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secretary

**From:** JESSICA PEARSON [mess33@comcast.net]  
**Sent:** Saturday, November 08, 2008 9:04 AM  
**To:** secretary  
**Subject:** Proposed Rules for Trading Off the Centralized Market

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OFFICE OF THE SECRETARIAT

November 7, 2008

Mr. /Ms. Secretary and  
To Whom it may concern,

**COMMENT**

I am a currently a floor broker on the ICE exchange in the Cotton Options Ring. I have been a participant in this open outcry ring for 14 years, where price discovery has been the most effective vehicle by which I have executed my customers' orders.

First and foremost, let me say that I am appalled at the passage of rule that permits block trading where open outcry rings are still in existence. All of my professional life on the exchange, be it the NY Cotton Exchange, the NYBOT and now ICE, I have been taught that pre-disclosure of orders is 100% illegal. That being said, the orders are disclosed in the ring, so that everyone, locals/market makers, off floor customers that receive timely phone calls and internet messages, etc become privy to the going market at the same time. As a result of this, the competition to either sell or buy the publicly announced order is all the more—making the eventual price of that product fair and responsibly found.

Block Trading is anything but fair and responsible. We can see the blips on the screen that record these trades. They are always off market value, and sometimes to an extreme degree. They are also permitted in increments that are very small—amounts that could have easily been executed in the ring for a much better rate. In Cotton Options, for example....the minimum amount of contracts that qualify for a block trade is 250. That is an order that can EASILY be executed in the ring, utilizing open outcry price discovery, at ONE fair price.

In cotton options, the typical size order ranges from 100-500 contracts. What the CFTC has in done, in effect, is to have made allowable, the blocking of 1/2 of our orders out of the ring, and put them in back offices, where the fair price will NOT prevail.

The rule has also diminished the amount of locals/market makers on the floor of the exchange. As less and less paper hits the ring, there are fewer market makers that can survive. The rings NEED these market makers to make it possible for our customers to get the other 1/2 of their orders filled. These market makers provide our customers with liquidity—liquidity that we cannot do without.

To date, the open interest in Cotton Options 342,745 call and 132,698 puts or 475,443 open interest in tote. A 250 lot minimum block trades is NOT an acceptable threshold.

I can understand, with an exceptionally large order, if a customer is willing to "pay up" a bit in order to get all of his or her contracts at one price—for that is what I am told is the theory behind block trades. In our market, 1000-2000 lot orders can readily be filled at one fair price in the ring—competitive bid and offer process in play. I have seen it, and I have executed these orders.

I submit to you that the threshold be broadly increased for all of our markets—coffee, sugar, cocoa, orange juice (100 lots?!!) I sold 500 straddles in orange juice, in the ring to the market makers last week—YES all at one price. A 100 contract threshold in OJ is as ridiculous and abominable as a 250 minimum in cotton. It takes the competition and fairness AND the volume out of play...it diminishes the efficacy of the open outcry market by severely limiting volume that actually comes into the ring and it literally screws one of the customers in the process by NOT providing him or her with a fair price.

I will NOT submit a minimum contract figure to you that I think are fair as I feel that the entire use of the block trading system, where open outcry still remains, as in all of our thriving—but thinning options pits, is destructive and against the very core ideals and effective standards upon which these markets were created.

Due to the fact that ICE has made our futures pits extinct, I can understand block trades serve a great utility

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for large futures orders. As for markets with sizable market makers, as in all of our options pits, the utility of block trades in options is non-existent. They simply provide an unfair method of taking advantage of one customer, secretly, without transparency, without checks and balances and finally without reprimand in lieu of another customer.

Thank you,  
Jessica Pearson  
Jcot Options Inc