IOWA FARM BUREAU FEDERATION
5400 University Avenue, West Des Moines, Iowa 50266-5997 / (515) 225-5400

00-19
114

RECEIVED
C.F.T.C.
'00 JUN 27 PM 2 38
OFFICE OF THE SECRETARIAT

RECEIVED C.F.T.C.
RECORDS SECTION
'00 JUN 27 PM 5 47

RECEIVED
C.F.T.C.

COMMENT

June 23, 2000

Ms. Jean A. Webb, Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
21st Street NW.
Washington, D.C. 20581

Dear Ms. Webb:

As President of the Iowa Farm Bureau and on behalf of our farmer members, I am writing to comment on the proposed changes regarding the combined CBOT/Eurex trading system. Our markets in Iowa are directly tied to the Chicago Board of Trade and our members use the futures and options markets for price risk management.

There are two issues regarding the proposed change that deserve our comments: The first deals with the daily trading limits and the other deals with the exchange trading hours.

We oppose the CBOT's proposal to increase the daily price limits and delete the variable/expanded limits on agricultural commodity futures contracts. Increasing the daily price limits and deleting the variable/expanded limits is likely to result in increased volatility of these markets and may make it more difficult for producers to use futures markets as a risk management tool. We believe that it is quite likely that the expansion of daily trading limits will be accompanied by increased margin requirements to cover the increased risk of expanded trading ranges. Historically this has been the case – that when futures markets exhibit increased volatility, futures merchants and clearinghouse members raise margin requirements.

If increased volatility leads to increased margin requirements, farmers are likely to experience two significant negative impacts. The first is increased costs. Increased margin requirements will raise hedging and trading costs. With interest rates at relatively high levels, the increased cost of margin requirements could reduce farmers' use of exchange-based marketing instruments.

The second effect of higher margin requirements is likely to be a reduction in liquidity in the market place. Less liquidity in the market often results in wider bid-ask spreads and increased transactional costs. Both of these effects may keep some farmers from utilizing good risk management tools -- just when our organization is making huge efforts in risk management education.

Under the current system of limits, trades are executed at the limit level. Under the proposal, staff would manually halt trading in <u>all</u> futures contract months if only one month reached the specified limits. This would hamper farmers' efforts to use the tools available.

The effort by the Chicago Board of Trade is to facilitate the consolidation with Eurex. It would seem more reasonable to change the computer program to accommodate trading limits. Changing the computer system to make sure that the markets continue to function properly would seem to make more sense than making the markets more difficult and less useful for farmers in their hedging strategies. Our recommendation is that the Chicago Board of Trade delay consolidation with the Eurex until daily price limits can be incorporated into the trading program.

Secondly, the proposal to reduce the trading hours by delaying the start from the current Project A (8:00 p.m.) to 10:00 p.m. will reduce the availability of evening marketing decisions to farmers. We suggest leaving the hours as they are or, if a delayed start is approved, adding two hours to the morning portion of the overnight trading. This would continue to provide farmers with market access.

Thank you for the opportunity to comment on the proposal. Please contact us if you need clarification or more information on our position.

Sincerely,

Ed Wiederstein,
President