

secretary

From: Jeffrey.Saxon@ubs.com
Sent: Tuesday, November 10, 2009 4:34 PM
To: secretary
Subject: CBOT Variable Storage Rate for Wheat
Attachments: Legal Disclaimer.txt

Dear Mr. Stawick:

This email is a comment in response to CBOT Submission No. 09-222 in respect of Variable Storage Charges for Wheat. I am a Director at UBS Securities LLC and a member of the Supervisory Committee for the Dow Jones-UBS Commodity Index, which is a leading benchmark for investment in commodity futures as an asset class.

On a technical level, the proposed rule amendments should be revised to state expressly that the premium charges determined pursuant to the new formulas are the maximum permitted storage charges, and that nothing prevents a storage facility from negotiating a lower rate for individual customers. During the October 29, 2009 meeting of the CFTC's Agricultural Advisory Committee, Mr. David Lehman of the CME Group explained that the new rates are intended to operate as maximums rather than fixed rates. Making this clarification in the text of the new rule would help avoid confusion among market participants who are trying to determine the potential effects of the changes.

On a more general level, I respectfully suggest that the new rule changes should not be made applicable to contracts with substantial open interest unless there is more evidence presented as to the likely consequences. Market participants, including spread traders and arbitrageurs who hold physical wheat positions, may be reluctant to continue to provide liquidity to the market if they are unable to predict the costs or risks associated with their trades on the basis of the rules that apply when they put on the positions. Swap dealers hold substantial long futures positions as hedges for OTC index trades and need to roll these positions according to a predetermined schedule in order to remain fully hedged. If swap dealers are forced to roll these positions into a market with artificially reduced liquidity, the results would be unpredictable and could include increased volatility or an exacerbation of the convergence problem.

Please do not hesitate to contact me at (203) 719-3534 if the Commission or its staff have any questions about these comments. Best regards.

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