From: katrina.gnader@gmial.com
Sent: Thursday, November 18, 2010 10:55 PM
To: dfarulemakings <dfarulemakings@CFTC.gov>
Subject: Comments on Rulemakings Required by the Dodd-Frank Wall Street Reform Act

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November 18, 2010

David Stawick
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

Dear Mr. Stawick:

I am writing to urge the Commission and its staff to consider the following comments on several key areas requiring rulemakings under Title VII of the Dodd-Frank Wall Street Reform Act.

This legislation seeks to reverse the irresponsible deregulation of markets that has occurred over the past two decades. This deregulation resulted in an opaque market that catered to the needs of financial speculators rather than bona-fide hedgers and consumers for which futures, options and swaps were created in the first place.

As an energy company that serves thousands of consumers and plays a vital role in the health and growth of the American economy, deregulation of the derivatives markets has resulted in diminished confidence in these markets. The resulting excess volatility and speculation in commodities, including energy (e.g., crude oil, gasoline and home heating fuels), has skewed price discovery, unhinged these markets from responding to concrete economic fundamentals, such as supply and demand, and made it difficult for hedgers to insulate themselves and their consumers from risks and subjected them to erratic and unwarranted price spikes.

Robust implementation and vigorous enforcement of the regulatory initiatives under the Dodd-Frank Act is vital if the legislation is to have its desired effects, including increased confidence, security and stability in the derivatives markets. Title VII reforms the derivatives markets, including energy futures, options, swaps and related products, seeks to bring renewed transparency, oversight and accountability, to these markets while preserving market liquidity, competition and hedging and price discovery functions.

I. Definitions

1. Commercial Risk
The definition of Commercial Risk should be narrowly tailored to apply only to those entities whose business activities expose them to risk from physical commodity price fluctuations. Commercial risk should not include risk that is purely financial in nature, including balance sheet risk.

2. Major Swap Participant
It was the intent of Congress to require that only large market participants be captured under this definition. I am supportive of the exclusion for positions held for hedging or mitigating commercial risk, but again, this should not be defined so broadly as to create a new loophole for financial speculators to avoid requirements under the new law.

3. Captive Finance Affiliates
The major swap participant definition also includes an exception for captive finance affiliates. I similarly encourage the Commission not to allow the exception to be abused or too broadly interpreted.

4. Swap
The legislative definition excludes forward delivery contracts (and options on such contracts) for commodities that are intended to be physically settled. Any exemption for forward delivery contracts and options should be limited to bona fide commercial end-users.

II. Governance & Possible Limits on Ownership & Control - Swap Dealers

The CFTC must establish both a meaningful limit on individual ownership and a limit on collective ownership if the proposed rule is to have the intended effect of limiting conflict of interest, assuring transparency and open competition, and preventing clearinghouses and exchanges from catering to the interests of a few large participants in the financial community. This requires both a cap on ownership for individual entities as well as a sector-wide aggregate cap on banks.

III. End-User Exception

The end-user exception should remain narrowly tailored to those businesses that produce, refine, process, market or consume an underlying commodity and counter-parties buying or selling a position to an end-user. Purely financial risk, including broad terms such as balance sheet risk, should not be considered legitimate commercial risk.

IV. New Registration Requirements for Foreign Boards of Trade (FBOTs)

I support the requirement that FBOTs register with the CFTC and make their trading data available as well as requiring that they adopt position limits and implement prohibitions on manipulation and excessive speculation. They should also be subject to ownership caps as described above.

V. Anti-Manipulation & Disruptive Trading Practices

I strongly support prohibitions on insider trading based on nonpublic information, prohibitions on manipulation and trading on false information, and new authority to identify swaps that are abusive by virtue of being potentially detrimental to either the stability of the market or its participants. I urge the CFTC to be thorough in its interpretation and enforcement of these new authorities.

I also encourage the Commission to scrutinize the use of computerized/algorithm-based trading programs to determine if their application and use in the commodities markets has a disruptive affect on market stability or function.

VI. Position Limits, Aggregate Position Limits & the Bona Fide Hedging Definition

I support enforcement of the strongest possible speculative position limits under the Dodd Frank Act beginning within 180 days from enactment for exempt commodities (including energy commodities) not simply the promulgation of formulae for establishing limits that can be then imposed at some later date, as has been suggested.

Due to their passive approach to commodity trading, Exchange Traded Funds and Notes (including index funds) treat finite commodities as an asset class rather than as vital resources to American industries, businesses and consumers. I believe the Commission should establish separate and more aggressive limits on the positions of Exchange Traded Funds and Notes, including index funds.

I also have concerns regarding the bona fide hedging exemption that are similar to our concerns regarding the definition of commercial risk and the end-user exemption. Too broad of a definition would allow a continued watering down of the hedging exemption and provide additional incentives for financial speculators to enter the market in the guise of legitimate hedgers, thereby, evading position limits and other requirements.

VI. Conclusion

Again, as regulators, we American businesses and consumers are relying on you to read and vigorously enforce these rules in such a manner as to restore confidence, stability and transparency to the derivatives markets especially in the energy commodities markets. Americans of all stripes depend on these markets to insulate energy consuming businesses and individuals, as well as the broader economy, from fraud, manipulation, and disruptive/abusive trading, and from excessive volatility, speculation and unwarranted price spikes.

This legislation gives the Commission powerful tools in this regard, and I hope that you will use them to their fullest extent.

Thank you in advance for your consideration.

Sincerely,

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