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February 10, 2014

Via Electronic Submission

Attn: Melissa Jurgens, Secretary
Commodity Futures Trading Commission
Three Lafayette Center
1155 21st Street, N.W.
Washington, DC 20581

Re: Notice of Proposed Rulemaking, "Position Limits for Derivatives," RIN 3038-AD99,
78 *Fed. Reg.* 75680, *et seq.* (December 12, 2013).

Dear Ms. Jurgens:

I am writing as a private, but knowledgeable citizen who has dedicated, Pro bono, the last decade of my life to this issue. As background, I have represented through voluntary unpaid positions including as past chairman of the Petroleum Marketers of America Assoc. (PMAA), President of New England Fuel Institute (NEFI), President of the Vermont Fuel Dealers, and serve as a member of Commodity Futures Trading Commission (CFTC): Member of the Energy and Environment Markets Advisory Committee. I have testified before the United States Senate, U.S. House of Representatives, and the Commodity Futures Trading Commission (CFTC) on nine separate occasions; first as an expert panelist on energy trading market functions, and later on the general subject areas of swaps, futures, options, and other 'exotic' structured financial products.

I wish to concur with the overall statements of the Commodity Markets Oversight Coalition ("CMOC") in their statements to the Commission today. This group consists of market users who rely on a well-regulated market to maintain competitive price discovery mechanisms necessary to efficiently run their daily business. The increasing securitized nature of these markets, have eroded their utility for these businesses for whom these markets were created.

I wish to comment on four areas:

- I. **Cash Settled Contracts in the Look-Alike Contract market and the Physical Delivery Futures DCM market are Economically Equivalent.**
- II. **Separate position limits and levels for DCM physically settled markets and the Cash Settled Look-Alike Contracts is erroneous.**
- III. **Deliverable supply calculation and revisions.**
- IV. **Commodity Indexes and their potential treatment as exempted Bona Fide Hedges.**

I. Cash Settled Contracts in the Look-Alike Contract market and the Physical Delivery Futures DCM market are Economically Equivalent.

In the old erroneous debate that swaps were in no way futures contracts, Look-Alike Cash Settled swaps were argued to merely mirror the physical market. Once the contract volume of these cash settled contract markets approached a significant fraction of the physically settle contract markets, there emerged a direct correlation in their impact on the traditional contract market. These contracts are Economically Equivalent. Their influence on the traditional physically settled markets are directly proportional. Whether the open interest and volume are from passive players like index funds, or large financial players seeking a speculative arbitrage advantage, the impact is Economically Equivalent. Their treatment should be the same.

II. Separate position limits and levels for DCM physically settled markets and the Cash Settled Look-Alike Contracts is erroneous.

Position limits for DCM physically settled markets and the Cash Settled Look-Alike Contracts, should be a joint limit and should be the same limit. Their impacts on the base contracts to create convergence from the spot-month contract to the cash physical market is exactly the same. To the extent that there is a failure for price convergence in the cash physical markets, it is due to the aggregate and specific volumes of these cash settled contracts to overwhelm the price discovery mechanism for which these markets were designed. I have often said that their impact on the prices that producers and consumers see is like an elephant taking a high dive into a bathtub. With a direct and economically equivalent impact that large positions have on these physical markets their limits need to be the same.

The proposed levels when combined make no sense. The notion that a single party or related party can hold combined One and One-half times the volume that is physically deliverable is nonsense. I am particularly concerned for the Hard Ag contracts. These markets were never deregulated under the Commodities Futures Modernization Act (CFMA) like the energy markets were. Some of these markets have spot-month limits that are less than ten percent of the deliverable market. New higher levels in the traditional market, and the Cash Settled Look-Alike Contracts that will emerge will overwhelm these contracts. Farmers who rely on a convergence in the price of the futures market to their price in order to finance their crops will be significantly injured. The consumer will be injured as well, as many of the hedges for the manufacturing and process industries will be linked to the cash-settled price.

These limits for the spot-month contract must be joint and limited.

III. Deliverable supply calculation and revisions.

Estimated deliverable supply, which is used for setting both exchange and CFTC spot-month limits, must have a reasonable correlation to actual deliverable supplies. Many of the estimates for commodity contracts have not been adjusted for decades. In energy and many of the agricultural products, we have been undergoing a transportation and logistics revolution. These calculations must be done at least annually.

Failure to make these changes further erodes the physical delivery component of these contracts. For many of the commercial hedgers, providing or taking delivery is the only thing to manage the financial risk to hedging with these markets.

Deliverable supply calculation and revisions needs to be a priority of the Commission.

IV. Commodity Indexes and their potential treatment as exempted Bona Fide Hedges.

Commodity index funds and their role as massive passive market participants is one of the largest, and dangerous influences on the physical market. They are not demand or supply sensitive. They participate in volumes that dwarf the commercial players in the market. The notion that they could possibly be considered a Bona Fide Hedger is wrong and dangerous.

These positions are speculative. Treat them as such.

I would like to thank the Commission Staff, the Acting Chairman Mark Wetjen, Commissioners Bart Chilton and Scott O'Malia for their efforts in the cornerstone rule. Our capitalist markets have relied on position limits in the physical delivery markets for a century. They are key to these markets functioning.

I am at the disposal of you all should you wish to discuss these matters in the future.

Sincerely, your dedicated private public servant,

A handwritten signature in black ink that reads "Sean Cota." The signature is written in a cursive, slightly slanted style.

Sean Cota