From: secretary <secretary@CFTC.gov>
Sent: Tuesday, April 20, 2010 9:25 AM
To: Metals Hearing <metalshearing@CFTC.gov>
Subject: FW: Position Limits

From: plefevre@lefco-inc.com [mailto:plefevre@lefco-inc.com]
Sent: Monday, April 19, 2010 11:13 PM
To: secretary
Subject: Position Limits

I understand the difficulties associated with arbitrary position limits. The best way to control manipulation/speculation is to require clearing members to post margins on their own positions and mark them to market as everyone else is required to do.

At present the CFTC allows clearing members to net out positions. The intent of this was based on the assumption that both buyer and seller were independent of the clearing member - so the exposure of the clearing member was limited to the long or the short being able to maintain a margin on their position.

By allowing clearing members to take a position but net it out against a client i.e. post no margin and not mark to market (because technically this is still a zero position) the CFTC puts the exchange at risk.

As a simple example: a Clearing member sells 50 million ounces of silver short against a buyer. As far of the exchange is concerned the clearing member is not required to post any margin because the net position is zero. Assume silver goes up twenty dollars per ounce i.e. the clearing member is now showing a loss of $ 1 Billion - as far as the exchange is concerned the clearing member is still not required to post a margin because the net postion is still zero.

The best way to limit positions is to require ALL parties to post margin on their own positions and mark to market. In this way large moves would be covered daily and there would be no risk to the exchange or for counter parties. It would also make clearing members think twice about taking excessive positions.

Sincerely
Philip LeFevre