Memorandum

To: Eric Juzenas

From: Richard Strait

Re: CFTC 3/25 Metals Meeting

Sir,

This memorandum to you is an overview of what I feel would be appropriate views on the issues laid out by you in your email to me of March 10.

If you determine that the position being presented to you is suitable for further discussion, I would be pleased to participate in the meeting of March 25.

My thoughts to your points in the order laid out in your email:

1. It is my feeling that position limits placed on US metals futures contracts will have no effect on the overall global market pricing since a fraction of metals traded worldwide are through the global futures markets. Supply of all metals (except platinum) traded on US exchanges can be supplied easily from domestic and foreign sources. Therefore to assume controlling the trading on US futures markets, by applying position limits to protect market integrity is misguided. Such a mandate would have the negative effect of rendering US markets increasingly illiquid resulting in lack of market transparency.

2. Limits placed on US metals futures contracts will render our markets less viable to all users, hedgers and speculators alike and will have the ultimate effect of taking the markets back over the counter thus, again, limiting price transparency. Hedgers and speculators then will be forced to utilize over the counter and foreign futures markets because of diminishing liquidity in US Futures contracts.

3. The exchanges over the years have had, via their surveillance mechanisms, hands- on knowledge of their markets and possess the ability to regulate the activity of their futures contracts by applying position limits on an as needed basis. It is therefore my opinion that this responsibility should remain as it is currently, in the hands of the exchanges themselves.

4. In the misguided event position limits are mandated to the US metals futures products they should be applicable to the spot month only and not be applicable to spread positions and only on a as needed basis. Market irregularities in metals (as in most all commodities) are almost always very temporary and centered around spot month trading.

5. A bona fide hedger is a commercial or financial entity that will possess cash positions either in the form of on exchange or off exchange physical inventory or forward physical obligations. These entities can be producers, manufacturers, stockists or financial intermediaries that service the industry related to the underlying futures contract.

Conclusion:

To a bona fide hedger, exchanges are meant to the buyers and sellers of last resort while speculators supply needed liquidity for futures markets to operate properly. They are both equally important factors in functioning markets and will both continue to be a factor in all commodity markets with or without position limits on futures contracts. The only difference will be that in the event of strict mandated position limits, they will seek commercial refuge in less regulated offshore markets or the global over the counter market that lack centralized clearinghouse protection.

In the case of the later, an increasing 'black pool" of unregulated derivative traffic may lead a "bubble" causing a negative financial chain reaction likes of which we experienced recently in the global debt markets.

Exchanges now have the ability to clear OTC business with that traffic growing exponentially as time passes. Perhaps this process should be nurtured thus allowing the Exchange clearing houses help manage the risk they have done so well over the past 100+ years by protecting the customers of those exchanges and their member firms through which futures clients trade.

The argument made about the effects of index funds and ETF's is not without merit but one needs to know that clumsy index fund futures rolls and ETF hedging create sizable liquidity and opportunities for traders to take advantage of the inefficient nature of the underlying hedging process thus smoothing out price spikes that might otherwise occur.

These products would not exist if the future markets were more accessible to the retail public. The securities markets have the distinct advantage of allowing the small investor to participate in the commodity and financial futures markets via their securities accounts. There seems to be a need for better oversight of the approval process of ETF's citing the new ETFs in platinum and palladium. These are thin markets with limited supply. Platinum and palladium are strategic metal commodities that have growing high tech applications in civilian, aerospace and military areas.