Summary Comments
on the
Testimony before the CFTC

July 28, 2009

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Introduction

Mr. Chairman and Commissioners, my name is Todd Petzel and I am the Chief Investment Officer of Offit Capital Advisors, a New York City based Registered Investment Advisor. We advise over forty family and not-for profit clients controlling more than $4 billion in all asset types.

I have long been a student of and a practitioner in the futures markets. My academic research dates back over thirty years. From 1982 to 1995 I was first Chief Economist of the Coffee, Sugar & Cocoa Exchange, where my duties included market surveillance, and then the Chicago Mercantile Exchange. During that time I worked closely with the CFTC and its staff on market surveillance and position limit issues. In 1996 I became a money manager. Also since 1996 I have been elected as a public director to both the National Futures Association (NFA) and the Futures Industry Association (FIA). I want to emphasize that my testimony here today represents my own views and should not be attributed to either organization or its members.

The three broad topics I address in my written commentary concern market information, position limits and the impact of traditional investors now active in commodity futures markets.

Information

Information is the life blood of both well functioning markets and effective market regulation. I support the Commission's recent efforts to collect more background detail on positions and provide regular summaries of that data to the public. Most commercial participants have a very good understanding of current market dynamics, but the broader public should benefit from a clearer understanding of who is participating in the market and why.

Position Limits and Exemptions

1	Petzel, Todd E. "A New Look at Some Old Evidence: The Wheat Market Scandal of 1925," Food Research Institute Studies, Vol XVIII, Number 1, 1981.

We have had federally mandated position limits for select agricultural commodities since 1936. And for just as long there have been exemptions allowed to those limits for hedging purposes. Over time exchanges were charged with establishing position limits for other futures. The goal was simple. Avoid outsized positions that can disrupt prices in general or the convergence of spot and futures prices at expiration. The exchanges have a very strong reason to get this right. Commercial participants act voluntarily. If a market is perceived to be either inaccurate or easy to disrupt, those commercial participants simply will not trade.

But a balance has to be maintained. Limits that are too large may allow for market disruption, but if the limits are too small there will not be enough capital in the market to provide regular liquidity or adequate transfer of risk. The growth of these markets over decades suggests the exchanges have generally gotten this balance right.

In the early part of the 1990's the traditional concept of hedge exemptions evolved to include *risk management* exemptions covering unleveraged, synthetic financial positions. We also came to embrace hedge exemptions for dealers who were creating off-exchange financial and commodity index products for their clients, and who then needed to manage the risks those products created.

It is sometimes suggested that such off-exchange activity can be used to circumvent existing position limits. The expanded position information mentioned above will shed light on this conjecture. If a problem exists, there are suggestions in my testimony how this might be addressed.

While the proper size and effectiveness of position limits can be debated at great length, what cannot be disputed is the necessity of dealer hedge exemptions associated with any activity that is consistent with, and allowed by, the established position limits. The negative impact of disallowing such exemptions on the effectiveness of our futures markets cannot be overstated.

Traditional Investors Participating in Futures

Over the past two decades institutional and individual investors have increasingly embraced the use of unleveraged commodity futures contracts as part of their long term asset allocations. In my written testimony I go into some detail concerning how these investments work and their impact on the markets.

In these remarks I will simply say that I believe these investors in aggregate have had a material impact on price levels, price spreads and the level of inventories being held. That does not mean, however, that these investors are manipulators or that they should be banned from the markets. There is much concern today in the investor community about federal deficits, the size of the Fed's balance sheet and the prospect of wealth destruction through inflation. These investors are looking to real assets,

2 Petzel, Todd E. "A New Look at Some Old Evidence: The Wheat Market Scandal of 1925," Food Research Institute Studies, Vol XVIII, Number 1, 1981.

including commodities, as their own hedge. If they are precluded from using unleveraged futures positions, they will not go away. Instead they will shift their focus toward foreign and physical markets where it may prove less efficient for them and it will definitely be less transparent to regulators and the other market participants.

Summary

In summary, the importance of well functioning futures markets is beyond dispute. The exchanges have strong incentives to provide reliable, open, and non-manipulated markets to all users. Recent improvements in transparency should be maintained and applauded. If changes are made to position limits in any market, great care should be exercised to not set them too low, discouraging a wide range of participants who bring valid market information and liquidity to all commercial users. It would be a major step, and in my opinion a most unfortunate one, for a free society to move from a stated policy of preventing market manipulations to using laws and regulations in an attempt to change temporarily unpopular market outcomes.

3 Petzel, Todd E. "A New Look at Some Old Evidence: The Wheat Market Scandal of 1925," Food Research Institute Studies, Vol XVIII, Number 1, 1981.