

secretary

From: John J. Lothian [johnlothian@johnlothian.com]
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To: secretary
Subject: Comment on Movie Futures for Media Derivatives and Cantor Exchange Filings

Importance: High

Picture This; Futures Trading Has an Economic Purpose

Futures trading is "legalized gambling." That is the message coming from the powers that be in the movie industry who don't want two new futures exchanges to be approved by the CFTC to trade exchange traded listed derivative contracts on movie box office receipts. These movie interests seek to delay approval of the exchanges licenses, which could effectively kill both efforts. They have enlisted elected representatives from both the Republican and Democratic party to voice concern over the approval of both exchanges, including both Senators from the state of California.

Rumblings in the futures industry indicate there is displeasure with criticism of futures in general from the Motion Pictures Association of America's criticism, especially considering that their Chairman is (has been) Dan Glickman, a former U.S. Agriculture Secretary and currently a member of the board of the CME Group. ([Glickman's bio](#) on the MPAA site says he is stepping down as of April 1 "to become President of Refugees International, the leading advocacy organization on refugee crises worldwide.")

Futures trading is about managing risk through price discovery and risk transfer. It is about bringing standards, transparency and integrity to the management of economic risks that already exist. I can understand why some of the powers that be in Hollywood would want nothing to do with that. Futures trading in the U.S. is a regulated market, meaning there are rules, standards and laws that apply to the trading and the treatment of the underlying commodity or instrument.

Some of the stories pushed by the movie industry interest even blame the futures markets for playing a role in the financial crisis of 2008. One thing you can depend on with Hollywood is that they are good at making up stories and that is exactly what this is. The futures markets performed extraordinarily well during the financial crisis and no exchange or clearing house was bailed out with government money. There were no stoppages of trading or defaults. Hollywood needs to check their facts, rather than just make them up.

I have not made up my mind on these media derivatives. I like people at both exchanges who are developing them and wish them only success. As a broker, I don't particularly like or care for dis-intermediated markets, like the Cantor Exchange is setting up. I don't worry about the competition as broker, but do worry about conflicts of interest within the structure. That is not a regulatory concern, but a business concern. Also, I value the range of choice clients get from brokerage firms competing for customer business and there are no brokers in the Cantor model.

Successful futures markets have a real economic purpose with real financially at risk players participating. Clearly, there are people involved in producing, investing and distributing movies who have and take significant financial risks. I don't know if these exchanges will be successful in structuring the contracts to manage the risk. I remember that the first financial futures contract (not a currency) was the Ginnie Mae futures at the CBOT. There were 5 or 6 modifications to the contract over the years and ultimately it died, though it was replaced in a way by the very successful 30 year bond contract.

Futures trading is not gambling, legal or illegal. Futures trading is about transferring risks that already exist. Gambling is about creating risks that did not previously exist. Only time will tell, assuming these exchanges are approved by the CFTC, whether the exchanges can get the true financial players to hedge their risks in the market.

The MPAA and its cohorts seek to delay the CFTC's approval. The CFTC can clearly go as fast or as slow as they want, notwithstanding the stated time limits in the appropriate regulations. I am not suggesting the CFTC have a Blind Side to the Senators' concerns, but I would suggest they show True Grit.

Respectfully Submitted,

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