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May 2, 2008

Mr. Walt Lukken
Acting Chairman
Commodity Futures Trading Commission
1155 21st Street, NW
Washington, DC 20581

Re: Agricultural Markets Roundtable

Dear Mr. Lukken:

First, I would like to commend you and the Commission for holding the Agricultural Markets Roundtable. It was very informative and well run.

By way of background, I am not an expert in commodities markets, but have many years of experience in the listed and OTC equity derivatives area. In the interest of full disclosure, I also have a small short position in agricultural commodities.

My comment is that I am perplexed why the commission's rules allow a "speculator" to effectively transform themselves into a "hedger" just by using a swap counter-party instead of using futures directly. Every first-year salesperson knows that a principle use of derivatives is "regulatory arbitrage" and in this case the speculator just "passes through the eye of a swap contract" to change his strips to a hedger. This does not pass the smell test.

I am not sure if I heard correctly, but it seemed the staff implied it would be "too difficult" for banks to segregate and identify different trades as being for speculative or hedging counterparties. I question if that is true as they easily identify proprietary vs. customer trades, but if it is, that is still no reason to allow speculators hedge limits.

As you know the commodity markets, especially the agricultural ones, are tiny in dollar terms relative to the size of potential investors. As this flow of funds toward commodities continues, the market will be overwhelmed. If US investors put 5% of their mutual fund money in commodities, that would come to $500 billion. It seems the commission can take control and limit the impact of financial players now, when the damage is somewhat limited. Or it can wait until more and more individuals and funds like CALPERS want 5% exposure, and the damage is extensive. In my mind action is inevitable as the flow of funds will continue, even if erratically. It is a only question is how much damage is inflicted on our country before the CFTC does something. If the commission determines not to act now, at least decide how large it will allow financial players to become before it takes control.

Please remember, just because CALPERS and others want “5%” exposure, does not mean the country has to sacrifice our relatively orderly markets to satisfy them. No one has the “right” to participate via futures.

Please feel free to call or write with questions or comments.

Sincerely,

Ed Hynes, CFA