COMMENT

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secretary

From: Tim Radice [timr20@gmail.com]
Sent: Friday, November 07, 2008 11:01 AM
To: secretary
Subject: Block trading

To Whom it May Concern,

One of the largest challenges to a small market is a lack of market liquidity. Recently the largest factor in an alarming lack of liquidity had been the rapid increase in the practice of block trading. While it may appear that allowing block trades could be a solution to the liquidity issue the reality is that when you allow large (or all to often average) size trades to be taken away from the market makers you destroy the liquidity of a market.

As more and more trades get blocked in a non-competitive manner you end up making it harder and harder for a market maker to make a living in a market, as a result you end up with less and less market makers and thus less and less liquidity. This downward spiral of liquidity will often result in it becoming extremely difficult for small or medium size orders to be executed at reasonable levels, and thus the market is in effect ruined for all except the block traders.

What is the balance which allows a large customer to execute an extraordinarily large order and yet still protect the market place? For an order to be allowed the privilege of being executed in a manner that fly's in the face of every rule passed over the last 30 years pertaining to "open and transparent" trading there must be stringent requirements pertaining to its size.

The CFTC's previous recommendations in regard to minimum size make perfect sense in and ideal world:

Calculating a minimum size based on market liquidity and depth is not the only possible way to determine what size order should be considered ``large.'' DCMs (Designated Contract Market) could employ other methods to reasonably determine what size order would move the price in the centralized market. For instance, along with a review of trade sizes and/or order sizes, DCMs could interview experienced floor brokers and floor traders to determine what size order is generally too large to fill at a single price. This method might be most appropriate for open-outcry markets because DCMs will not have the same type of trade data generated by electronic trading platforms, and will not as easily be able to determine, based on electronic data, what size order is ``large.''

The truth is, the world of exchanges has changed significantly since these last guidelines were written. In this new world exchanges are a business, most if not all exchanges are now publicly traded and like all publicly traded companies the bottom line is what is most important to the share holders. Unfortunately as we have seen in the stock market recently when you are paying attention to the bottom line first and foremost you often sacrifice long term stability and profit for the short term "easy money". In this case exchanges (Who often charge higher fees for block trades) have little to no incentive to ensure that only the largest trades are allowed to be blocked. My suggestion would be the same as your suggestion four years ago:

DCMs could interview experienced floor brokers and floor traders to determine what size order is generally too large to fill at a single price.

There are already committees for each market that are made up of the people have spent their entire careers working with these markets, and have the incentive to do what is best for the markets in both the short and long term.

In summary, while I understand the CFTC's desire to have a "loophole" in normal trading rules to allow exceptionally large trades to be executed in a manner that would be least disruptive to the marketplace, the reality is that this procedure is frequently being abused. All too often average size trades are being blocked for no reason except to make a little extra money on commissions and fees. Commodities markets are by their nature less liquid then most other markets and this disturbing new trend is greatly exacerbating this problem. If nothing is done to regulate this issue soon I fear that these markets will become to inefficient for most people to trade. As a result the people who rely on Commodities markets for hedging their real world risks will be the ones who end up being hurt the most.

Thank you for your consideration,

Timothy Radice

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