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Via CFTC Electronic Submissions Portal

Mr. David Stawick
Secretary of the Commission
Office of the Secretariat
Commodity Futures Trading Commission
3 Lafayette Centre
1155 21st Street, N.W.
Washington D.C. 20581

RE: Industry Filing IF 12-003 - 90-day Review of NADEX's Proposed Political Event Derivatives Contracts

Dear Mr. Stawick:

This comment is submitted on behalf of PFGBEST, one of the largest non-bank, non broker-dealer Futures Commission Merchants in the U.S.

For consideration by the Commission, it is our belief that the proposed political event binary options contracts should be approved.

Unlike events that fall under the "gaming" umbrella, such as sports, for example, the outcome of an election is based on a number of variables that can be dissected by analysts to form opinions about a likely outcome – a quality that makes them suitable for publicly-traded, liquid and transparent exchange markets that are used for risk transfer.

Elections are not controlled by a small number of individuals, which could make them potentially subject to manipulation. Elections depend on hundreds of thousands to tens of millions of voters, depending on the type of election. The possibility of "fixing" them, assuming a fair counting mechanism, is remote. It is precisely the full transparency of exchange-traded futures/futures options markets, including the reporting of trader positions and volumes, that would ensure that any attempts at manipulation would become obvious and could be prevented. Elections also have numerous partisans on either side of the debate, further assuring that there will be a robust two-way market that is not susceptible to manipulation.

Allowing the Nadex exchange to list select political event binary options markets would seem to be a vast improvement over how things stand today. It would bring political event contracts under the regulatory oversight of the CFTC, with the same standards of transparency that exist for other financial and agricultural futures and options contracts.

As far as hedging goes, the Presidential election contract especially has a very strong hedging element. Any company that would benefit from a specific tax policy, for example, could hedge the outcome of the election for this reason alone. Consider a business whose management expects an upcoming election to have a strong impact on tax policies that affect their expansion plans. The prudent thing to do would be to wait until the election's outcome to decide on specific strategies based on this -- potentially putting them at a competitive disadvantage, and stalling business opportunities. The existence of a successful political event contract could allow them to offset some of the risk associated with going forward with a specific strategy that assumes a given outcome in the election. Governmental decisions play an important role in the overall business climate, so any business that deals directly with the government, and even those that do not, have an interest in being able to manage the political risk to its business of a particular election outcome. Here again, the existence of interests on both sides of a market, such as fossil fuels versus renewable energy sources, demonstrate why governmental policy is a significant factor for business development and a risk that needs to be managed.

The bigger question on the hedging front would be whether there will be enough liquidity to support this type of a strategy. I have no idea whether these contracts, if allowed, would have the liquidity that would be required to support this type of hedge trade. But as far as their approval goes, the possibility that the liquidity will not be enough to support it does not seem to be a regulatory question.

The objection that these products will introduce new monetary variables on election outcomes should not cloud any decision on whether or not to approve these contracts. The fact that the participants are placing money on their opinions of the outcome does not influence that outcome, aside from the potential predictive ability of the market. While the possibility that these markets will offer some predictive ability on the outcome of elections, it would not influence the outcome of those elections any more than opinion polls currently do.

In short, I do not see how political event contracts, particularly for the Presidential election, would be against the public interest and I urge the Commission to approve these viable, necessary contracts for trading.

Please do not hesitate to contact me if you have any questions or would like more enriched dialogue about the particular values and demand for political event binary options.

Sincerely,



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