From: Patricia Gillman <pngillman@gmail.com>
Sent: Monday, April 26, 2010 12:35 PM
To: secretary <secretary@CFTC.gov>
Subject: Proposed Federal Speculative Position Limits for Referenced Energy Contracts and Associated Regulations
Attach: Winton_SpecLimits_25_April-3.pdf

Dear Sir: Please find attached a comment letter from Winton Capital Management Limited with respect to the above-referenced matter.

Very truly yours,
Patricia N. Gillman

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26th April 2010

Mr David Stawick
Secretary
Commodity Futures Trading Commission

Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

Re: Federal Speculative Position Limits for Referenced Energy Contracts: Proposed Rule

Dear Sir,

In response to the Commission's request for comments on its proposal to implement speculative position limits for futures and options contracts in certain energy commodities, Winton Capital Management Limited ("Winton"), a CFTC registered CTA and CPO, would like to make a number of observations, which we hope you will find helpful. In particular, we would like to comment on questions 13 and 14 part b, raised in the Federal Register at 75 FR 4144 (January 26, 2010).

Scope of Speculative Position Limits in the Energy Markets

Winton is of the opinion that the potential effectiveness of the proposed overarching speculative position limits on the referenced energy markets[1] would be increased by the inclusion of over-the-counter ("OTC") markets and by the adoption of a consolidated approach between the Commission and overseas regulators and exchanges.

Whilst the Commission's section 4a(a) position limit authority does not currently include OTC derivative instruments, Winton believes that the effectiveness of the regulation of exchange-traded markets is heavily dependent on a deep understanding of exchange-traded markets and their corresponding OTC markets, and the relationship between them. The availability and accessibility of high quality data for OTC markets is crucial in achieving this objective. Winton believes significant improvements could be made in the collection and collation of OTC derivative market data and that this is an area that should be explored further.

Formation of Speculative Position Limits in the Energy Markets

Further to Winton's letter addressed to Mr David Stawick, of 27th July 2009, which put forward comments for consideration concerning the formation of energy market speculative position limits[2], Winton would like to share a number of observations that are relevant to the Commission's proposal to establish all month combined ("AMC") limits annually, based on a simple average.

The proposal to set speculative position limits annually based on a simple average may result in sizeable fluctuations in the ratio of the speculative position limits to actual open interest levels, due to the seasonality of the referenced energy contracts. As open interest fluctuates over the course of a year, the speculative position limits will become weaker or stronger depending on the point during the cycle. Such fluctuations may impact the effectiveness of the limits.

Winton has carried out some simple analysis to illustrate the historical seasonal variance in open interest levels for the referenced energy markets. For each referenced energy market, Winton calculated each month's open interest as a

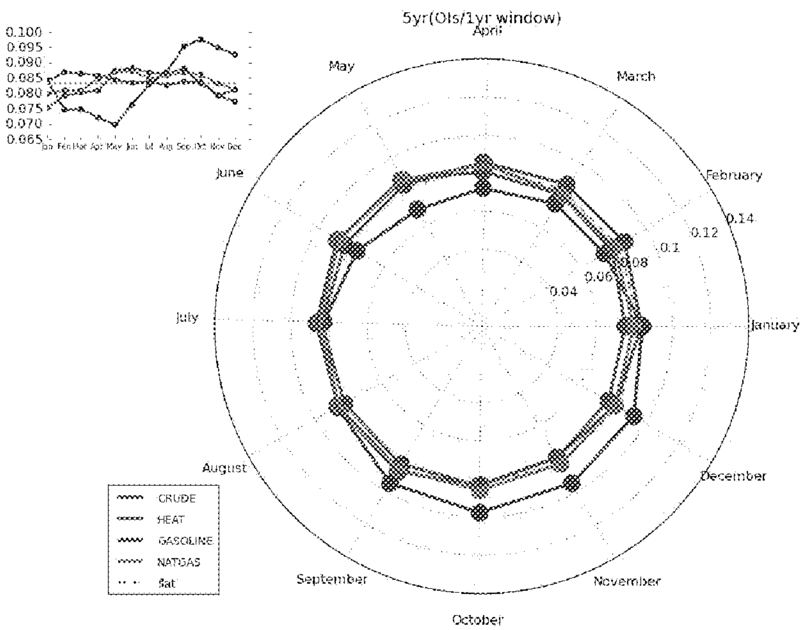
[1] Crude Oil, Gasoline, Heating Oil and Natural Gas.

[2] Winton's letter of the 27th July 2009, put forward for consideration a framework for the formation of speculative position limits, whereby the size of the speculative position limits were tapered towards the spot month, where open interest is typically concentrated and the potential for market disclosure is most acute, whilst setting wider limits (or potentially no limits) in the far dated months, encouraging participation further along the curve, helping to preserve and possibly enhance the risk transfer mechanism.

fraction of typical open interest[3] (where a consistent share of the annual open interest would equal 1/12th of the total or 0.083 for each month). Data for the same month across the data set were grouped to form a 'bin' for each month, with the median value of that 'bin' plotted on the polar plot in Figure 1. If there was no variation in open interest throughout the year, 1/12th of the total open interest would be recorded each month, which is depicted by the dotted green line in Figure 1 below. However, variations in open interest can be seen, particularly for Heating Oil, whose open interest levels increase significantly over the summer months.

Further analysis shows that the variation in open interest levels from trough to peak for Heating Oil is approximately 40%; 17% for Gasoline; and approximately 10% for both Crude Oil and Natural Gas. A similar pattern is observed when analysing volume data.

Figure 1: Median Open Interest Data for Referenced Energy Contracts



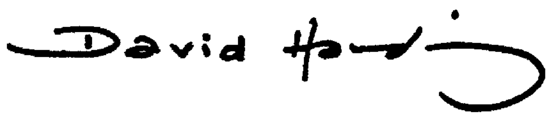
In addition to assessing a median measure (as in Figure 1 above), consideration should also be given to changes in open interest levels during periods of market stress/extreme market events. For example, during the twelve month period December 2005 to December 2006, Crude Oil open interest levels increased by 116% and in contrast, Gasoline open interest levels fell by 61% during the period November 2007 to November 2008.

In order to better capture the open interest features of the referenced energy contracts, the Commission ought to consider setting the speculative position limits to capture both trend, perhaps by using a rolling 12 month average, and to correct for there being more or less open interest at different times of year, through the use of a seasonal adjustment, with the ability to re-set limits more frequently should certain criteria be met (e.g. percentage change in open interest, and possibly volume, over a pre-defined period). Whilst the more frequent setting of position limits would be a departure from the current CFTC practice in respect of the agricultural speculative position limits, a number of exchanges set their position limits more frequently, such as Bourse de Montreal Inc., which establishes and publishes position limits on a monthly basis.

[3] By dividing monthly open interest by the total open interest for the twelve months centred on that month.

We hope that the Commission will give consideration to the comments contained in this letter. We at Winton would be pleased to speak with any Commissioner, CFTC staff member or member of the Energy and Environmental Markets Advisory Committee who has questions, or would like further elaboration of our thoughts. I and Nicola Malhotra, Winton's Head of Risk Management, may be reached at 011.44.20.7610.5350. Winton's US Counsel, Patricia Gillman, may be contacted at 773.665.9787.

Yours sincerely,



David W. Harding

Managing Director and Head of Research

Cc: The Honorable Gary Gensler, Chairman of the CFTC

The Honorable Michael Dunn

The Honorable Jill E. Sommers

The Honorable Bart Chilton, Chairman, Energy and Environmental Markets Advisory Committee

The Honorable Scott D. O'Malia

Mr Richard Shilts, Acting Director, Division of Market Oversight

Mr Stephen Sherrod, Acting Deputy Director, Market Surveillance Section, Division of Market Oversight