exchanges for these types of non-competitive trades reeks of Grimms fairy tale The Golden Goose. The exchanges are chasing after volume in a short sighted manner typical of badly managed financial companies. Non competitive trading is harming customers, decreasing market liquidity, and forcing market makers to leave smaller markets where access to fair trading has been diminished.

A simple hard rule to allow this type of trading should be put into place. The trades that have been crossing the tape do not in any way meet the regulations guideline that trading should only occur away from the centralized market when there is a compelling reason to do so.

Off market non-competitive trades in the 100 lot size during the main markets open hours are an embarrassment to the concept of best bid-best offer trading that has protected the interests of all market participants.

Similarly, prices that cross the tape at implied volatilities that clearly show one side was taken advantage of, are occurring too often to believe that long term customers are not being lost to greedy upstairs trading floors who can trade against their own distressed customers or simply skew their quotes against their customers initial positions.

If the CFTC and the US exchanges continue to think that there needs to be a way to allow large customers to make each other markets in private there are ways to make the rules such that liquidity for other customers isn't harmed in the short term or the long term. For the smaller markets of Chicago and New York's commodity products no trade should be allowed to occur off market unless the volume represents at least one-percent of the underlying futures markets' total open interest for all months combined. For commodity futures with open interest of less than 250,000 in all the months combined,

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the minimum non-competitive trading size needs to be large enough to discourage medium sized trades from avoiding the best bid-best offer markets creating the viability of those individual products. Current rules are allowing 50 lot and 100 lot trades to occur off market, where the centralized market is typically quoting other customers with liquid depth of 500 lot and 1000 lot market quotes. What possible compelling reason could have existed to cross those trades or pre-arrange those trades away from the competitive and transparent central market. Even with these higher minimum volume limits customers will still be at risk and harmed if volume and liquidity disappear from the central marketplace and appear in private trades with no obvious compelling reason for its secrecy or pricing.

Do not be afraid to completely throw out the current non-competitive off the central market trading practices. Those words themselves are too clear to not recognize how these types of trading practices can result in abuse and damage to the long term health of these commodities markets.

The ICE and CME/NYMEX group have done many things to promote the health and viability of their products. They have successfully protected the rights and needs of their diverse customer base for many years. Their large markets and smaller markets are helping customers manage their businesses and risk. In this one instance, the CFTC and the exchanges are harming their smaller less-liquid markets by applying weak and flexible rules and guidelines that are removing customers, liquidity, transparency, and best price available competition from the markets that are always most at risk of becoming too small and too illiquid for market participants needs.

I would suggest, that for commodity markets that begin any quarter with less than 250,000 open interest in the underlying futures markets, that Trading Off The Centralized Market should be severely limited. At a minimum, a trade must be of at least 1% of the underlying futures market total open interest for that trade to begin to meet the "compelling reason" guideline. Smaller volumes for futures should be trading on the very fair and transparent electronic screens. Smaller volumes for options should be trading on the very fair and transparent open-outcry centralized market pits or related options trading screens.

Thank you for considering this comment and opinion.

Jeremy Galland

available for further discussion at 212-693-3700 or [jgalland@alum.mit.edu](mailto:jgalland@alum.mit.edu)