

**Attention: Mr. Douglas R. Brown, Director Legal/Enforcement**

Dear Sirs:

**Re: MSC Notice No. 2004-42, respecting the application of the Winnipeg Commodity Exchange Inc. to convert from open outcry to electronic trading**

This letter is in response to your request for comments relative to the above captioned matter. Alberta Cattle Feeder Council is supportive of the application of Winnipeg Commodity Exchange Inc. (WCE) to convert its trading platform from open outcry to electronic trading.

We believe that moving the market to an electronic platform will, over time, enhance trading volumes and guarantee fair and transparent price discovery.

As an active participant on the WCE we utilize the WCE's contracts for risk management and price discovery purposes on a regular basis. It is in the interests of this organization that the WCE remain a viable entity with good liquidity and transparent, fair markets and it is our position that the conversion to electronic trading is the best means to achieve this objective. I urge the Commission to accept the application of the WCE.

I also urge the Commission to expeditiously complete its review of the WCE's application in order to allow it to complete the business processes necessary to convert on the scheduled launch date of December 20, 2004. It is imperative that the Exchange receive the necessary regulatory approvals so that it can implement the conversion project on schedule. At this point the active participants of the Exchange have completed their reviews of connectivity, are in the process of installing the necessary hardware and software, and will commence connectivity and simulation testing on November 8, 2004. Any delays will be detrimental to the conversion process and to the WCE's markets.

Yours truly,

Alberta Cattle Feeder Council

John Prentice  
Ed Miller  
Representatives of Alberta Cattle Feeder Council

October 22, 2004

Mr. Douglas R. Brown  
Secretary to the Commission  
Manitoba Securities Commission  
1130 405 Broadway  
Winnipeg MB R3C 3L6

Dear Mr. Brown:

The Alberta Grain Commission (AGC) is pleased to comment on the Winnipeg Commodity Exchange's (WCE) application for amendment to registration as an exchange. The AGC views this as an opportunity to offer input regarding the self-regulatory aspect of the exchange, as well as the governance status.

The AGC is a provincial government agency within the Ministry of Alberta Agriculture, Food and Rural Development (AAFRD), comprised of eleven members appointed by the Minister of AAFRD. Eight of the members are farmers, two are government officials, and one is a Member of the Legislative Assembly. A small staff supports the AGC members. We examine current and emerging issues and trends in the grain industry and advise and make recommendations to the Minister of AAFRD, and appropriate groups in order to enable a prosperous, sustainable and market-driven farm and agri-sector. Our mandate is to:

- Examine all facets of the grain industry (cereals, oilseeds, pulses, and specialty crops) from producer to end user;
- Make policy recommendations to the Minister of Agriculture, Food and Rural Development on any matters pertaining to the grain industry;
- Maintain liaison with other governments, groups, or boards within or outside Alberta;
- Carry such other assignments related to the matters above, and as may be specified by the Minister of Agriculture, Food and Rural Development.

The AGC has no opposition to the WCE's application for continued registration as an exchange. The move to electronic trading is an inevitable trend and is necessary if the WCE is to continue to exist and thrive as a futures and options exchange for Canadian grains. Sufficient volume, a large number of participants and public information are important elements for a well functioning futures market. Electronic trading has the potential to attract more participation, which could generate more volume, enhancing liquidity. Volume is the necessary underpinning for good price discovery and hedging mechanisms for all buyers and sellers, including farmers. A move to electronic trading should not prevent the continued registration of the WCE as an exchange.

Part 2 of the WCE's application seeks continued registration as a self-regulating organization (SRO). The AGC does not oppose the WCE's application to continue as an SRO per se but we would like to offer some comments and suggestions for improvement.

It is our understanding that self-regulation means that the WCE will continue to be responsible for meeting all the specified regulations associated with an exchange. This includes primary market regulation, secondary market regulation, and member regulation. The WCE fulfills its regulatory functions through a Regulatory Division of the WCE, which reports to the Special Regulatory Committee of the Exchange. The WCE has been a SRO since 2002 following the WCE's move from a not-for-profit to a for-profit enterprise.

Since 2000, the Manitoba Securities Commission (MSC) has been responsible for overseeing the WCE. Section 15(2) of Manitoba's Commodity Futures Act specifies that an exchange must operate in the public interest. In our view both the MSC and the WCE need to do more to enhance stakeholder confidence in the WCE and ensure that it is perceived as acting in the public interest, particularly with the WCE's relatively new private structure. A fair and efficient market is a 'public good' and as such, it becomes the responsibility of the 'overseer', the MSC, to ensure such a system.

Public reporting, to demonstrate accountability, is key for an organization that is expected to generally act in the public interest. The WCE seems to be lacking in this area. An annual report is a tool to create awareness among the shareholders and the general public regarding the outputs and outcomes of an organization; the WCE does not prepare a public annual report. A publicly available business plan is another tool of accountability; the WCE does not have one. The WCE publishes the names of 10 directors, with titles of six. This very minimal information does not enhance public confidence. There are also three outside directors, but only their names (not even their town) are listed.

We note that it is common for stock and commodity exchanges to be self-regulating. Some Canadian marketplaces have contracted with an independent provider of regulation services, Market Regulation Services Inc. That entity has a governance structure that guarantees its independence from the marketplace. It publicly reports on its activities and outcomes through an annual report, which provides the names of directors and members of various committees. This is in contrast to the lack of public information about participants on the WCE's self-regulatory group, known as the 'Special Regulatory Committee'. How are public stakeholders to be assured that three of the five people on the Special Regulatory Committee are not a shareholder, employee of a shareholder, participant or an employee of a participant, as required, if this information is not public?

In addition, the International Organization of Securities Commissions International points out that with SRO status there may be potential for commercial pressures to interfere with the commitment of resources dedicated to regulatory enforcement. The MSC must ensure that appropriate and sufficient resources are allotted such that the WCE's regulatory obligations are effectively fulfilled, and the MSC should publicly report that it has done so.

We believe these accountability issues should be examined by the MSC. We would also like to see the MSC improve public reporting of its overseeing of the exchange. For example, the 2003 annual report of the MSC says that the MSC is responsible for administering and enforcing the Commodity Futures Act and it mentions the number of people registered to trade or advise in securities or commodity exchange contracts. However, there is no mention of anything demonstrating the overseeing of the WCE itself. As another example of public reporting we see that Alberta Securities Commission website (ASC) lists three SROs (e.g. Investment Dealers of Canada). ASC performs periodic oversight audits to ensure compliance, and publicly releases their audit report and the comments back from the SRO. Perhaps the circumstances are different or perhaps the MSC is performing this role, but it is not apparent to us that it is.

The overriding concern of the AGC is that the WCE operate as an effective tool for price discovery and hedging for farmers, and other buyers and sellers. In order for this to happen, it would help if MSC were to demonstrate, particularly to the agriculture community, that they are indeed looking out for the public interest. We would also like to see the WCE provide more governance information and engage all stakeholders to ensure confidence in and on-going support for the organization.

The WCE has served the agriculture industry well for many years. We hope our comments have been constructive and will aid the MSC in working with the WCE to enable it to thrive as the futures exchange for Canadian grains.

Sincerely,

A handwritten signature in black ink, appearing to read "Eugene Dextrase". The signature is fluid and cursive, with a long, sweeping underline that extends to the left.

Eugene Dextrase  
Chairman

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Public reporting, to demonstrate accountability, is key for an organization that is expected to generally act in the public interest. The WCE seems to be lacking in this area. An annual report is a tool to create awareness among the shareholders and the general public regarding the outputs and outcomes of an organization; the WCE does not prepare a public annual report. A publicly available business plan is another tool of accountability; the WCE does not have one. The WCE publishes the names of 10 directors, with titles of six. This very minimal information does not enhance public confidence. There are also three outside directors, but only their names (not even their town) are listed.

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The WCE has served the agriculture industry well for many years. We hope our comments have been constructive and will aid the MSC in working with the WCE to enable it to thrive as the futures exchange for Canadian grains.

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Eugene Dextrase  
Chairman

The Manitoba Securities Commission  
1130-405 Broadway  
Winnipeg, Manitoba  
R3C 3L6

October 21, 2004

Attention: Mr. Don Murray

Dear Mr. Murray:

**RE: MSC Notice 2004-42 Winnipeg Commodity Exchange application for amendment to registration as an Exchange**

In commenting on the proposed transition of the Winnipeg Commodity Exchange (WCE) to an electronic platform, I feel it first necessary to review the underlying dynamics of the Canadian grain industry.

The Canadian grain industry has been in a state of decline and contraction for several years. Global competition, adverse growing conditions and incompetent management have resulted in many corporate amalgamations. The current situation is characterized by sharply reduced competition among vertically integrated companies. In an industry that once prided itself on its commitment to competition on exchange traded markets, several corporations now view such markets as an obstruction to greater profitability. The Canadian grain industry, once populated by numerous midsize Canadian Corporations is now in the hands of a few large grain firms, many of them foreign owned.

Exasperating this lack of competition has been the result of aggressive 'in house' risk management in the wake of the Barrings Incident. Grain companies that once viewed price volatility and major market moves as an opportunity to take large market positions and recapitalize, now view them as risk. All of the large commercial firms now enforce well-defined minimal position limits on in-house traders.

This decline in the total number of market participants ('the crowd') has resulted in reduced volumes, liquidity, total exchange open interest, and consequently a reduction in WCE revenues.

The situation has been mitigated somewhat by the growth of the commodity and hedge funds industry. However, past experience has shown that commodity and hedge funds are position traders (they establish a large market position and leave it in place for weeks or even months) and in general do not contribute volume on a consistent daily basis.

A successful market is characterized by several major criteria. For the sake of brevity, I will list four of the major ones.

1. A well defined need for risk management
2. A market that is volatile and experiences or has the potential to experience large price swings.
3. A market that is unique and is not actively traded on another exchange.
4. A very large, diversified (preferably, economically and geographically) CROWD of participants.

Using these criteria, one can conclude that the points two and three are easily satisfied by WCE contracts. However it is points one and four that have brought the WCE to its current financial situation.

### A well defined need for risk management

The grain industry in Canada has indeed undergone massive structural changes during the past 10 years. As a result competition for the farmer's product has suffered greatly. The major players in the Canadian grain industry are becoming increasingly vertically integrated, and as such are presented with increased options to mitigate risk. The most tempting and least palatable for the farmer would be the removal of a transparent price (through the open auction process of a futures market) to the farmer. This can only happen with the demise of the WCE.

If the WCE were to cease operations, cash products now priced on a basis level against futures would be priced strictly as a 'posted price'. To manage 'market risk' grain companies would only need to increase the price difference between what is paid to the farmer against what the product is ultimately sold for. In the case of Canola, this could translate into approximately \$40.00/tonne, or \$250,000,000.00 per year given the average size of the crop.

The Canadian farmer on the other hand has expressed a very real need to increase participation in WCE contracts. However the biggest roadblock to increased producer participation is the delivery provision on the WCE. For the most part the Canadian farmer cannot deliver his own grain or oilseeds against the contracts. So although the Canadian farmer can participate in the auction process with futures contracts, the removal of the ability to deliver has negated his ability to capture the full value of his crops. The Canola market is a fine example. Once a 'Vancouver delivery' contract, the contract was changed to an 'inland delivery' contract to greater benefit all market participants. At one time 'producer cars' presented the farmer with the ability to deliver canola and capture the full price of the commodity. Now days, with the removal of the ability to deliver, the Canadian canola producer is presented with a basis discount (against futures) cash price that at times is \$40.00 below the futures price. This 'delivery barrier' has resulted in markedly lowering the level of farmer participation in all WCE contracts.



One can see that the desire to mitigate risk through the use of a futures market is subject to different barriers on either side of the equation.

## A very large, diversified CROWD of participants

The CROWD of participants in the WCE markets has been in decline for many years. Mergers and acquisitions have steadily eroded the number of commercial traders both on and off of the floor. As stated earlier the reduction in commercial participation has been offset to a small extent by an increase in fund activity on the WCE. On the whole, funds tend to trade sporadically and generally do not add greatly to the daily volume of trade, except when initiating or liquidating longer-term positions. Added to this fact is both a decrease in producer participation (because of current delivery provisions) in WCE contracts and a declining local floor population. ('Locals' on the trading floor of the WCE account for approximately 25% to 30% of total exchange volume. On some days, that number exceeds 50% of total volume in the Canola contract)

The WCE has tried for many years to attract new participants to the WCE markets. First, the WCE (with the support of the large commercial firms who control a majority of shares on the WCE) decided to disband the WCCC (Winnipeg Commodity Clearing Corporation) and 'farm out' the clearing to CDCC. It was argued at the time that this 'world class' clearing operation would bring new confidence and attract new participants to the markets. This has not happened. In fact an analysis of the margin determination formula used by the CDCC will readily reveal flawed risk management. The result of this decision has been to make the WCE even less competitive by sharply increasing transaction fees. The WCE, also with the support of the large commercial firms demutualized the exchange. This decision has produced no benefit to the WCE and has in fact helped worsen the financial picture through loss of 'dues' income. Add to this the massive cost of the transformation and the financial picture deteriorates further. In addition to the major structural changes at the WCE, there has been a steady ongoing tampering with the contract specs. The accumulative effect of these subtle contract spec changes over the years has resulted in contracts that benefit users of the commodities (the large grain corporations who control the exchange) more than producers of the commodities. In some cases tampering with the specs of the contracts have led to their demise, thereby removing a transparent price to the Canadian farmer.

The fact is that the administration at the WCE has failed to attract new participation on the exchange and for the most part have made decisions that have reduced the level of trade.

One can readily see that the WCE is suffering severe systemic problems, the symptoms of which are a reduced floor population, a reduction in open interest, and a reduction in liquidity, all of which have led to a declining financial situation.

To address these symptoms, the WCE has taken a rather radical stance (with the support of the large grain corporations) of proposing to close the open outcry trading facility and establish an electronic trading system (ETS). In doing so, the exchange appears to have made several bold and unsubstantiated assumptions.

- 1) That this is the way all exchanges will trade in the future.
- 2) That migrating to an ETS will have a positive impact on volume and liquidity.
- 3) That presenting contracts on an ETS will increase the Crowd of participants
- 4) That the conversion to an ETS is essential to the financial survival of the WCE.

While initially these assumptions appear forward thinking, under closer scrutiny they lack academic depth. The management at the WCE often has used the LIFFE (London International Financial Futures and Options Exchange) as a comparative example. The truth is, there is very little similarity between the exchanges. Contracts on the LIFFE are financial in nature and satisfy the criteria for a successful market. There is no evidence of a commodity (based) exchange making the successful transition to an ETS. There is also no evidence that suggests that any of the open outcry commodity based exchanges could make a successful transition to an ETS. Of special note is the large, diverse crowd that participates in financial futures contracts. It is because of this factor that these types of contracts have succeeded on an ETS. The WCE on the other hand can be termed a 'specialized boutique market' with a small specialized and unique crowd.

Since the WCE will for the most part lose its current local population (25% - 30% of the current volume) to more liquid, deeper markets, it will have to attract new participants to replace the lost volume.

Attracting additional traders to the WCE ETS will require the exchange to overcome several very difficult barriers. For one, the cost per transaction for contracts of similar underlying value will be two to four times greater on the WCE. This is a massive disincentive in attracting established online traders who are currently committing risk capital to more liquid, deeper (greater volume and liquidity) markets. It is folly to base the transition on the assumption of attracting such traders. Volume, liquidity, slippage, market depth, and the cost per transaction are all critical elements in determining risk. This constant assessment of risk is a common thread to all successful traders and trade houses. The WCE offers none of these elements. All contracts on the WCE suffer from lack of liquidity, volume, and market depth, and the cost per transaction (which is already excessive) will increase with the transition to an ETS. It is also to be noted that in order to trade the WCE contracts on an ETS the online trader will have to devote precious 'screen space' to WCE markets. This important point cannot be under emphasized. It will be incredibly difficult for the WCE to convince established online traders to replace quotes and charts from active liquid markets with WCE markets. Keep in mind there are currently times during the day when there are no traders in the open outcry pit. Why would any successful traders remove active liquid markets (that they are now profitably trading) from his or her screens and replace them with inactive WCE quotes and charts?

As stated earlier, the risk capital that the locals contribute to the current auction process currently accounts for 25%-30% of the daily volume. Losing this percentage of total daily volume will have a profound negative impact on both volume and liquidity. One has only to carry this argument to the next level and conclude that current commodity fund participation will also evaporate.

Successful open outcry exchanges all have one thing in common, a population of 'local traders'. Such exchanges have enjoyed the benefits of their 'captured local population'. It is this 'captured risk capital' that adds greatly to liquidity and volume on a daily basis. If the WCE is allowed to transform to an ETS, the loss of this risk capital, available at the pit level, that will have a tremendous negative impact on trade.

None of the major North American commodity (agricultural) contracts have migrated to an ETS. Electronic trading systems are currently used to augment open outcry trade during night sessions. All of these markets appeal to a specialized crowd, unique to each individual market. In none of these commodity markets is the crowd large enough or diversified enough to take up the 'slack' resulting from the loss of current 'local trade'.

The administration of the WCE, with the support of the large grain corporations, appears intent to rush into future by placing all of its eggs in one basket. Please keep in mind that this transition is a one-way street. Once the open outcry trading floor is dismantled there can be no turning back. Sound business logic would suggest a more hedged approach to such a transition. At the very least a dual track approach should be attempted to see if indeed current online traders would be attracted to the auction process. Ideally I would suggest an in-depth academic study by an independent party. The MSC has the mandate to ensure the WCE operates so as to benefit the public's interest. However, the dollar risk to the Manitoba, and western Canadian producer if this transition fails will be devastating. The potential loss of the transparent price discovery to the Canadian producer can in no way be in the public's interest.

Also of note is the fact that the demise of the WCE, while devastating to the Canadian producer, will create a potential windfall for the large grain corporations. Removing the WCE from the equation will present a situation where the handful of large grain corporations could act as an oligopoly.

The WCE is truly in a precarious situation, one that indeed needs immediate attention. However, the administration's current solution (ETS) is not the answer, and will only hasten the potential demise of the exchange.

Independent surveys have shown that a majority of the users of the exchange are opposed to the transformation to an ETS

With this in mind I urge the MSC to reject the current application of the WCE to allow transition to an ETS at this time. I also urge the MSC to commission an independent academic study to assess the viability and impact that such a transition would have on all aspects of the western Canadian grain industry.

Yours truly;

Anthony Denis Cattani

October 22, 2004

The Manitoba Securities Commission  
1130 – 405 Broadway Avenue  
Winnipeg, Manitoba  
R3C 3L6

**Attention: Mr. Douglas R. Brown, Director Legal/Enforcement**

Dear Sirs:

**Re: MSC Notice No. 2004-42, respecting the application of the Winnipeg Commodity Exchange Inc. to convert from open outcry to electronic trading**

This letter is in response to your request for comments relative to the above captioned matter. Louis Dreyfus Canada Ltd. is supportive of the application of Winnipeg Commodity Exchange Inc. (WCE) to convert its trading platform from open outcry to electronic trading.

Louis Dreyfus is an active participant and shareholder of the WCE and we hedge our procurement from over 5,000 farmers in Manitoba, Saskatchewan, Alberta and British Columbia. We also hedge farmer purchases of canola from the states Victoria and South Australia in Australia.

In order to maintain the status quo at WCE it will be necessary to invest significantly in new systems for the trading floor and in a disaster recovery program. The minimum costs will be an initial outlay of over a million dollars and at least \$300,000 more per year in operating costs. This is a large investment that is not guaranteed to have any significant increase in liquidity. Retaining the status quo in terms of the open outcry environment, will lead to the eventual demise of the Exchange.

The experience at other derivative markets which have converted from open outcry to electronic trading have been very positive with all of them showing increased liquidity. It has been very difficult to attract new liquidity to the WCE floor. Over the past few years there have been four new independent traders, none of whom have remained. As a large user of the WCE, we need enhanced liquidity as our risk management needs grow. The best way to ensure new liquidity is to increase access to the WCE markets and the best way to do that is increased connectivity via electronic trading.

The trend in emerging and established markets is towards the use of electronic trading systems in derivatives exchanges. The electronic trading system the WCE

are proposing to use, the e-cbot® system powered by LIFFE CONNECT® is one of the most functionally rich available with the broadest connectivity. This system is hard-wired into the desks of thousands of risk managers and traders around the world which greatly expands the reach of the WCE.

It is also important the Commission complete its review of the WCE's application in order to allow it to complete the business processes necessary to convert on the scheduled launch date of December 20, 2004. The Exchange requires the necessary regulatory approvals so that it can implement the conversion project on schedule. Louis Dreyfus has completed technology and connectivity reviews and are in the process of installing the necessary hardware and software to commence connectivity and simulation testing in early November.

It is in the interests of this organization that the WCE remain a viable entity with good liquidity and transparent, fair markets and it is our position that the conversion to electronic trading is the best means to achieve this objective. Any delays to the approval would have a seriously damage the liquidity and reputation of the Exchange. I urge the Commission to accept the application of the WCE.

Sincerely yours,

Brant H. Randles  
President  
Louis Dreyfus Canada Ltd.



October 22, 2004

The Manitoba Securities Commission  
1130 – 405 Broadway Avenue  
Winnipeg, Manitoba  
R3C 3L6

**Attention: Mr. Douglas R. Brown, Director Legal/Enforcement**

Dear Sirs:

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This letter is in response to your request for comments relative to the above captioned matter. Bunge Canada is supportive of the application of Winnipeg Commodity Exchange Inc. (WCE) to convert its trading platform from open outcry to electronic trading.

1. Retaining the status quo, in terms of the open outcry environment, will lead to the eventual demise of the Exchange.
2. It is very hard to attract new liquidity to the floor. Over the past few years there have been four new independent traders, none of whom have stayed. These numbers do not provide the capital and liquidity necessary to support the markets.
3. The best way to ensure new liquidity is to increase access to the WCE markets and the best way to do that is increased connectivity via electronic trading.
4. The experience at other derivative markets which have converted from open outcry to electronic trading have been very positive with all of them showing increased liquidity.
5. In order to maintain the status quo at WCE it will be necessary to invest significantly in new systems for the trading floor and in a disaster recovery programme. The minimum costs will be an initial outlay of over a million dollars and at least \$300,000. more per year in operating costs. This is a large investment that is not guaranteed to have any significant increase in liquidity.
6. The trend, worldwide, is towards the use of electronic trading systems in derivatives exchanges.
7. The electronic trading system that we are proposing to use, the e-cbot® system powered by LIFFE CONNECT® is one of the most functionally rich available with the broadest connectivity. WCE is fortunate to have this opportunity to list its products on this system at this time.

8. This is a business decision made by those most affected- the shareholders who use the contracts and maintain the Exchange. 81% of the shareholders voted in favor of this business decision.

As an active participant on the WCE we utilize the WCE's contracts for risk management and price discovery purposes on a regular basis. It is in the interests of this organization that the WCE remain a viable entity with good liquidity and transparent, fair markets and it is our position that the conversion to electronic trading is the best means to achieve this objective. I urge the Commission to accept the application of the WCE.

I also urge the Commission to expeditiously complete its review of the WCE's application in order to allow it to complete the business processes necessary to convert on the scheduled launch date of December 20, 2004. It is imperative that the Exchange receive the necessary regulatory approvals so that it can implement the conversion project on schedule. At this point the active participants of the Exchange have completed their reviews of connectivity, are in the process of installing the necessary hardware and software, and will commence connectivity and simulation testing on November 8, 2004. Any delays will be detrimental to the conversion process and to the WCE's markets.

Yours truly,  
BUNGE CANADA



Woody Galloway  
Manager, Hedging Operations  
& Oilseed Procurement



## The Winnipeg Commodity Exchange - A Treasure in Peril

The Winnipeg Commodity Exchange was built by able people at the height of the British Empire to facilitate grain trade in the breadbasket of the world.

It's a working futures market trading \$1 billion worth of canola a month.

### Futures Exchanges

Futures exchanges facilitate grain trade. Traders can concentrate on buying or selling a truckload or a cargo without having to worry about price. The WCE takes care of that.

WCE canola futures allow a grain company to sell canola as they buy in the country. Users determine price before their canola leaves Vancouver.

The WCE facilitates trade by taking the opposite side of every contract traded on the Exchange. A user can buy canola from a farmer with neither worrying if the other party is good for the money, or can deliver the canola. The Winnipeg Commodity Exchange ensures the seller delivers and the buyer pays.

A side benefit is that every time a contract is traded, a price signal is generated. Trade in WCE canola determines the price of canola around the world.

A futures exchange is not a tricky business. Exchanges guarantee contracts between two parties. In return both buyer and seller pay the exchange.

This third party guarantee allows players who don't know each other to trade with confidence. Their contracts are with the Exchange.

### Electronic Trade

The Board and membership have voted to convert open-outcry trading to an electronic market run by the Chicago Board of Trade. The Board vote and the membership vote both were made primarily by members of the western Canada grain trade. The locals voted against it. Most directors and shareholders are grain trade. It appears that the majority shareholders of the WCE have colluded to destroy the value of the exchange and disadvantage the minority shareholders by diminishing or destroying the value of the WCE and therefore WCE shares.

The Chicago Board of Trade does not allow grain trade companies to serve on their Board of Directors. It is correctly perceived that they would have a conflict of interest.

Converting from open-outcry trading to electronic will not help the WCE survive. The disadvantages are that electronic trading will cost more than the current trading floor, and, even worse, will eliminate the trading floor.

### Trading Floors and Liquidity

The trading floor is the soul of an exchange. Two traders make a specific transaction. One buys. The other sells.

The WCE has several players - farmers, the trade, funds, specs and locals, together providing liquidity. Liquidity makes it easy to buy when you want to buy and to sell when you want to sell. It makes the difference between buy and sell prices small. Liquid markets have depth, immediacy and are resilient.

Without liquidity spreads widen, execution speeds slow and temporary order imbalances exert outside effects on prices.

## Electronic Works for Financials

Electronic markets can work for financial instruments like interest rates. Most traders are institutions for whom electronic trading eliminates a possible source of error.

Electronic has never worked for ag markets. Sydney, Australia ag futures converted to electronic two years ago. They no longer exist.

The MATIF, in Paris, an electronic futures market for rapeseed could be on a par with Winnipeg. Instead bid-ask spreads are often 20 Euros apart.

If that were the case with Winnipeg, a farmer hedging 60 tonnes of canola is potentially giving away \$180, just for market inefficiency.

Electronic trading does not work for ag commodities because of the diverse nature of ag traders. Some of the players in the WCE, big grain companies and commodity funds, could use electronic trade. The problem is that without the farmers, small companies and, especially the locals, there will not be enough liquidity to keep the market functioning.

## Locals

Winnipeg canola trade is liquid, largely due to locals. Locals are independent traders on the trading floor trying to make money. They buy when someone wants to sell and sell when someone wants to buy.

It's highly competitive. Locals measure their profits and losses by dimes. They go for 10 cent imbalances like a traffic cop after illegally parked cars, or a farmer after a swath of dry grain.

The WCE, by ordering the closure of the trading floor, is putting the locals out of business. Locals could, in theory, play the same role via a computer screen, but few will. The best locals have already left Winnipeg.

## A Costly Mistake

The Winnipeg Commodity Exchange is in the process of making a costly, irreversible mistake that will end its existence. They plan to close the open-outcry trading floor and replace it with electronic trading.

## An Exchange Can be Profitable

The Chicago Mercantile Exchange went public two years ago. Shares of CME have gone up fivefold, to US\$125 a share. The WCE rolled over and died. The WCE, in the same business, decided to close its trading floor and convert to electronic. It means the end of the Winnipeg Commodity Exchange.

## It's Not Too Late

The WCE trading floor is still up and running. Locals still come to the floor every day. The grain trade still uses the WCE to make their hedges. The WCE is making money. Trade volumes in canola and barley are healthy.

## Ace in the Hole

The WCE has a big ace in the hole - a milling wheat contract. The Canadian Wheat Board already uses Chicago, Kansas and Minneapolis wheat futures contracts to price Fixed Price and Basis Contracts with western Canadian farmers. The only wheat futures that the CWB does not trade is WCE wheat. The Board is doing a good job of increasing pricing opportunities for prairie farmers. A WCE CWRS contract is the natural next step.

A milling wheat contract backing the existing canola market will give the WCE enough volume to operate for another hundred years.

What To Do?

A functioning futures market is beneficial to prairie farmers and to the trade. Going electronic will be the end of the exchange. The Manitoba Securities Commission should disapprove the WCE's plan to convert from open-outcry to electronic trade.

The Manitoba Canola Growers Association  
400-167 Lombard Avenue  
Winnipeg, Manitoba  
R3B 0T6

Flaherty Grain Company Limited  
325-360 Main Street  
Winnipeg Manitoba  
R3C 3Z3

October 19, 2004

The Manitoba Securities Commission  
1130 - 405 Broadway  
Winnipeg, MB  
R3C 3L6

Attention: Mr. Don Murray  
Chairman

Dear Mr. Murray:

**RE: The Manitoba Securities Commission ("MSC") Notice 2004 - 42 Winnipeg  
Commodity Exchange (the "WCE") application (the "Application")  
for amendment to registration as an Exchange**

This letter is being sent to you in response to your request for comments concerning the Application of the WCE. The comments set forth herein are being provided on behalf of Flaherty Grain Company Ltd. ("**Flaherty Grain**"), myself, Brian Flaherty, personally and the Manitoba Canola Growers Association (the "**MCGA**") (Flaherty Grain, Brian Flaherty and MCGA collectively hereinafter referred to as "**we**").

**BACKGROUND**

Brian Flaherty has been a member of the WCE since 1985 and privately, personally or through Flaherty Grain, which is wholly owned by Brian Flaherty, a member since 1993. Mr. Flaherty was a member of the Board of Governors for approximately three years from 1998 through 2001. Mr. Flaherty is currently registered as a floor broker/trader. In this capacity, Mr. Flaherty takes orders from market participants, executes such orders on the trading floor and, in addition, routinely trades more than 25,000 contracts a month on his own account. The activity of Flaherty Grain and Mr. Flaherty represents a significant percentage of the total WCE volume on a day to day basis. The Manitoba Canola Growers Association is a non-profit organization made up of about 10,000 members, eight Directors, and four staff whose mandate it is to enhance mandate is to enhance the profitability of Manitoba canola growers through research, marketing and policy.

**POSITION**

We are strongly opposed to the WCE proposal for a total conversion to an electronic platform and the closure of the trading floor.

## **BASIS FOR OBJECTION**

### **1. Electronic Trading Not Universally Adopted**

In the Application, the WCE suggests that other exchanges around the world are all converting to an electronic platform, and implies that the WCE must follow suit. The suggestion fails to make the important distinction between commodity exchanges and financial futures exchanges. In fact, at the present time the vast majority of commodity futures trading is conducted in an open outcry format on commodity exchanges. For the most part, the only commodity futures that are traded electronically are those that constitute relatively insignificant components of predominately financial futures exchanges in Europe, Australia and Asia. Those exchanges were converted to an electronic platform, but they are distinguishable, as those exchanges did not have an active local population trading commodities or commodity futures on those exchanges prior to conversion. The large and significant commodity trading markets in the world for corn, wheat, soybeans, soybean oil, soybean meal, coffee, sugar, cocoa, cotton, orange juice, crude oil, natural gas, livestock, meats, lumber, gold, silver and other commodities all use an open auction method in a ring, similar to the current trading floor at the WCE. The WCE will be the only important grain exchange in the world to attempt to operate a grain futures market without a trading floor. We urge you to do the analysis and we trust you will concur that what the WCE is proposing will put it out of step with other comparable exchanges and, in fact, make it unique in world markets.

### **2. Lack of Support**

Contrary to what the Application states and encourages you to believe, our familiarity with the market and the participants therein suggests that the proposed conversion does not have broad support from market participants. The general public is mostly unaware of the proposal and have not had the opportunity consider its implications. We are deeply concerned that if implemented, the conversion to an electronic platform will be disastrous for the WCE, its real stakeholders, the local community, and grain producers across Manitoba and the rest of Western Canada. If a failure of the WCE results from the change, which we believe will be the ultimate result, irreparable harm to existing market participants will occur and the public will be left without a transparent price discovery mechanism, which will seriously adversely impact local producers. The public interest will not have been served.

### **3. Advantage of Floor Trading**

Electronic platforms have been around for several years. Commodity markets have, for the most part, not adopted them, because trading floor environments provide various advantages, including;

- (a) The trading floor is a focal point for cash and futures market information dissemination.
- (b) Participation in the open-outcry auction platform provides an incentive for floor traders and brokers (including locals) to specialize in the commodities traded on the floor, and to contribute to the information flow and trade volume. Floor traders are physically present and therefore are forced to specialize as opposed

to in a screen based environment where there is no allegiance to any one market.

- (c) The trading floor provides physical transparency and the opportunity to observe others involved in trading in a way that creates discussion, interaction, and the incentive to share information. Such interaction is essential to the market and will be entirely absent under an electronic platform. In the absence of such physical transparency and the interaction and information sharing and discussion and detailed information obtained on the floor concerning who is trying to do what that occurs on the floor, we believe that some substitute process will develop under an electronic trading platform. We believe that essentially buyers will find sellers and vice versa by way of the telephone in back offices. This practice is known as "prearranged trading" and is currently considered a very serious offence under WCE rules. No information is provided in the Application as to how this practise will be governed by compliance at the WCE and the MSC. Since the WCE is forging new ground by converging a commodity exchange to an electronic platform, there is no other market to look at for guidance in this area. No decision to implement the electronic trading platform should be made until the unique regulatory and compliance issues associated therewith are resolved.
- (d) The trading floor provides a venue where the public may attend and view trading and observe the actual creation and development of price levels, as opposed to what would become an invisible, elusive and mysterious system of computers connecting large companies. A similar problem does not exist for the broad and deep financial futures market that is open and transparent in other respects and where participants are simply trading a derivative of a larger market where the influence of a trading floor is not as significant.
- (e) The trading floor presents a proven method of maintaining the important local liquidity providers without having to compete with other larger, deeper markets for liquidity providers by offering ad hoc incentives and programs which may or may not work. "Market Maker" programs that may be offered by the WCE in an electronic environment would be an attempt to emulate the advantage that a local has on the floor by giving "market makers" an advantage as the computer decides which order takes preference. In exchange for this, the "market maker" must be present with bids and offers in some pre-established fashion.

For these and other reasons, no other comparable commodity futures exchange, to our knowledge, and certainly none of any significance, have converted to an all electronic trading platform and eliminated a trading floor, and intentionally disbanded their floor brokers and traders. Where electronic systems have been adopted for commodity contracts, it was done to facilitate after hours trading and perhaps a disaster recovery solution only. This is the case at the Chicago Board of Trade ("**CBOT**") (corn, oats, wheat, soybeans, soybean products), the New York Mercantile Exchange ("**NYMEX**") (crude oil, natural gas, gold, silver etc), The Chicago Mercantile Exchange ("**CME**") (lumber, meats, livestock), The Minneapolis Grain Exchange ("**MGE**") (wheat), and the Kansas City Board of Trade ("**KCBOT**") (wheat).

#### **4. WCE Not Suited to Electronic Trading**

Ironically, of the seven North American commodity futures exchanges, the WCE is the least suited to convert to 100% electronic trading, because;

- (a) No commodity futures market can afford to intentionally disband a crucial segment of the active traders that contribute a quarter of that market's volume. The WCE, in particular, does not have a sufficiently large active group of traders that it can afford to intentionally remove the 25 - 30% of volume that is provided by local traders who rely on the current floor trading platform. The tools and information critical to the function of local floor traders are not comparably available in any electronic platform. Those traders would be out of business if the decision to change to an electronic platform is implemented.
- (b) There is no economic reason for eliminating the trading floor space because trading floor space in Winnipeg is much less expensive than trading floors in large U.S. centers.
- (c) Customers of the WCE have not requested electronic trades because, among other reasons, the turn around time on orders at the WCE is considered very fast, for example, than at the large U.S. exchanges where electronic trading may be justified in the interests of expediting order filling and reporting.

We believe that an electronic system could be used by the WCE in the same way that the MGE and the KCBOT intend to use the proposed e-CBOT system, for after hours trading and perhaps for a disaster recovery system, without the necessity of abandoning the open pit floor trading platform. The MGE and KCBOT are comparable to the WCE because they are relatively small regional grain exchanges. In review, there is no reason why both trading platforms cannot be maintained, if indeed there is any justification at all for introducing an electronic trading platform for after hours trading or to provide a backup system.

#### **5. Lack of Approval by Users**

With respect to the purported majority support for a proposed change, which the WCE is relying upon, it should be noted we believe the vast majority of WCE users do not support the conversion. It is our understanding that the board of directors of the WCE made the decision to put the closure of the trading floor to a vote of the shareholders of the WCE under a veil of secrecy. We do not believe adequate consultation took place with actual users of the WCE except to the extent that only some of the users have representatives on the board of directors. Those that do tend to represent a rather narrow group of users. Many important market users of the WCE are not represented on the board of directors. There is no longer a system of constituencies represented on the board. This has resulted in the board being controlled by a few of one particular kind of user. For example the companies that hold the majority of ownership of the Canadian canola crushing industry are not represented on the board of directors. There are currently no locals on the board of directors. Important Japanese trading companies are not represented on the board. Although such companies were allowed to participate in the vote, the number of shares that they held was not sufficient to influence the vote. Their interest in the WCE as shareholders is disproportionate to their level of market participation. In addition, we believe important non board member users of the WCE

were not consulted prior to a decision being made by the board to put this matter to a vote of shareholders. No independent third party study into viability of WCE markets on an electronic platform was undertaken by the WCE. Although some users had input by way of the shareholders vote, we submit the shareholders who control the board are different from the constituents who use the WCE and they have different interests from those who use the WCE.

## **6. Conflict of Interest**

As you know the WCE was “demutualized” in 2001 and consequently memberships were exchanged for shares. The companies who held multiple (but centrally - owned or controlled) memberships were given a certain number of shares for each membership. A relatively small number of the large grain firms effectively owned a large number of memberships because employees of those companies using the WCE needed to be members, and in turn the company would assign a membership to an individual. In our view, it was never intended that a small group of companies would gain effective control of the WCE owing to the fact that they had a large number of people working for them when the WCE was a membership organization. WCE’s seats and now shares have for some time been worth very little. We are not aware of any sales of shares but we understand that a membership traded in the range of \$1,000 just prior to demutualization. This compares to the price of, for example, a full CBOT membership at around \$1 million US. Hence, a few large companies who held multiple memberships wielded tremendous influence in shareholder votes without a very significant amount of capital at risk. Indeed since the shares have relatively insignificant value it may be argued that the majority vote does not represent the interests of those with a real stake in the WCE, its users. WCE share ownership does not translate into corresponding use of, or a real stake in, the exchange. It is therefore improper and highly prejudicial to the public interest for serious and potentially disastrous decisions to be made by shareholders for whom there are no real consequences in the event of the failure of the WCE. In fact, we submit that there is a risk that these shareholders are in a conflict of interest situation and could be expected to vote in a way that is at odds with the interests of the organization, and the general public interest in maintaining an open market with a transparent price discovery mechanism, but beneficial to their own particular operations. The purported 81% shareholder support is therefore artificial, and in the absence a proper survey of the preference of actual WCE users there is no way of knowing what the majority of players would prefer.

## **7. Reduction in Volume and Liquidity**

We firmly believe that the conversion to a single electronic platform and the closure of the trading floor will have the effect of reducing the volume and liquidity created by local traders. In the WCE’s case local traders are responsible for approximately 25 to 30% of all trading on the WCE. The other six commodity exchanges in North America have not changed to an exclusively electronic platform and do not intend to do so, because the loss of similar levels of trading would cripple their market. This is so notwithstanding that five of the other six exchanges already have or soon will have electronic platforms available to them because they have taken the step of making them available for after hours use, or they operate them for financial futures contracts either stand alone or parallel with the floor. In each case, they have maintained an open trading platform for commodities. We believe the WCE should follow suit, if indeed there is any perceived need for an electronic platform for after hours trading. In the Application the WCE



contends that the electronic platform will generate additional volume from professional traders, hedgers and money managers. One may ask why these people are not trading at the WCE now. There are reasons they do not trade on the WCE, and electronic trading will not affect those reasons. Specifically, first and foremost, screen based traders desire markets that provide depth, liquidity, and volatility. Other larger, deeper markets that have the liquidity provided by locals and others will continue to be more attractive to screen based traders. The reality is that most new futures products fail. Mostly because volume attracts volume, and once traders see that a new product is slow to start, they withdraw. A total conversion to an electronic platform will be similar to the beginning of a new market because so many new players will be relied upon. In its submission the WCE maintains that, "The experience of other exchanges is that while in some cases there may be an initial small drop in transaction volume immediately following the conversion, the volume then begins to increase significantly. This is consistently the case whether the products traded are financials or commodities." In our view, that claim is unfounded. There has been no total conversion of a commodity exchange that supports such a conclusion. The only conversions to electronic trading commodities have been where commodities are small components of a large financial futures exchange and where there was not a significant level of volume and liquidity provided by locals prior to conversion. The WCE cannot sustain a drop in volume of any kind. Commodity futures markets are not stock markets. Stocks would trade whether or not there was an organized market, the trading would just not be as efficient. If commodity futures are not available cash traders will find other avenues to manage the risk of buying and selling the commodity, including, if possible, widening margins to account for the extra risk.

As traders with some considerable experience in the WCE markets both on a commercial and an independent basis, we fully expect the WCE's volume and therefore liquidity will decline immediately upon the implementation of an electronic platform. The removal of the trading floor will remove the advantage that locals have. If they are forced to move to a screen, assuming they are inclined to continue trading at all, they will become like any other screen based trader and will look for low cost markets with depth and liquidity and will have no allegiance to the WCE. The absence of the liquidity provided by locals is likely to cause the commodity funds to withdraw, with the attendant result that the WCE market will, in very short order, essentially cease to function. The failure of the WCE or the failure of its contracts to provide an effective price discovery mechanism for market players including grain and oilseed producers from Manitoba and elsewhere in western Canada will have a significant and material adverse impact on those users and the public.

## **8. Lack of Disclosure and Analysis**

We believe that producers have not been adequately advised of the potential implications and risks of a conversion of the WCE platform from open outcry to electronic. Most grain producers and producer groups would only have a superficial understanding of the issue. We are of the view there has not been adequate disclosure made to all potentially affected members of the public for them to be able to respond effectively and provide comments to the MSC in opposition to the proposal being put forward by the WCE. If the public and, in particular, the producers were given an opportunity to understand that this conversion could mean an end to open and transparent markets for their commodities, we believe that they would vigorously oppose the potential exposure to this risk that will be occasioned by the change to an electronic

platform. As it stands now it is likely that producers will gain an understanding of the issue through the collapse of transparent price discovery, and they will demand answers at that point.

## **9. Lack of Jurisdiction**

The MSC is charged, under *The Commodity Futures Act* (the "**CFA**"), with considering applicants for registration as a commodities future exchange having regard to, among other things, whether their "floor trading practises are fair and properly supervised". Accordingly, where the applicant has no floor trading platform, we submit the MSC, under current legislation, has no jurisdiction to consider the Application of the WCE for registration as a commodity futures exchange. Amendment to the CFA is required before the MSC has jurisdiction to entertain granting registration to the WCE without a trading floor.

We would strongly urge the MSC to reject the Application or, in the alternative, defer a decision pending a full and proper independent study. Such study should be conducted by an independent third party, and explore the views of WCE users and the risks to the public involved in a full conversion to an electronic platform. The study should provide the MSC with an understanding of alternatives to such a radical change, and investigate the claims made concerning the costs of maintaining a trading floor. We believe that a study by an independent third party not having any vested interests will reveal the likelihood of a collapse of WCE's futures markets if the proposed conversion is approved as proposed.

A belief is held by some participants of the WCE that the WCE must make a radical change such as this because at the current pace the WCE will eventually fail. The MSC should be concerned with the reason for such a belief. Other comparable exchanges are thriving. For example, the KCBOT announced today that their memberships had hit a record value of \$115,000 U.S. Other successfully thriving exchanges are not intending to go fully electronic and have not made some of the other radical changes that the WCE has made.

We have been hampered in our ability to effectively respond to the WCE position, as certain important documentation which the WCE has based its conclusions upon and relied upon in maintaining its position, has been determined by the MSC to be confidential and not made available to us. We believe such documentation does not support the statements made by the WCE in the Application, but without reviewing such documentation we are at a serious disadvantage in attempting to refute the position put forward by the WCE. We would welcome the release of such documentation so that we may make a full and complete answer to the WCE submission, and we reserve the right to do so should the MSC agree to release such documents, which we hereby request.

Yours respectfully,

**FLAHERTY GRAIN COMPANY LIMITED**

Per:

---

President



Brian Flaherty \_\_\_\_\_

**Manitoba Canola Growers Association**

Per:



Bruce Dalgarno, Marketing Chairman \_\_\_\_\_



**Sent by e-mail to: [doubrown.gov.mb.ca](mailto:doubrown.gov.mb.ca) – original to follow by mail**

October 22, 2004

The Manitoba Securities Commission  
1130 – 405 Broadway Avenue  
Winnipeg, MB R3C 3L6

**Attention: Mr. Douglas R. Brown, Director Legal/Enforcement**

Dear Sir:

**Re: MSC Notice No. 2004-42, respecting the application of the  
Winnipeg Commodity Exchange Inc. to convert from open  
outcry to electronic trading**

This letter is in response to your request for comments relating to the above captioned matter.

Cargill Limited is supportive of the application of Winnipeg Commodity Exchange Inc. ("WCE") to convert its trading platform from open outcry to electronic trading.

As a facility for risk management and price discovery, we believe it is essential that the WCE have sufficient liquidity, including the ability to attract new liquidity. We believe that one of the best ways to ensure new liquidity is to increase access to the WCE markets. We further believe that the best way to increase access is increased connectivity via electronic trading. As well, the trend, worldwide, is towards the use of electronic trading systems in derivatives exchanges. Both the required capital and liquidity necessary to support the markets will be achieved through electronic trading.

We would also point out that the decision to convert the WCE from open outcry to electronic trading was made by those most affected, being the shareholders who use the contracts and maintain the exchange. A substantial majority of the shareholders voted in favour of this business decision.

As an active participant on the WCE, it is in the interest of Cargill that the WCE remain a viable entity with good liquidity and transparent, fair markets. It is our position that the conversion to electronic trading is the best means to achieve the objective. We urge the Commission to accept the application of the WCE.

300-240 Graham Avenue  
Winnipeg, Manitoba, Canada  
R3C 0J7

Tel (204) 947-0141  
Fax (204) 947-6444

We also urge the Commission to expeditiously complete its review of the WCE's application in order to allow it to complete the business processes necessary to convert on the scheduled launch date of December 20, 2004. At this point, Cargill and other active participants on the exchange have completed their reviews of connectivity, are in the process of installing the necessary hardware and software, and will commence connectivity and simulation testing on November 8, 2004. Any delays will be detrimental to the conversion process and to the WCE's markets.

Yours truly,

A handwritten signature in blue ink, appearing to read 'KH', with a long horizontal flourish extending to the right.

Kerry L. Hawkins  
President

The Manitoba Securities Commission  
1130 – 405 Broadway Avenue  
Winnipeg, Manitoba  
R3C 3L6

**Attention: Mr. Douglas R. Brown, Director Legal/Enforcement**

Dear Sirs:

**Re: MSC Notice No. 2004-42, respecting the application of the Winnipeg Commodity Exchange Inc. to convert from open outcry to electronic trading**

This letter is in response to your request for comments relative to the above captioned matter. Highway 21 Feeders is supportive of the application of Winnipeg Commodity Exchange Inc. (WCE) to convert its trading platform from open outcry to electronic trading.

We believe that moving the market to an electronic platform will, over time, enhance trading volumes and guarantee fair and transparent price discovery.

As an active participant on the WCE we utilize the WCE's contracts for risk management and price discovery purposes on a regular basis. It is in the interests of this organization that the WCE remain a viable entity with good liquidity and transparent, fair markets and it is our position that the conversion to electronic trading is the best means to achieve this objective. I urge the Commission to accept the application of the WCE.

I also urge the Commission to expeditiously complete its review of the WCE's application in order to allow it to complete the business processes necessary to convert on the scheduled launch date of December 20, 2004. It is imperative that the Exchange receive the necessary regulatory approvals so that it can implement the conversion project on schedule. At this point the active participants of the Exchange have completed their reviews of connectivity, are in the process of installing the necessary hardware and software, and will commence connectivity and simulation testing on November 8, 2004. Any delays will be detrimental to the conversion process and to the WCE's markets.

Yours truly,

Ed Miller  
President, Highway 21 Feeders

Montreal, October, 21, 2004

The Manitoba Securities Commission  
1130 – 405 Broadway Avenue  
Winnipeg, Manitoba  
R3C 3L6

**Attention: Mr. Douglas R. Brown, Director Legal/Enforcement**

Dear Sirs:

**Re: MSC Notice No. 2004-42, respecting the application of the Winnipeg Commodity Exchange Inc. to convert from open outcry to electronic trading**

This letter is in response to your request for comments relative to the above captioned matter. Fimat Canada Inc is supportive of the application of Winnipeg Commodity Exchange Inc. (WCE) to convert its trading platform from open outcry to electronic trading.

We believe a business plan to adopt electronic trading is the right move for the Exchange because:

1. Retaining the status quo, in terms of the open outcry environment, will lead to the eventual demise of the Exchange.
2. It is very hard to attract new liquidity to the floor. Over the past few years there have been four new independent traders, none of whom have stayed. This type of environment do not provide the capital and liquidity necessary to support the markets.
3. The best way to ensure new liquidity is to increase access to the WCE markets and the best way to do that is increased connectivity via electronic trading.
4. The experience at other derivative markets which have converted from open outcry to electronic trading has been very positive with all of them showing increased liquidity.
5. In order to maintain the status quo at WCE it will be necessary to invest significantly in new systems for the trading floor and in a disaster recovery program. The minimum costs would be an initial outlay of over a million dollars and at least \$300,000. more per year in operating costs. This is a large investment that is not guaranteed to have any significant increase in liquidity.

6. The trend, worldwide, is towards the use of electronic trading systems in derivatives exchanges.
7. The electronic trading system that we are proposing to use, the e-cbot® system powered by LIFFE CONNECT® is one of the most functionally rich available with the broadest connectivity. WCE is fortunate to have this opportunity to list its products on this system at this time.
8. This is a business decision made by those most affected- the shareholders who use the contracts and maintain the Exchange. 81% of the shareholders voted in favor of this business decision.

As an active participant on the WCE we utilize, on behalf of our clients, the WCE's contracts for risk management and price discovery purposes on a regular basis. It is in the interests of this organization that the WCE remain a viable entity with good liquidity and transparent, fair markets and it is our position that the conversion to electronic trading is the best means to achieve this objective. I urge the Commission to accept the application of the WCE.

I also urge the Commission to expeditiously complete its review of the WCE's application in order to allow it to complete the business processes necessary to convert on the scheduled launch date of December 20, 2004. It is imperative that the Exchange receive the necessary regulatory approvals so that it can implement the conversion project on schedule. At this point the active participants of the Exchange have completed their reviews of connectivity, are in the process of installing the necessary hardware and software, and will commence connectivity and simulation testing on November 8, 2004. Any delays will be detrimental to the conversion process and to the WCE's markets.

Yours truly,

Jean-Pierre Gallardo  
President and CEO



Douglas Brown  
Director of Legal and Enforcement  
Manitoba Securities Commission  
1130 - 405 Broadway  
Winnipeg MB  
R3C 3L6

Dear Mr. Brown:

RE: MSC Notice No. 2004-42 - Proposed Electronic Trading of the WCE

As Manager of Derivatives for ScotiaMcLeod, I would like to express that our firm favours the electronic trading platform currently under consideration for the WCE.

It is apparent that an electronic platform is essential to a healthy and attractive financial market, especially in light of the number of exchanges now offering this trading format as an alternative to the WCE. I should also note that I have complete confidence in the e-cbot system (powered by LIFFE CONNECT); the designated provider for the WCE.

My observation of derivative markets that have undergone this conversion is positive, particularly in regard to liquidity, transparency, and execution costs. As a general comment, I believe this change will serve well the broad range of parties with a genuine interest in the success of the WCE.

Should you care for further discussion on this matter, please do not hesitate to contact me at (416) 945-5285.

Regards,  
Jeff Stephan  
Assoc. Director, Derivatives

-----  
The information transmitted is intended only for the person or entity to which it is addressed and may contain confidential and/or privileged material. Any review, re-transmission, dissemination or other use of, or taking of any action in reliance upon, this information by persons or entities other than the intended recipient is prohibited. If you received this in error, please contact the sender immediately by return electronic transmission and then immediately delete this transmission, including all attachments, without copying, distributing or disclosing same. E-mail is not a secure means of communication. Please advise us if you would prefer to use an alternate form of communication.

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The Manitoba Securities Commission  
1130 – 405 Broadway Avenue  
Winnipeg, Manitoba  
R3C 3L6

**Attention: Mr. Douglas R. Brown, Director Legal/Enforcement**

Dear Sirs:

**Re: MSC Notice No. 2004-42, respecting the application of the Winnipeg Commodity Exchange Inc. to convert from open outcry to electronic trading**

This letter is in response to your request for comments relative to the above captioned matter. Standard Hog Farms Limited is supportive of the application of Winnipeg Commodity Exchange Inc. (WCE) to convert its trading platform from open outcry to electronic trading.

We believe that moving the market to an electronic platform will, over time, enhance trading volumes and guarantee fair and transparent price discovery.

As an active participant on the WCE we utilize the WCE's contracts for risk management and price discovery purposes on a regular basis. It is in the interests of this organization that the WCE remain a viable entity with good liquidity and transparent, fair markets and it is our position that the conversion to electronic trading is the best means to achieve this objective. I urge the Commission to accept the application of the WCE.

I also urge the Commission to expeditiously complete its review of the WCE's application in order to allow it to complete the business processes necessary to convert on the scheduled launch date of December 20, 2004. It is imperative that the Exchange receive the necessary regulatory approvals so that it can implement the conversion project on schedule. At this point the active participants of the Exchange have completed their reviews of connectivity, are in the process of installing the necessary hardware and software, and will commence connectivity and simulation testing on November 8, 2004. Any delays will be detrimental to the conversion process and to the WCE's markets.

Yours truly,

John Prentice  
President, Standard Hog Farms Limited



# JPMorgan

**Sara Collins**  
Vice President

October 22, 2004

The Manitoba Securities Commission  
1130 – 405 Broadway Avenue  
Winnipeg, Manitoba  
R3C 3L6

**Attention: Mr. Douglas R. Brown, Director Legal/Enforcement**

Dear Sirs:

**Re: MSC Notice No. 2004-42, respecting the application of the Winnipeg Commodity Exchange Inc. to convert from open outcry to electronic trading**

J.P. Morgan Securities Canada Inc. ("JPMSC") hereby submits this letter in response to your request for comments regarding the above-captioned matter. Please be advised that JPMSC is fully supportive of the application of the Winnipeg Commodity Exchange Inc. ("WCE" or the "Exchange") to convert its trading platform from open outcry to electronic trading.

Although we are not currently a member of the WCE, we are extremely interested in obtaining this status. Indeed, we are interested in becoming a clearing member of the Exchange. However, our interest is premised solely on the success of the WCE's desired conversion from pit trading to an electronic platform.

Among the reasons we have not heretofore applied for membership is a concern regarding trading liquidity on the Exchange. Experience tells us that it is becoming increasingly difficult to attract new liquidity to an exchange floor. Our inquiries have revealed that this is particularly true with respect to the WCE. We have been advised by the Exchange that over the past few years there have only been four new independent traders on the WCE, none of whom remain today. These numbers do not provide the capital and liquidity necessary to adequately support the markets.

We believe that the best way to ensure new liquidity on the Exchange is to increase access to the WCE markets and the best way to do that is increased connectivity via electronic trading. Our experience at other derivative markets which have converted from open outcry to electronic trading has been very positive, with each showing increased liquidity, sometimes markedly so. Clearly the trend, worldwide, is towards the use of electronic trading systems in derivatives exchanges.

Not only do electronic trading platforms provide increased liquidity, but they reduce the cost of doing business on an exchange. Enhanced liquidity, combined with reduced costs of doing business, is surely a winning combination.

Additionally, through our United States affiliate, J.P. Morgan Futures Inc., JPMSC is quite familiar with the electronic trading system that the Exchange is proposing to use, the e-cbot® system powered by LIFFE CONNECT®. We believe the system to be one of the most functionally advanced systems available today, with the broadest connectivity. WCE is truly fortunate to have the opportunity to list its products on this system.

In light of the above, JPMSC urges the Commission to approve the application of the WCE. We further urge the Commission to expeditiously complete its review of the WCE's application in order to allow it to complete the business processes necessary to convert on the scheduled launch date of December 20, 2004.

As you can see, JPMSC wholeheartedly endorses the Exchange's application to convert its trading platform from open outcry to electronic trading.

Yours truly,

A handwritten signature in black ink, appearing to read "Sara Collins". The signature is written in a cursive, flowing style.



Mr. David Rolfe, President  
Keystone Agricultural Producers  
1-1313 Border Street  
Winnipeg MB R3H 0X4

October 22, 2004

Mr. Douglas D. Brown, Director - Legal  
The Manitoba Securities Commission  
1130-405 Broadway Avenue  
Winnipeg MB R3C 3L6

**Winnipeg Commodity Exchange -- Application to the Manitoba Securities Commission**

Dear Mr. Brown:

Keystone Agricultural Producers (KAP) is a democratic organization which represents and promotes the interests of 7,000 Manitoba farm families. As such, we welcome the opportunity to comment on the Winnipeg Commodity Exchange's (WCE) plan to move from open outcry to electronic trading. We believe that this change should not be allowed at this time for the following reasons.

The canola basis has been unreasonably wide during the fall for the past two years, and this means that farmers receive a lower price for their products. The structural problems of the WCE and its delivery mechanisms caused this situation, and we believe a move to electronic trading will only exacerbate the problem, ultimately leading to the failure of the contract.

We anticipate that the move to electronic trading will result in a significant drop in the amount of trade. This expectation is based on the continuing decrease in volume levels seen since the announcement to move to electronic trading was announced. 'Local' traders, who account for 20-30% of the total trade volume, have also stated that they will not continue to trade WCE contracts after the closure of the pit. Without some assurance that new interest will materialize, this is too great of a risk to proceed. Cutting costs at the WCE must not jeopardize the viability of the entire institution.

Farmers need the futures market for price discovery. In its absence, grain companies and other buyers have the control to set cash bids and there is no point of comparison or reference available to farmers. In essence, they will have lost a valuable tool to aid them in making decisions about planting and marketing.

The move to electronic trading is a concern because we don't believe that it will increase volumes and will erode the ability of the contract to be a hedging and price discovery tool. We thank you for the opportunity to express our concerns and participate in the comment period.

Regards,

David Rolfe, President

October 21, 2004

The Manitoba Securities Commission  
1130 – 405 Broadway Avenue  
Winnipeg, Manitoba  
R3C 3L6

**Attention: Mr. Douglas R. Brown, Director Legal/Enforcement**

Dear Sirs:

**Re: MSC Notice No. 2004-42, respecting the application of the Winnipeg Commodity Exchange Inc. to convert from open outcry to electronic trading**

This letter is in response to your request for comments relative to the above captioned matter. I am supportive of the application of Winnipeg Commodity Exchange Inc. (WCE) to convert its trading platform from open outcry to electronic trading for the following reasons:

- Retaining the operating status quo, in terms of the open outcry environment, does not provide a viable future for the WCE and will lead to its eventual demise.
- Liquidity on the floor has reduced as traders leave or retire from the trading floor. The WCE has not been successful in attracting or retaining sufficient new traders to the floor.
- Electronic Trading is an alternative to ensure new liquidity and increase access to the WCE markets.
- Experience at other derivative markets which have converted from open outcry to electronic trading has resulted in increased liquidity.
- The WCE current Disaster Recovery Plan does not meet industry standards and this situation is improved through Electronic Trading.
- The industry trend, worldwide, is towards the use of electronic trading systems in derivatives exchanges.
- The electronic trading system that the WCE is proposing to use, the e-cbot® system powered by LIFFE CONNECT® is one of the most functionally rich available with the broadest connectivity. WCE is fortunate to have this opportunity to list its products on this system at this time.
- WCE's decision to convert to electronic trading was a business decision made by those most affected, the shareholders, who use the contracts and maintain the Exchange. 81% of the shareholders voted in favor of this business decision.

As active participants, most shareholders utilize the WCE's contracts for risk management and price discovery purposes on a regular basis. It is in the interests of these organizations that the WCE remain a viable entity with good liquidity and transparent, fair markets. It is my view that the conversion to electronic trading is the best means to continue this objective. I urge the Commission to accept the application of the WCE.

I also urge the Commission to expeditiously complete its review of the WCE's application in order to allow it to complete the business processes necessary to convert on the scheduled launch date of December 20, 2004. It is imperative that the Exchange receive the necessary regulatory approvals so that it can implement the conversion project on schedule. At this point the active participants of the Exchange have completed their reviews of connectivity, are in the process of installing the necessary hardware and software, and will commence connectivity and simulation testing on November 8, 2004. Any delays will be detrimental to the conversion process and to the WCE's markets.

Yours truly,

*Original Letter signed and mailed*

Lorne DeJaeger  
Vice-Chairman and Outside Director  
Winnipeg Commodity Exchange





# *Parrish & Heimbecker, Limited*

## GRAIN MERCHANTS

HEAD OFFICE – WINNIPEG  
BRANCHES  
TORONTO  
VANCOUVER LETHBRIDGE

COMMODITY EXCHANGE TOWER  
700-360 MAIN STREET  
WINNIPEG, MANITOBA, CANADA  
R3C 3Z3  
PHONE (204) 956-2030 - FAX (204) 943-8233

***Sent by e-mail to [doubrown.gov.mb.ca](mailto:doubrown.gov.mb.ca) then mailed.***

The Manitoba Securities Commission  
1130 – 405 Broadway Avenue  
Winnipeg, Manitoba  
R3C 3L6

**ATTENTION: MR. DOUGLAS R. BROWN, DIRECTOR LEGAL/ENFORCEMENT**

Dear Sirs:

Re: MSC Notice No. 2004-42, respecting the application of the Winnipeg Commodity Exchange Inc. to convert from open outcry to electronic trading

This letter is in response to your request for comments relative to the above captioned matter. Parrish & Heimbecker Ltd. is supportive of the application of Winnipeg Commodity Exchange Inc. (WCE) to convert its trading platform from open outcry to electronic trading.

Retaining the status quo, in terms of the open outcry environment, will lead to the demise of the Exchange, we believe in fairly short time frame.

It is very hard to attract new liquidity to the floor. Over the past few years there have been four new independent traders, none of whom have stayed. These numbers do not provide the capital and liquidity necessary to support the markets.

The best way to ensure new liquidity is to increase access to the WCE markets and the best way to do that is increased connectivity via electronic trading.

The experience at other derivative markets which have converted from open outcry to electronic trading have been very positive with all of them showing increased liquidity.

Software development costs for us to “do-it-ourself” is over \$1 million.

This is a business decision made by those most affected- the shareholders who use the contracts and maintain the Exchange. 81% of the shareholders voted in favor of this business decision.

As an active participant on the WCE we utilize the WCE's contracts for risk management and price discovery purposes on a regular basis. It is in the interests of this organization that the WCE remain a viable entity with good liquidity and transparent, fair markets and it is our position that the conversion to electronic trading is the best means to achieve this objective. I urge the Commission to accept the application of the WCE.

I also urge the Commission to expeditiously complete its review of the WCE's application in order to allow it to complete the business processes necessary to convert on the scheduled launch date of December 20, 2004. It is imperative that the Exchange receive the necessary regulatory approvals so that it can implement the conversion project on schedule. At this point the active participants of the Exchange have completed their reviews of connectivity, are in the process of installing the necessary hardware and software, and will commence connectivity and simulation testing on November 8, 2004. Any delays will be detrimental to the conversion process and to the WCE's markets.

Yours truly,

William S. Parrish  
President and CEO  
Parrish & Heimbecker, Limited

The Manitoba Securities Commission  
1130-405 Broadway Avenue  
Winnipeg, MB  
R3C 3L6

Attention: Mr. Douglas Brown, Director Legal/Enforcement

Dear Mr. Brown;

This letter is in response to your request for comments regarding the above mentioned matter. As the authorized representative for Union Securities Ltd at the Winnipeg Commodity Exchange I wish to inform you that our firm supports the conversion from open outcry to electronic trading scheduled for December 20, 2004.

The trend, worldwide, has been from open outcry to electronic trading platforms on many commodity exchanges with the result being increased liquidity. In addition, our experience with electronic systems is that they offer a more transparent form of price discovery.

It is also our understanding that the required additional investments by the WCE to support the existing open outcry system will not guarantee increased volumes.

It should also be noted that the active WCE participants have completed their connectivity reviews and are in the process of installing the necessary trading platforms to operate on the e-cbot/LIFFE CONNECT system which will facilitate the WCE contracts.

Yours truly,

Richard Cook  
Union Securities Ltd/Winnipeg

Cc: David R. Morgan, Union Securities Ltd.

October 21, 2004

The Manitoba Security Commission  
Mr. Douglas Brown  
Director Legal/Enforcement  
1130-405 Broadway Ave.  
Winnipeg, MB  
R3C 3L6

**RE: MSC Notice No. 2004-42, respecting the application of the Winnipeg Commodity Exchange Inc. to convert from open outcry to electronic trading**

Please accept this letter as per the request for comments regarding MSC Notice No. 2004-42. Refco Futures Canada Ltd. an F.C.M. and clearing member of the WCE is supportive of the application of Winnipeg Commodity Exchange Inc. (WCE) to convert its trading platform from open outcry to electronic trading.

The financial realities of the WCE are not supportive of the status quo and require a change in the fundamental way the exchange operates in order to ensure it's survival and financial integrity. If you look at the history of other futures exchanges that have migrated their commodity contracts to an electronic trading environment, all have benefited from a sharp increase in trading volumes. Some examples are as follows:

- Euronext.Liffe converted the commodity component of their contracts (No.7 Cocoa, Robusta Coffee, White Sugar and Wheat) in November 2000. At the end of 2003 volumes had increased by 45% and by the end of 2004 it could be as high as 80%.
- Euronext.Paris (formerly Matif). Converted the commodity component to electronic trading in 1998 (Rapeseed, Wheat#2 and Corn). By the end of 2003 volume for these three contracts had increased by 70%.
- Malasia Derivatives Exchange converted fully on December 28, 2001. By the end of 2003 volume in the Crude Palm Oil futures had almost tripled.

We strongly believe that the transition to an electronic trading environment will result in higher trading volumes that will improve the overall liquidity of the marketplace and ensure the transparency of the price discovery process for all players involved with the WCE. The WCE's decision to move to an electronic environment was approved by 81% of the shareholders of the WCE, an overwhelming majority of the ownership. It is difficult to believe that MSC would delay the decision of such a majority vote, which comprises a similar majority of the trading volumes of the WCE.

The status quo is not an option for the WCE, as we require action to move this current process forward as outlined by the management and sanctioned by the board of directors of the WCE. Any effort to impede this process will result in significant losses to the WCE and those of its participants who have spent significant time, money and resources preparing for the scheduled move to an electronic market. Those who have concerns over this transition have had significant opportunity to voice their opposition as the process has been fully transparent from the beginning and has followed the bylaws in place for the WCE.

Refco Futures Canada Ltd. strongly urges the MSC to approve the application of the WCE.

Sincerely yours,

Robert Dzisiak  
President  
Refco Futures Canada Ltd.

**RON ZIMMERMAN**  
11 Denman Crescent  
Winnipeg, MB R3T 5R8  
(204) 269-1522

October 20, 2004

The Manitoba Securities Commission  
1130 - 405 Broadway  
Winnipeg, MB  
R3C 3L6

**Attention Mr. Don Murray, Chairman**

Dear Sirs:

**RE: Commission Notice 2004 - 42 - Transition of the Winnipeg Commodity Exchange (the "WCE") to Electronic Trading**

The MSC is currently considering an application (the "**Application**") filed by the WCE for registration as a commodity exchange upon a proposed closure of its trading floor and transition to an electronically traded commodity market. I am a floor trader on the WCE with many years of experience as a floor trader and I am opposed to the Application by the WCE. I would like the MSC to take the following points into consideration when making a decision on the Application.

1. Agricultural contracts (as opposed to financial contracts) have historically **NOT** performed well on electronic platforms. Examples of their failure include the electronic agriculture contracts traded (or that have traded) on the MATIF in France, and on the Sydney Futures Exchange in Australia. I feel that if the venue of the WCE migrates to an electronic format it will potentially have a **SUBSTANTIAL NEGATIVE** impact on volume/liquidity (potentially 30 - 40%), which likely will result in the collapse of the WCE. This would **not** be in the **public interest** as the reduced trading and the reduction in liquidity would adversely impact: the Manitoba grain producers (who would encounter reduced hedging liquidity) and the Manitoba grain industry, and the closure of the WCE would hurt the City of Winnipeg (which would suffer the loss of up to 200 direct and indirect well paying jobs) and the standing of Manitoba as an important international center for the grain industry.
2. WCE President Mike Gagne has publicly stated that trading costs will not go down (and will actually be going up from current levels) under an electronic platform, and that the WCE will have to maintain or increase trading volumes to breakeven. That said, and with the certain **LOSS** of trading by the local traders (who currently account for 28 - 30% of daily trading), which can be expected for the reasons stated below, there is a very real risk that the WCE financial position

could become impaired. Volume generally breeds volume in commodity markets, and the reverse is also true. When volume goes down the remaining trading participants have to scale back proportionally, so the resulting total volume drop could ultimately be much greater than the reduction caused by the lack of any local traders.

3. The WCE has suggested that converting to an electronic platform will increase trading volume. There is much more credible, valid, and realistic evidence that suggests the opposite is more likely the case. If the MSC conducted a brief survey of the main current active large volume traders/users of the WCE (who are different, or disproportionately different from the shareholders of WCE). I expect the MSC would find that those traders want to keep the trading floor open and that those traders would cease to trade under an electronic platform. If the WCE were to convert to an electronic platform and the liquidity in the canola contract was, as a result, reduced to a point of making it dysfunctional (like the flax contract) price determination transparency would be lost and there would be a very real potential that producers might not receive a fair market price for canola. I understand that occurred in flax, where producers received up to \$ 40 per ton less than they maybe should have. Extrapolate that experience to canola (with 7 to 8 million tons grown per year) and consider the potential loss suffered by producers upon receiving \$280 - \$320 million less each year due to a lack of liquidity in the marketplace.

In a recent Winnipeg Free Press newspaper article, Manitoba Minister of Agriculture, Rosann Wowchuk, announced \$24 million in funding to assist Manitoba cattle farmers with the BSE crisis. She also mentioned that this \$24 Million was a lot of money (which it is), but that is a fraction of what the canola growers could lose each and every year if trading canola on the WCE becomes dysfunctional.

4. On page 18-3a of the WCE application, the WCE states that as at August 2004, the top 20 derivative exchanges in the world, by volume of transaction, are either fully or substantially electronic. The top 20 derivative contracts (by volume) all trade on electronic trading systems. While that may be true, in my view, the experience on those markets may not be at all relevant when considering the WCE's move to an electronic trading platform. Electronic trading platforms admittedly have been very successful for financial derivative exchanges, especially for high volume contracts. However, the MSC should challenge the WCE to provide even one example of a successful stand alone high volume 100% electronic agricultural commodity exchange. Then factor in the unique circumstances of the WCE where local floor traders represent 28 - 30% of the daily trading volume. The WCE submission creates the impression that most commodity exchanges are going or have gone 100% electronic and the WCE is last to do so, when in fact the WCE, to my knowledge, is the first agricultural commodity exchange with an active local trading population (28 - 30%) to convert to 100% electronic. The WCE position does not disclose that the large active local traders have advised the WCE not to expect their support or participation in trading WCE contracts if the electronic trading platform is implemented.

5. A proposal was made to the WCE that it should consider dual trading for a three to six month period in the course of the transition to an electronic platform. The WCE refused to consider such a phase-in process and maintained it would be too costly running two platforms in parallel. The real concern here should be what the cost would be if the transition to electronic is a failure. That is the concern of a large number of people who actually do the trading and intimately understand how the canola market works. The WCE management has stated that electronic trading will increase volume and thus revenue. That revenue should be able to be used to offset any additional short-term transition costs that are involved in maintaining two platforms. If you do not run a parallel system and after six months of operation realize the move to electronic trading was a mistake, it will be almost impossible to resurrect the trading floor. In my view, a responsible business decision would be to run a parallel system during a transition of this nature to minimize risk. That would be a prudent thing to do and the parallel system expense should be considered part of the transition costs.

If after a three to six month transition period, experience shows that what the WCE maintains does, in fact occur, i.e. that liquidity providers who do not currently trade the WCE contracts, commence trading on the WCE on an active, continuous, ongoing basis and increase the volume and liquidity (remember, they will have to make up for the loss of the local trade volume of 28 - 30%), then the risks of terminating floor trading can be considered not to be significant. However, if the opposite proves to be true, the MSC should not, at this point, subject the public to the risk inherent with that possibility occurring if parallel floor trading is not maintained.

A further point to consider regarding the likelihood of such liquidity providers commencing to actively trade electronically on the WCE is this. Those trades are currently, actively and successfully trading (meaning trading in and out of the market all day like a local floor trader) in other electronic markets (you can only effectively actively trade a couple of markets at time), what would be their incentive to trade an unfamiliar, relatively illiquid and very expensive (transaction fees at least two times higher than other electronic exchanges) market like the WCE.

The WCE should establish an electronic market for after hours trading, as local traders have been requesting for years. They should also use an electronic platform for their back up in a disaster recovery plan.

I submit that the MSC should not approve the WCE Application. If, however, the MSC is considering doing so, the registration should be granted only on the condition that a three to six month transition period be implemented, during which both systems would be allowed to operate with close monitoring of trading and liquidity during that time. This would provide an opportunity for the MSC to verify what the WCE is projecting about potential increased liquidity. When the WCE stated that electronic trading would increase volume, daily trading was averaging about 9,300 contracts per day. If these liquidity providers do not materialize to make up for the anticipated loss in local floor trader volume, and the resulting trading volume is less than the current 9,300 daily average, moving to an electronic trading platform would clearly be a mistake and **not in the public interest to maintain. At that point it could be phased out or maintained for after hours trading only.**



**I believe my concerns reflect the concerns of a majority of the active participants on the WCE and I urge the MSC to not allow the transition to proceed.**

Yours truly,

Ron Zimmerman

October 21, 2004

Mr. Douglas R. Brown  
Director, Legal and Enforcement  
The Manitoba Securities Commission  
405 Broadway Avenue Suite 1130  
Winnipeg, MB R3C 3L6

Dear Mr. Brown:

Re: MSC Notice No. 2004-42, respecting the application of the Winnipeg  
Commodity Exchange Inc. to convert from open outcry to electronic  
trading

This letter is in response to your request for comments relative to the  
above captioned matter. The CWB is supportive of the application of  
Winnipeg Commodity Exchange Inc. (WCE) to convert its trading platform from open outcry to  
electronic trading.

Controlled by western Canadian farmers, the CWB is the largest wheat and barley marketer in  
the world. It has been our experience that electronic trading provides additional functionality to  
our commodity risk management activity. In particular, it has been our experience that electronic  
trading can offer superior results for options and spread trading relating to agriculture futures  
when compared to open outcry execution. In addition, the hours of trading can be extended in  
the electronic trading environment when compared to the more limited hours currently offered for  
open outcry trade.

The CWB supported the Minneapolis Grain Exchange move to offer electronic trading. In this  
regard, I note that both the Minneapolis and Kansas City exchanges will be listing their wheat  
contracts in Chicago for overnight electronic trading starting in December 2004. In addition, the  
Minneapolis Grain Exchange will be listing a series of index futures that will be trading  
electronically in Chicago throughout the hours that have traditionally been reserved for open  
outcry trade. As a global grain marketer and as a member of the Minneapolis Grain Exchange  
Board of Directors, the CWB views these developments to be progressive steps for commodity  
risk management. The WCE move from open outcry to electronic trading is consistent with  
ongoing developments that are occurring elsewhere in the grain industry.

As a participant on the WCE, we utilize the WCE's contracts for risk management of our producer  
pricing options. The maintenance by the WCE of liquid, transparent and fair markets is important  
and the conversion to electronic trading is a good means to achieve this objective.

Yours truly,

original signed by

Ward Weisensel  
Chief Operating Officer

WW/lis

Original by mail.

