

I have been dialed into the Roundtable all day and very much enjoyed the comments from all the panel members, CFTC staff, and CFTC Commissioners.

I have a comment regarding the question posed in this afternoon's discussion regarding block sizes for listed energy futures that trade on an electronic central limit order book. "How big is big?" Should the block size for a specific contract be partially determined by market liquidity for that contract?

I share the opinion of the majority of the Roundtable participants that when it comes to determining block sizes, one size does not fit all energy futures contracts. This is because contract specifications, settlement location, and settlement period result in differences in liquidity across contracts. The power market, referenced in the afternoon discussion, is one market exhibiting this phenomenon.

One of the objectives of Dodd-Frank is to increase pre-trade market transparency. If the vast majority of energy futures contracts trade off-screen as blocks it does not facilitate achieving this objective. In fact, it greatly lessens the ability to create transparency and build liquidity in the electronic CLOB.

Liquidity in the marketplace for energy futures contract should be a primary consideration when determining block sizes. The exchanges, however, should not pre-empt order execution in the electronic CLOB by requiring that the minimum size of an open order or a request for quote are many times the minimum block size for the same contract. A good example of this are futures for power where the majority of the contracts, outside of the "minis," have a minimum lot size equivalent to 50 MW per hour for all hours in the Peak or Off-Peak monthly settlement period for the contract. Yet, the newly implemented block sizes for these contracts are a small fraction of this size.

In order to build execution volume in the electronic CLOBs, it might be feasible to try to maintain as much as possible the historic relationship between open orders and block trades. For good reason, block trades were a multiple of the minimum and/or typical size for open orders. If the current block sizes for power reflect the liquidity in the underlying market, and it is desired to create pre-trade transparency in the electronic CLOB for these products, then maybe the minimum size of open orders in the CLOB should be reduced so that they are smaller than the current block sizes.

This approach should not be hard to implement. Many of the minimum 50 MW per hour equivalent lot sizes for open orders are filled by clearing multiple contracts in the customer's account. The same goes for natural gas where the minimum lot size for open orders in the electronic CLOB is equivalent to 2,500

MMBtus for all calendar days in the settlement month. For these contracts, unless the liquidity in the underlying market warrants a block size of one (1) lot, it is possible to allow lot sizes for open orders on the electronic CLOB that are smaller than the off-exchange traded blocks.

This could increase market price transparency as well as create on-exchange, in addition to off-exchange, liquidity.