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secretary

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COMMENT

From: nietzchefactor@yahoo.com
Sent: Thursday, October 30, 2008 5:48 AM
To: secretary; Sudik, Gabrielle A.
Cc: paddy5200@aol.com
Subject: proposed rule for trading off the centralized market

SUMMARY: The Commodity Futures Trading Commission (``Commission'' or ``CFTC'') is proposing several amendments to its rules, guidance and acceptable practices, initially proposed on July 1, 2004, concerning trading off the centralized market, including the addition of guidance on contract market block trading rules and exchanges of futures for commodities or derivatives positions.

As a floor trader on NYBOT/ICE for nearly ten years, I would like to raise some troubling issues with the block trading platform as implemented in coffee options. Presumably, the exchange still has an interest in providing liquidity, transparency and price discovery in the markets which it hosts. That these goals may conflict with shareholder interest -- or the interests of traders whose are favorably disposed to block trading for whatever reason -- should be of no concern to an entity whose existence is beholden to the CFTC, which is in turn responsible to the greater market, and not a few vocal individuals.

The block trading size is arbitrary, and seems of no relation to the depth that the options "pit" can absorb. This allows for trades of a modest size to essentially be "pre-arranged" and traded outside the range of the given bid/ask quote provided by the pit, which represents the largest collection of coffee options market makers in the world. I'm including not only the participants on the floor, but also the customers on the phones who are aware of quotes through the work of their corresponding brokers in the pit.

The current block trade size is 250 lots. This is a comfortable size for many locals and off-the-floor customers, and in no way represents a size which would, were it to hit the pit, cause a disruptive price spike. Indeed, trades of this magnitude routinely hit the floor and are dealt with quickly and easily .

Following are examples of abuse of the block system that I have observed on numerous occasions:

A broker asks for a market on a fairly well-known quantity. A few minutes later, the block screen shows this quantity traded at a price that is either at the bid or offer of the quote which was given in the ring, or sometimes even outside this range. Were the size such that it would overwhelm the pit if included -- so that only a few lots would trade within the range of the bid/ask, and the rest would trade at the actual price on the block screen -- there would be no issue as the trade size is greater than the absorption capability of the prevailing market. However, this has not been the case in the block trades I've seen and been able to decipher (more on this later). Rather a large portion of the trade could have been executed at a better price, which resulted in one side of the block trade being misled as to the real quote on his trade. Otherwise, why would he want to trade at a worse price than he could have had he traded through the pit?

Furthermore, when a complex trade is executed in the block system, it is not always apparent what has transpired except that a trade was done of modest size, because this seems to be the most accurate information provided to the pit. There is no method to ascertain if, in fact, a trade was done at a competitive price, because it's not clear what the trade was.

I am not a techno-phobe - in fact, I was was an early adopter of the whentech system and the electronic futures platform. Were the pit to be overtaken by a truly better system that provides more liquidity, transparency and better price discovery, then I would cede defeat and find a different job. But the block trading platform in its current form only encourages wider markets being provided to the brokers, as it doesn't serve my best interest to give a tight market only to see that quote being used in a block trade in which i'm not permitted to participate.

The product committees of each market should determine an appropriate block size for their respective markets, taking into account the daily volume, open interest, and the average size of the top fifty percent of trades. A one size fits all mentality does not serve the greater trading community.

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