April 4, 2008

Michael Otten
Counsel to the Chairman
Commodity Futures Trading Commission

Dear Mr. Otten,

Thanks for the opportunity to provide suggestions for your consideration and possible inclusion at the April 22 meeting. As mentioned in our phone conversation, I have the perspective of both the commercial industry and independent traders given 30+ years experience in Cargill's grain division and more recently as an independent speculator.

I commend the leadership of CFTC to organize this meeting for all stakeholders in the commodity derivatives and physical markets to share their concerns and suggestions toward the purpose of the meeting as outlined by Acting Chairman Lukken.

There are three (3) areas I suggest be considered for the agenda, as follows:

1. Related to the role of the commodity index funds, Per our conversation I am pleased CFTC will explain the rationale for exempting swap dealers from speculative position limits and the role they play in acting on behalf of investors who otherwise would be bound by those limits. I have no particular concerns about the rationale of CFTC's decision. It would be difficult to change course considering the precedent was established nearly 15 years ago. My concern is the comparative cost advantage regarding margin requirements the exemption affords this classification of traders. By the nature and charter of major commodity indexes, investors and swap dealers acting on their behalf desire to be Long-only. The benchmark price performance is set on the nearby futures at all times for the indexed commodities. The combination of these facts create an upward bias on all indexed commodities in addition to an effect of narrowing the calendar futures spreads diminishing the incentive/increasing the cost for the commercials and processors to store and finance physical inventory. In terms of the necessary role of providing market liquidity; hedgers and speculators, with the latitude to be either net long or short, contribute a more balanced role to price discovery than a trader who is always net Long-only.

Suggestion: Swap dealers, acting and hedging a long-only index position, should be margined by all exchanges at the speculative level, not as a hedger. In the example of the CME futures, swap dealers should not have a 24% cost advantage <u>and</u> exemptions from speculative limits over speculators who are providing more balanced liquidity than long-only traders but must abide by the limits.

2. CFTC should begin reporting positions of <u>ALL</u> commodity index funds, including exempted swap dealers. Since the decision to begin the Supplemental Report to the weekly Commitment of Traders Positions (COT) that currently reports only agricultural commodities, the correlation between Agriculture and Energy commodities has never been more tightly connected. With Energy comprising nearly 70% of the benchmark GSCI index compared to less than 20% comprised of agriculture, it's critical to the public's trust and confidence in the price discovery process that CFTC increase the transparency by reporting all indexed commodity positions. This would seem quite consistent with the April 3 testimony of CFTC Chief Economist Jeffery Harris who said, "there is little evidence that changes in speculative positions are driving up crude oil prices". There should be no problem reporting positions to the public if there is no evidence of impact from indexer's activities.

3. Related to the goal of more efficient Convergence of physical and futures prices, I advocate the facilitation and increased participation in the delivery process from smaller independent commercial hedgers and producers. This could be achieved in a variety of ways through designating a few regional delivery locations as "eligible" facilities to accept the delivery of the physical commodities as satisfaction vs. short futures. This, as in all cases of delivery, should only occur when delivery is the best and most efficient outlet for the physical commodity. Appropriate differentials and handling charges would need to be established for these designated "small hedger" delivery locations just as they are now for all locations. In an environment that has increasingly become more challenging for commercials to assume risks, it has become imperative to pass risk to the producers and originators at the first point of sale. Changes need to be made that enable wider participation of market participants in the delivery process, when that is the most economical means of marketing the physical commodities. In doing so, it would be a major step toward convergence that is the foundation of price discovery and the use of futures as a risk tool for which they were originally designed.

I look forward to attending the April 22 meeting and would be happy to clarify or discuss any of these issues. Thanks again for considering them for the agenda topics.

Regards,

Ken Morrison
Morrison On The Markets LLC
St Louis, MO