From: mrkirley@aol.com [mailto:mrkirley@aol.com]
Sent: Friday, October 30, 2009 8:35 PM
To: Gizzarelli, Jason
Subject: Re: Today's Meeting

Thank you very much for the opportunity.

My name is Joshua Kirley. I am Vice-Chairman of the Wheat Futures Pit Committee and a high volume liquidity provider for all spreads in the CBOT wheat futures contract.

Let me say firstly and clearly.

Given my direct experience, in trading these spread contracts everyday, in the pit and on the screen, I feel very strongly that this VSR proposal is a well-intentioned but one-sided and misguided solution to a serious problem.

Implemented at any date, Variable storage rates will decimate liquidity, encourage market manipulation, confuse and destabilize an already skittish marketplace, and discourage people from trading futures past the front month, particularly if they are a long hedger.

But the reason I flew in from Chicago to be here today is the far more pressing issue. The possibility of early implementation of the variable storage rates. I can say with absolute certainty that early implementation will cause irreparable damage to the integrity and functionality of the wheat contract. It wold be like yelling FIRE in a crowded theater and then sealing all exits.

To realize how one-sided and significant a change this would be, you must first understand how important full carry is to a spread trader. In a market with so many variables, it is the closest thing we have to an absolute. It is the cornerstone of spread trade. Full carry allows people to manage risk. Like futures themselves, there is beauty in its simplicity. It is a stabilizing force, providing definitive parameters, often acting as brakes to a runaway train.

While there are no perfect analogies between the commodity spreads and outright equities, the closest thing that exists is comparing full carry to a stock price of zero. That is, when a person buys a stock, they know their downside risk. It cannot trade below zero.

Having that certainty contributes to a liquid market .

Liquidity providers like myself are **willing to bullspread inside of full carry because it is a trade with clear cut, measurable risk parameters. Much like the person who invests in a stock. They do so, knowing their risk and only risking what he or she can afford to lose.**

The very fact that you have people who are willing to take that calculated risk provides a service to the market. When everyone feels the need to sell; that wall, be it full carry in a futures spread or zero in a stock price; it creates a pool of willing bidders. In a stock, those bidders provide an exit to people who are long and wrong. In a grain spread, those bidders facilitate the roll of a position for the long hedger. Without that fixed value, long hedgers could lose up to 2 or 3 dollars a year on their position even if the price of wheat does not go down a penny.

What you are proposing through early implementation would be akin to interceding in a publicly traded stock and telling the shareholders that zero would no longer be the end of the line. Imagine the person that bought 1000 shares at $5. They only did so, knowing that the maximum risk on this trade was $5,000. What if an outside agency were to step in and decree that now, this particular stock can trade as low as negative $5. Only with immediate implementation of VSR, it gets worse than that. That negative 5 dollar mark is a variable and the closer the stock price gets to it, the further away it moves. In a sense, this VSR plan rewards bullies, encouraging predatory funds and pirate programs. The further you push the market in one direction, the further your profit potential.

Once that person is finally able to offset that loss. A loss far greater than what was possible according to the rules at the time the purchased the stock, even if they have money left, they are never going to buy that stock again. They will probably never invest in any stocks offered on that exchange.

Even if VSR will lead to convergence, and I side with a number of academics who do not believe it will. What good is convergence, if there is no liquidity left in the market. You cannot execute a trade if there is no one to take the other side. How can it be a market improvement if it blatantly serves one segment of the trading population to the clear detriment of the other? How can you allow the players of one team change the rules to the game in the 4th quarter? Or to quote a Reuters reporter, immediate implementation would be like moving the goal posts after the football has already been kicked.

Earlier, Dave Lehman explained that 70 million dollars will be lost if this proposal is fast tracked into a market that does not have time to prepare for or absorb this policy change.

The people on the right side of that 70 million dollars are the ones in this room trying to pressure you into doing just that.

Even if they are still solvent the traders that will get burnt by having the rug pulled from under them are not going to stick around to get fooled again.

Making this degree of wholesale change to an active contract, with more than half of the open interest, to a spread that is already trading at full carry would profane the integrity of the contract, violating the trust that market participants have placed in this body and the exchange. Our liquidity pool has already dwindled by more than fifty percent, with the remaining few market makers only willing or able to take less than half the size they once did.

If this VSR is forced through in the short term, the liquidity pool will be dry.

Earlier, Mr Bruns from the NGFA stated that we must act now because it could be two years before we see the desired results. All I ask is that his organization give the same patience and courtesy. The CME Group has already made significant changes that continue to show promise. Market reforms and reactions do not have the precision steering of a sports car. It is more like driving a big boat. You will never be able to steer if you over correct before you allow for your initial move to take effect. Our contract has undergone more modifications in the past 2 years than the previous 50. In addition to seasonal storage, they have changed the trading hours, the settlement protocol, the closing range, the modified times and ranges, the trading algorithm and so on. It is over cooked. Can't we let it breathe? Just sit back and let the free market sort itself out. It is already over politicized and over regulated.

The CME's seasonal storage rates are already working. In wheat, convergence has improved for 12 consecutive months. Just because the existing plan does not provide for limitless profits for the grain elevators and short hedgers is no excuse to destroy the remaining integrity and liquidity to the contract.

2 final points.

First, I currently have no position. I am flat all contracts of wheat or any other future. So, I have no dog in this race. And secondly, on the CFTC website, I have submitted a rather lengthy essay that details the shortcomings of VSR, implemented at any date.

Thank you all for your time, and I especially thank you for allowing the liquidity providers, the unrepresented part of this equation to weigh in on this important issue.