Delaware, New Hampshire, Utah and Vermont only had one IB office in each in those states, and Hawaii and West Virginia had no offices at all registered that spring.

When IBs look for clearing arrangements with an FCM, they report that reputation of the firm is the number one reason for choosing that FCM. Rates, the clearing rates or the fees which are charged to do the transactions rank second in order of importance to the IB. And the category "other" ranked third. Other included such diverse things as who the management was, who owned the company, who were the main traders, and whether or not the FCM offered managed account programs.

Research was the most consistently ranked last in importance to the IB looking for a clearing arrangement. This is a change from just a very few years ago when research could only be gotten through your FCM. It's obviously a change that technology has helped to bring about.

A total of 211 FCMs were registered with the CFTC that spring and members of the NFA, but only 40 of those FCMs did business with guaranteed introducing brokers.

Since the NFA does not keep separate records about FCM relationships with IIBs, or independent introducing brokers, only firms with GIBs can be easily identified. 12 FCMs were guaranteeing about 750 IB offices of the total approximately 1,200 IB offices or GIB offices that were registered then.

An IB owner typically has at least three and one half years experience in the futures business before opening an IB office. The majority of IB owners I spoke to had between nine and 14 years experience in our industry and the IB office itself had been registered for six years or more. I spoke to an IB owner who had actually been registered in some capacity in the industry for over 35 years.

Some of the IBs are also registered as CTAs. A few are farm management specialists or consultants and about 12 percent in the spring of 1999 were registered as security brokers or dealers. Some IB offices provided complete risk management services such as crop insurance, cash marketing or other producer related management services.

At the time of our survey, nearly 80 percent of the total volume of trading done in the 127 offices responding was done in futures rather than in options.

About 50 percent of the IBs told us they trade most heavily in grain and livestock markets. This is a significant change since the FIA survey of the early '90s found that about 80 percent of IBs were to be considered agricultural.

The next most heavily traded contracts were indices with the metals and the soft markets the least traded by IBs. IB offices reported in the spring of 1999 that no significant volume was being traded on markets outside the U.S. by their customers. Over 90 percent of the IBs placed orders in the E-mini S&P market at the CME regularly, and a few IBs, and I think there were about ten of them all together, said that as much as 20 percent of their total business is done in the S&P contract. About 50 percent trade the Project A contracts at the Chicago Board of Trade.

A typical IB office has five to six APs, or associated persons, or sales persons, registered with it. Three of the offices responding reported that they had 25 or more APs working in their office.

Only one office responding to the survey was minority owned, and fewer than 15 percent of the offices responding had even one woman registered.

IB offices recruit APs among friends and former clients and from local newspaper advertising. Some also hire from the floor employees that they are using at their FCMs.

A typical IB office services 250 to 300 clients per year. Again, that's a big change in the last ten years, up from only 50 or 60 clients, most significantly due to technological advances. About two-thirds of the total number of clients in each office are what we would call active. The others are seasonal or occasional traders. Those also would include the bona fide hedgers.

A few offices which provide the specialized services along with futures and options such as foreign management consulting have only 30 to 50 clients on the books. And three IBs reported in 1990 that their offices were serving over 2000 active clients per year. When we asked the question what is the average length of time an account stays open with you, 80 percent of the IBs said they were still servicing some of the clients they opened when they first opened for business.

IB offices service a variety of clients, hedgers and speculators alike. Those which work primarily in the ag market areas tend to service small to medium size rancher and farmer. Because these offices are no longer servicing only local clients, they provide education and research to any size or type client who wants that information.

Virtually all IB offices use some form of electronic order entry. Generally, it's the system which their FCM has developed or purchased and requires all the offices in its system to use.

Nearly every IB uses the internet to solicit for customer leads. Some offices have their own web sites. Others are just links or addresses from the FCM. Most of the IBs who have a web site post both news and education as well as information about the IB itself such as who are the principals, who does the trading, how long the IB has been in business, if the office has a specialty, and what other kinds of services the customer may find at the office.

Account forms or opening account documents can most often be downloaded from the sites. That background information is the long way around to addressing today's topics, specifically, the ag trade options, other ag derivatives and IB concerns related to the agricultural issues. The opinions that I'm expressing today are those of the IB members of the association. Some of the FCM members concur, others do not.

Number one, the agricultural trade options. Our membership is of the belief that the current ATO program has not been more utilized because none of the current large players in the grain trade want to open themselves to the type of regulation which registration with the CFTC and the NFA insists upon.

Most of the firms offering ATOs have so far been able to hide behind the forwards exclusion clause to do essentially full-blown futures business by what appears to be a form of their own contrived ATO-like program without having licensed brokers and without having to disclose risks, strategies, fees and pitfalls, and without having to answer or account to their customers in the manner that the IBS and FCMs are required to do by the commission and the NFA.

Currently, unregistered ATO providers are not disclosing what the strategies are which are being utilized or what the risks involved may be. As the strategies have become more and more complicated over the past years, it's common to see providers who have no training in futures and options products diligently pitch the ATO program developed by their company without any better knowledge of the product than the producer to whom they are speaking.

The history of option and option-like products promoted by unregistered or minimally registered trained individuals to relatively unsophisticated participants is consistently negative, even when done with the best intentions. Just in the past few years, we've seen on several occasions that neither the seller or the buyer has the required familiarity with both the product and its potential behavior during periods of volatility or sustained price movement.

Most often the smaller the end user, the less appropriate the ATO-like product becomes. Additionally, one IB pointed out that the tools and benefits that the grain trade argued that ATOs would offer apparently provide no marketing alternatives or benefits above and beyond what exchange traded futures and options currently allow.

So the need to offer ATOs at all would seem pretty limited. As much as most members of the NIBA would generally like to see less government regulation in every aspect of our business lives, most agree that no changes in the current ATO program should be made. Allowing unrestricted trading in ATOs or imposing some lesser level of deregulation would as the commission suggests in its questions to the three of us on this panel increase the potential for fraud against producers.

If the commission drops either the three-pronged approach or changes the minimum net worth requirement so that ATO users would find themselves trading in a less regulated environment, the result could be that smaller producers will be disenfranchised, along with the IB community and small grain companies.

In addition, the probable result will be that larger provider consortiums will simply develop product which will allow all these smaller producers to be lumped together as one trading unit. No risk disclosure, no proper account identification, no segregation of consumer funds will take place. A customer will lose all current regulated protections.

We have only to look at the hog industry to see the consequences of corporatization in American agriculture and how quickly those consequences will occur. Likewise, the goal of some of the larger grain companies seems to be to use such products as ATOs to gain greater control over production, guarantee themselves a steady supply of crop upon demand, and not have to bid aggressively for production throughout the majority of the year.

The effect of the scenario will be that basis levels will suffer, the flat price will suffer, and farmers will become employees of these grain consortiums. While some changes in the ag segment of this industry are likely inevitable, dropping ATO registration and regulation programs might very well create the environment above in as little as two to three years time. Just imagine one big grain company controlling all of American agriculture in the way Microsoft controls the software on virtually every PC in this country.

In response to the commission's questions regarding ATOs, one NIBA association member asked if comment on this issue was ever solicited from members of state grain and feed organizations as opposed to the large commercial agricultural concerns. Have those organizations seen an outcry from the people who would use them to make these products available?

In any case, the commission should recall that its mandate is not to provide product to consumers, but to make sure that those providing the product are adequately trained and regulated, and those using the product are adequately protected.

More specifically to your question as to whether producers should be able to write ATOs? While most NIBA members agree that farmers should have every benefit and advantage that big companies have, several members noted that as recently as just last week, they were hearing about companies which encouraged farmers to enter a transaction which basically sold a call option limiting the farmers maximum selling price for a premium that was far substandard to current market prices.

In particular, this association member reports that the actual transaction was selling a call option for six cents that was currently trading on the Chicago Board of

Trade for 12 cents, and being charged nearly $300 in commissions for that transaction.

Since my first meeting in 1994 with then Chairperson Mary Shapiro, the NIBA has time and time again voiced the practical business concern that by allowing unrestricted trading in ATOs, registered and regulated members of the professional futures and options community are disadvantaged by being put on a less than level playing field with those people or entities who would offer such products without the need to answer to compliance and supervision arms of the CFTC, the NFA, and their exchanges.

We believe the atmosphere for fraud on the customer would definitely be increased. Effects suffered by the farming community will include mismanagement of pricing and marketing risk along with increased elevator failures.

We encourage the commission to look back to the hedge-to-arrive contracts of just a couple of years ago. Add to that the fact that many of the new contracts currently being offered are far more complicated. Throw in a little bit of desperation from the producer due to a tight economy and low prices, and you get a recipe ripe for disaster.

With regard to other agricultural derivative contracts, in this area, the NIBA is somewhat divided. Most members are not aware of any significant amount of bilateral agricultural commodity swaps currently going on. IB members and some FCMs believe that a platform which provides unified trading of cash and derivatives rather than the current versus-cash method is not an improvement at all and may even be impossible to construct due to the lack of a centralized cash marketplace.

One member commented that he couldn't see how these contracts would be constructed unless they were based on exchange traded regional basis contracts.

Another member said that unified platforms would mean to him more deregulation, greater complexity of the tools offered, and more opportunity for unscrupulous, undertrained providers to sell complicated products to producers which neither party truly understands.

All NIBA IB members and many FCMs oppose parallel ag contracts or moving the ags to DTFs. The association believes this move would ultimately drive commercial volume to the less regulated market and would weaken contract markets by destroying their fundamental ability to allow transparent price discovery.

One IB member commented that the only way to provide producers more effective and attractive risk management strategies is to force all the participants to meet the same level of regulation. It appeared to him that the commission's intent with the CFMA was to construct a tiered market system that would fracture the agricultural markets into so many segments that only the largest commercial entities would be able to survive.

He along with several IB members of the NIBA was unable to see how allowing ag products on DTFs led to better price discovery, which is the absolute necessity for an efficient marketplace which continues to have value to its users.

And interestingly, many association members said they would be in favor of more versus less regulation as proposed in the current exchange versus DTF scenario, because in this time of HTA complications and other financial disasters, including the ones we've seen in the stock market frenzy and collapse, we've seen that the public's greed and willingness to accept unreasonable amounts of risk in the face of clear fundamental good business judgment indicates that these same people will not always self-manage and self-regulate risk.

And finally, to address the issue on introducing broker concerns, a few of the NIBA members noted that at the end of 1998, there were to their knowledge approximately 10,000 elevators and feedlots in the United States. We can't really tell how many were registered as IBs because, number one, the NFA doesn't keep records on the type of business done in the IB offices, and number two, many of the entities function as branch offices rather than as IBs because of the registration requirements.

But we do know that we have a few elevators and feedlots as members of our association.

The NIBA is generally opposed to reducing registration requirements for IBs. Our business entails utilizing highly leveraged financial products. Amateurs and part-timers bring with them problems such as unfamiliarity with the product, inability to assess the client's goals and risk capacity, and inattentiveness to both the markets and the clients. Diminished regulation requirements will attract operators seeking to take advantage of that lack of registration and regulation.

Our association members, IBs and FCMs alike, would like to see more registered IBs in the industry, but not at the expense of the investing public.

Neither the current registration or the Series 3 commodity exam is a significant impediment to registering or to engaging in the business. Therefore, the NIBA is of the belief that the rule changes would not substantially increase in number of registered introducing brokers.

However, we do believe that more firms would register if the CFTC more aggressively enforced their rules by forcing elevators that are currently trading futures and options and offering ATO programs and their like to register and properly license their operators as APs.

Further, it's always seemed a bit peculiar to us that the commission cannot pursue action against entities which have not registered but which look to the public like CFTC registrants and offer products which purport to extend the benefits of exchange traded products. To mangle a phrase, if it quacks like a regulated futures or options product, it should be regulated as one.

In response to the commission posed question, what rule changes would allow registered IBs to offer more effective or more attractive risk management alternatives to their producer clients, the NIBA membership responds:

(1) The fact that IBs generally cannot sell commodity firms with a Series 3 license, but stockbrokers with a Series 7 can is totally unreasonable. This should be reexamined by the commission.

(2) The movement to streamline disclosure statements and options disclosure statements will be very beneficial to the IB attempting to solicit new business.

(3) Exchanges or other trading facilities should be encouraged to develop risk management tools in cooperation with such organizations as the USDA, farm bureaus and even local agribusinesses. Then we'll be able to offer and provide tools which the producer truly wants, which he truly needs, and which he truly understands how to use.

Before I close my prepared remarks, I want to address two of the other issues this committee is scheduled to take before it, and you'll be happy to know that it's only two more pages.

CHAIRMAN SPEARS: Melinda, if you could summarize that because we're already behind schedule by about 30 minutes now.

MS. SCHRAMM: Absolutely.

CHAIRMAN SPEARS: So if you would just take your two pages and summarize in a couple of sentences, I'd appreciate it because we do need to reserve some time for discussion on this topic.

MS. SCHRAMM: Absolutely. The two issues were that the NIBA is looking forward to a new day at the USDA. We're looking forward to a new day of working in cooperation in developing risk management product.

And secondly, with regard to the single stock futures, we are looking forward to what the commission has to offer. We're happy that the commission has been very strong in holding the line with regard to the selling requirements. However, we are disappointed in both the margining and a tax ramification of those requirements and would like to visit those issues with you all further.

That being said, we appreciate the opportunity to come before this panel, and I would be happy to take any other questions or expand. Thank you, Commissioner.

CHAIRMAN SPEARS: Thank you, Melinda. Well, where do we go from here is the question, I guess, that the Commission is looking for input from this committee. As you can tell,--as the panel outlined,-- there are a number of different views out there in regard to what to do with bilateral transactions, what to do with ag trade options, and how it affects different people's lives and businesses.

I know this Commission is very interested in this committee's input as to where do we go from here. We've heard from one--the only person so far--ATOM who's using the program with some success. Now keep in mind there are two issues here. One is--and Paul, I may ask you to help outline these issues in a minute, but in my mind there are two issues.

One we've addressed is the ATO program. We're two years into the program. It's had limited use so far. Is that because of the design of the program, as some people suggested? Or is it due to the market conditions, as others have suggested? You know some folks have suggested, as Bill did, that it's the commercial people who will be utilizing, offering the program, and it's up to them to decide how to design the program as opposed to the ag producers.

The other issue before us, as Paul outlined in his introductory comments, is what to do with bilateral transactions (an undefined term) on ag commodities? How do we treat ag swaps and ag commodities on that basis? Should they be exempt from regulation as with other provisions? So, Paul, do you have any words of insight or thoughts to maybe put us on track to facilitate some discussion from the committee?

MR. ARCHITZEL: I guess I have a couple. One is the NGFA raised a number of questions with regard to what kinds of contracts would be considered to be forward contracts and what would fall under the forward contract exclusion, and that's been an issue that has been a long-standing issue.

I think there are mechanisms to address that. For example, we have outstanding a Office of General Counsel interpretation that goes back many years to 1987 which had in it a discussion of various hypothetical type of contracts and gave an official view of the General Counsel's office on whether or not those were forward contracts, and I think that really is the most profitable way to get guidance in an official way on what kinds of contracting practices would flow within the forward contract exclusion, and then that it makes sense that if contracting practices are different and have grown since 1987 to revisit that in that kind of setting.

And that really would require a request from any of you around the table or anyone from the public that the commission consider certain types of contracts or the commission staff rather and give an opinion on those. So that would be one place to start.

As a general matter, responding to those contracting situations, however, I think we all know that a forward contract which has run its time period both parties can go back and renegotiate a contract and not affect the nature of the fact that it's a forward contract.

So it's important to distinguish from the types of examples given between those contracts where both parties because of crop failure or some other type of situation renegotiate a contract after the contract has been entered into from a contract which provides for certain features at the time it's entered into. And that's an important distinction that I think we all are sensitive to and that in looking through the examples later, certainly that that's something that distinguishes many of the examples and should be looked at very carefully.

MR. GILLEN: Paul, one of the questions posed by Bill was rolling a contract forward, and in 1996, the commission issued I call it a derivative, but I don't know the status now, which precluded a producer in a contract from rolling forward past the last delivery month in that particular crop year. That, in effect, is the custom and usage of the cotton trade, and I was just wondering if that edict is still in effect here at the commission?

MR. ARCHITZEL: I think what you're referring to is a staff advisory which was issued on the prudential nature of inter-crop year spreading, and that was not a commission pronouncement, and it did not discuss the legality and whether or not such a contract was a forward contract or not. What it discussed was the prudential nature of inter-crop year spreading. So from that perspective, it was an advisory statement of the staff.

To the extent that that contracting practice is one which you would like further clarification on, the appropriate mechanism is to provide the commission staff with a written description of it, and to provide us with an opportunity to consider it and respond in a considered way to it.

MR. GILLEN: Well, virtually all of our contracts preclude that practice because you're just begging trouble. That's why.

MR. ARCHITZEL: And that was the basis of the staff's advice, and again it was an advisory opinion that inter-crop year spreading is an imprudent practice. It doesn't say whether it's a legal practice of not.

CHAIRMAN SPEARS: Are there any other comments or questions, regarding where we go from here regarding the ATO program or bilateral transactions in ag commodities -- whether they should be exempt or to what level of exemption they should be subject? Neal?

MR. GILLEN: Yeah, I really appreciated Bill Dougherty's explanation of what they're doing, and in effect it's rather simple, and one could make the argument that why should such practices be regulated. You know that's just an opinion. Insofar as question number one, I think Mr. Dougherty answered that question insofar as whether or not low prices have any effect because he indicated, in effect, you could make the argument that these type of instruments are more valuable to a producer in times of low prices because a product can be offered way out when you can see light in the marketplace.

You know I just go down to number seven, and in effect--question number seven.

CHAIRMAN SPEARS: That was sent out in the advance packet.

MR. GILLEN: Yeah, in the packet you sent out. Go down, right down to question number seven, and give a resounding yes. But there is something in process here at the commission that Paul may be able to comment on, and that is the Cargill Case. There is a decision by the ALJ. It's under appeal now, but ultimately the ruling in that case will be dispositive, could be dispositive of this issue.

MR. ARCHITZEL: Actually, that is under appeal so it's not appropriate for me to comment on it or for it to be a matter of discussion now. You are correct there has been a decision by an ALJ. It has been appealed by our Division of Enforcement to the commission. So it's currently pending with the commission. So it really isn't a matter that we can discuss now, other than you're also right to say that some of the issues in that case would have a bearing on the commission's policy ultimately on what it does with regulations regarding ATOs.

You did mention two things which I think are noteworthy. One is that the program that Kent Feeds outlined is rather simple and understandable and user friendly from what I was hearing, and that is what the commission's rules intended it to be.

You also asked why should such a simple program be regulated, and I think that the reason there is a history of the commission grappling with this issue of regulation of ATOs is because there had been in the past abusive practice with regard to trading options, particularly because, unlike futures, where there is the need for an individual to know his customer, in the case of futures where a premium may be paid fully up front, it has lent itself to abusive practices in the past.

So that the kinds of regulations we have segregating customer funds cover those kinds of provisions were intended to address the possible abuses we might see, and it becomes a policy question for the commission and for this committee to discuss is whether the cost of our regulations and how they work is so burdensome that it is too costly to prevent the kinds of harm that we envision might happen, and that's a judgment question that certainly this committee and the commission has grappled with.

MR. GILLEN: Well, I appreciate that, Paul, but you can make the argument that, as Bill said, the trade has rendered its judgment. It's of no value to producers unless some innovation can take place, and there is no incentive for innovation with regulation. Thank you for considering it anyway.

CHAIRMAN SPEARS: I appreciate that, Neal. I think that it's fair to say that is one reason why we're addressing this issue today. It is a new day and we at this Commission, myself and I believe other commissioners present, are open to addressing this issue in light of a new act and where we go from here to make a program workable. Bob, you wanted to say something?

MR. METZ: Yes, thank you, commissioner. I want to make clear I'm not speaking for the American Soybean Association but for myself personally. I am a production farmer. My wife and I are both full-time farmers. That is the only place we receive our income. We obviously use futures; we use options. But as was pointed out, the majority of production ag does use contracts to move their grain.

And this is basically because we not only need the futures, but we need to capture the basis, and we also need an orderly movement of our grain off our farms. We store all the grain at harvest. We need that orderly movement of grain off our farms through the winter through the summer months. Up north, you can't move it during the spring because of road restrictions.

So we need an opportunity to move this grain. As far as production goes, ag production, most people would say that it's probably a good practice to have a third of your grain sold this time of the year, a third of your grain sold mid-summer, while there is still a lot of risk. Once the risk is out of it, generally the market is out of it, too. I'm strictly talking from the farmer's point of view.

So we normally would try to have two-thirds of our grain sold when the crop is about half grown. That, of course, gives us some risk. The 1988 drought, by mid-June, it was fairly obvious that we were not going to be able to fill our contracts. I don't know if it was legal, but I know I wrote a check to get out of those contracts, and I felt very good about writing that check even though it was fairly large because I had a huge risk hanging over my head.

So then I think anything that can be done --and these ag trade options look like possibly a good opportunity for production ag as a way of limiting risk. I think the Crop Insurance Program has greatly helped because you can also get an increase in the market when there is a drought. If this is the way out, ag trade options for the actual producers, I personally think it's probably a pretty good option. I do think we need some oversight on it. Just to have all kinds of contracts out there I think puts farmers at risk. Thank you.

CHAIRMAN SPEARS: Any other comments or questions? Richard, do you have something you want to add?

MR. GUPTON: Yeah, just a few things. The only thing I would recommend, I guess, is potentially with these questions that are pretty well presented do some type of survey for the different commodity groups and bankers on ATOs particularly, and as far as the banking perspective, there may be regulatory problems with ATOs, and you might want to consult the OCC or the FDIC. I don't know if you all have done that, but just would recommend that as well.

CHAIRMAN SPEARS: Thank you. Elizabeth, you wanted to comment?

MS. HAWS: Yeah. I do have a comment. This is a new day and I think it's a unique timing of opportunity for this committee because as we look at this, you know, as potential for assisting producers, I mean we're all here, we're of the mind-set to find market-base alternatives to help producers out.

And as we, you know, listen to the farm policy debate going on down the street, I think this is a unique opportunity for us in this room that we could provide a tool to the farmers. So before we throw everything out, let's find what the farmers need. I mean we're sitting here and this is a tool that we can provide to them. So let's look at this carefully before we ditch this opportunity.

CHAIRMAN SPEARS: Thank you. Brian.

MR. DIERLAM: Thank you, commissioner. Specific to the Part 35 exemption--I know we had talked about this in the past--the Part 35 exemption requirements that were in place in the past, particularly on ag commodities, are in place today for eligible participants can engage in bilateral agricultural swaps; is that correct?

CHAIRMAN SPEARS: That's it?

[Laughter.]

MR. ARCHITZEL: That's an important question. Yes, the current Part 35 is in effect and ag swaps are permitted. The only issue before us is whether the Part 35 requirements should be streamlined to be more reflective of the requirements for swaps that are in the act for other commodities.

CHAIRMAN SPEARS: Brian, I was just joking. I mean this committee always looks forward to your counsel and comments, and you are always very well read in your comments. So that's one thing, that is going to be helpful, I think, for the Commission to have a better understanding of what activity is out there in the ag swaps.

I think that Melinda alluded to that, what level there is out there. There is some question--we know it exists, but there is no real foundation as to what the exact number or level of activity is regarding to bilateral transactions in that market. So that would be helpful, I think, if we had that information as well.

Brian?

MR. DIERLAM: To follow up a little bit on that, I think as we look at risk management and one of the things going into the regulations that was pulled back in the legislation that passed that you're currently in rulemaking on, as you look to manage systemic risk, which was one of the main purposes of the bill and the legislation and the rulemaking, there are certain types of risks that a lot of folks in our industry have a very difficult time managing, and to the extent that we can address those issues, some can be addressed through a Part 35 exemption, some can be addressed through looking at issues surrounding legal certainty.

All of those types of things if we can look at them all play a role in reducing the systemic risk. As I've talked to different folks on the packing side, folks on the retailing side, people want, consumers want to know what is their beef going to cost down the road, and they want the packer to provide it.

The packer wants a way to lock up some supply so that they have some certainty, and one of the things that's important is the risk management system that facilitates all that. Now, the marketplace can provide it in terms of exchanges offering new types of contracts for different sizes or different volumes or different products, and certainly the more products you offer, the question always comes in about what's the liquidity going to be?

Are we going to drain liquidity? But there is a tradeoff and a balance between liquidity, between basis risk, between volatility, that folks out there are trying to find that balance. So to the extent that Part 35 exemption exists, to the extent that we can address some of these legal certainties, I think we can go a long way in providing the types of products that the marketplace needs to manage risk so that at the end of the day we've got risk covered and not creating, not holding an amount of risk that we can't hedge at the marketplace, because that in the end of the day is systemic risk, is risk that the marketplace can't manage.

So to the extent we can look at a number of these things, it will go a long way in providing the risk management tools that I think the beef industry needs.

CHAIRMAN SPEARS: Bill.

MR. DODDS: I don't know if this is relevant or not, but as it relates to ATOs, about eight percent--this is a personal statement now--about eight percent of our business is options versus futures on exchanges. I would just say those are hedges related to cash contracts and it also adds to the liquidity of the futures market, I think.

CHAIRMAN SPEARS: Other comments or questions from the committee members? Well, I'll come back--Jim, just a second. I just want to make a quick comment and I know that Jim wants to make a comment here. I'd like to note, as we talked about earlier, the transcript of this meeting will be put into the public comment file on the proposed new regulatory framework and our proposed rules.

If committee members would like to provide comments on this issue, and the other issues we talked about before, written comments, you know, before April 9 or even after April 9, that would be very helpful to the Commission, I believe.

Again, the deadline is April 9, but I don't know that there has ever been a case where the Commission has refused to accept a comment letter after the comment period is closed. We're always open to comments at any point in time.

These are issues that we're going to have to wrestle with as we go forward so if committee members would like to provide written answers to questions that we included in the background memo, that would be helpful at any point in time. So with that, before we close this topic and go on to other topics, I'd like to ask Jim if he had something he wanted to say?

ACTING CHAIRMAN NEWSOME: Thank you, Dave. I had just a couple of comments and then one question I wanted to ask. First, I wanted to thank Mr. Dodds and Kent Feeds for reaching out, for offering this product at least to a portion of your swine producers and showing that, at least under your situation, it can work and it can be successful.

I think Bill raises some legitimate issues. I think there are issues that have been discussed for a long, long time, and I think certainly issues that are worthy of more discussion and looking at by the commission. I think maybe an effective ag trade option could at least potentially solve some of those problems.

Melinda, in regard to your comments, you know, as sometimes happens, we agree to disagree on some things, and I think that's just an area, at least on a portion of what you said. I think that a few of your comments may be a little far-reaching or worst case scenario, at least, and one thing in particular I would disagree with your thoughts on, at least the needs for an ag trade option type program.

You know I come from a small family farm and fully recognize that as many risk management opportunities as we can develop and provide that are realistic, as Elizabeth said, I think have real value. I also realize that futures only provide one slice of the pie of the total risk management pie as we look at it, and there are lots of other opportunities.

Obviously, I think, as we look at ag trade options, at least there is the appearance that we have yet to get it right because of a lack of usage of the program, and I think it warrants the commission going back and revisiting the issue, but it's a difficult issue. I know that everyone would like for the commission at least to attempt to define these cash markets and the futures markets, but unfortunately the problem becomes that when you do that, there is always somebody who is looking after you defined it for a way around it. And it certainly becomes more simple to find that way around it.

And I think we have to look at the history in this business of at least farmers being taken advantage of, and, you know, our role is to protect the public good, and we take that responsibility very seriously and are going to continue to try and take that responsibility very seriously. So when we get into an issue like this, it does become difficult. That doesn't mean that we are sensitive to everyone's desires and everyone's needs. But if it was simple to solve it, it would have been solved a long time ago, and obviously it's not.

The one question, Melinda, I wanted to ask, given your comments about the small and medium-size grain elevators and maybe the lack of desire, the lack of knowledge to offer an ag trade option type contract, has your organization or members that you've talked to discussed the idea of going to those elevators and at least attempting to serve as the agent for the elevator in providing these types of contracts to producers? It seems to me that would be a legitimate thing for you to do, and I just wondered.

MS. SCHRAMM: Our organization has attempted to provide educational programs for their customers or has attempted to partner up with them in terms of presentations to their customers. They haven't always been met with success. Sometimes they have though. And I wouldn't want to leave the impression that the introducing broker is stuck in the last millennium or is stuck some place before the Modernization Act took effect.

He definitely has attempted to come forward. Mostly those types of programs that are being offered have actually been brought to his attention by the customer himself. The customer himself will come in and compare what he's doing in the futures and the options market with what he might be doing in a local scenario.

So the transaction and the action that's taking place locally is often brought to the attention of the IB by the customer who is a customer of both of the entities. I think that our association is very eager to partner, to have relationships with people who are offering all styles and all types of risk management. That includes some perhaps form of an ATO, some perhaps form of other risk management product, but we would not want to see it go either unregulated or unregistered in any way. Thank you.

CHAIRMAN SPEARS: Are there? Trenna, go ahead.

MS. GRABOWSKI: Yes, thank you, commissioner. This would be in the nature of what Bob said, this would be my opinion as opposed to an official opinion of American Agri-Women, but I would reiterate Bob's comments that any time we as farmers can have another risk management tool available, it certainly is beneficial to us.

Putting on my other hat, which is an accounting and CPA hat, I recall the dreadful misunderstanding and the ramifications from the hedge-to-arrive contracts. And I guess in the whole discussion of agricultural trade options, I think something very, very important to be said is that education and an understanding on the part of the folks who would be using any of these risk management tools is of paramount importance, and it's one thing to sit around a table and talk about it. It's another thing to get out into the country, and it's still another thing far removed when the discussion goes around the coffee shop table, as to what I did or what I heard that Henry Jones did, and therefore since it worked for him, then absolutely it will work for me.

And I think this is not in any way putting farmers down. It's just that this is another option--pardon the word--but it's another possibility of something that can be utilized and utilized very effectively, but I think the education must be there so that people who are going to be utilizing it will understand how to do it.

CHAIRMAN SPEARS: Thank you very much. Sure, Neal, go ahead.

MR. GILLEN: I ask Trenna and Bob a question, whether or not the concept of marketing clubs has reached your production areas?

MR. METZ: Sure, we have marketing clubs in our area, and we use a lot of advisors, and I think that's part of the problem why things haven't taken off. There have been very few opportunities as far as farmers are concerned for forward contracting.

In soybeans in the last two years, probably a week in May last year, we've had--well, to be above loan rate, and normally you don't do any contracting unless you're above loan rate. We had some opportunities now in February on spring wheat and corn, but they were pretty short opportunities. So the markets themselves have probably stopped us from using some of these. We've had nice opportunities, but they've been short.

MS. GRABOWSKI: I would agree. Marketing clubs are a lot more fun to be a part of in a bull market, and there have been marketing clubs in our area, but frankly over the last couple of years, folks have lost interest because it's not as fun, much fun to price on the way down.

MR. GILLEN: I just want to--Carl Anderson at Texas A&M oversees the marketing club concept in the state of Texas, which has been going now for about three years. I was at a meeting with him recently, and in the past, even in this past year, with mixed production producers, cotton an grains, throughout the state of Texas, the members of the marketing club averaged $33,000 more in net income.

This program is funded by the state of Texas. I think they have a million dollars and the producers pay--and there is a waiting list to get into some of these clubs--$300 fees. And he utilizes an ongoing education program.

CHAIRMAN SPEARS: Trenna.

MS. GRABOWSKI: Oh, thank you. I think that might be one of the things that might be considered. The marketing clubs in our area have taken an unstructured approach, and possibly the structure backed by an institution such as Texas A&M and in my area maybe

University of Illinois is something that would certainly facilitate farmers get involved and would keep the ball rolling even during times when interest might seem to lag.

CHAIRMAN SPEARS: Okay. Any other comments or questions? Yeah, Bob.

MR. WHITE: One comment. I think that some hindrance to being concerned about marketing comes with the government program in that what do they tell a farmer? They say go to the insurance agency, manage your risk by covering your crop with insurance, here's a set price, and I sometimes think that farmers manage their risk that way more than being concerned about marketing.

I see that happening in my area even though, you know, they know there is marketing tools there. I think they've become involved with the government looking out for them, and so they're more apt to manage it by crop insurance than what the government is going to pay when fall comes.

CHAIRMAN SPEARS: Thank you, Bob. Well, we're way behind schedule, and I'll take the responsibility for that. I apologize for that. But I thought this issue was very important to get on the table in front of us. The input from the committee is very important, but equally important, I believe, is to put the issue before you because it is a live issue that we're going to have to grapple with and wrestle with at the commission over the next few months. So any follow-up thoughts or comments that you have will be extremely helpful.

Again, I want to thank all the panel members for coming, Melinda and Jack. Jack, you were put in the spotlight as the only ATOM. You handled it very well. I appreciate it. Do you have any thoughts or closing comments you'd like to add before we move off the subject?

MR. DOUGHERTY: Well, I think that just the way that we've utilized the program in such a narrow scope to me says there is a lot of ways to use this program that's the benefit to, in our case, the livestock producer, but to the grain farmer also. It just needs a little bit of creativeness, and speaking from a company standpoint, so far we found not a lot of trouble meeting the regulations and segregating the system as it is required, and I just think that it does bring a lot to the table, and like some of them have mentioned around here, it's one more tool that a guy can use, a producer can use, to best market his products and put profit to his bottom line and our concern is that he stays in business.

CHAIRMAN SPEARS: Thank you, Jack. As I mentioned, we are behind schedule. We're going to go ahead and instead of taking a break, we're going to go ahead and move on. We're going to have the next three or four topics shorten themselves down from 15 minutes each to about five minutes each. We're still about 20 minutes away from being done.

If folks would like to grab a cup of coffee and some cookies and some pop out there while we're moving forward, then go ahead and do so. Also, rest rooms are downstairs, but I think in the interest of--well, let's just take a five minute quick break, but we're going to start back in five minutes and people can bring their cookies and pop back to the table.

[Whereupon, a short break was taken.]

CHAIRMAN SPEARS: Let's go ahead and get started. We're going to bypass Fred Linse, who is the Chief of the Ag Commodity Unit for EA. I believe there is some information in the packet that Fred put together that kind of outlines his presentaton. Fred was going to explain what the

Warehouse Act was, and there is--okay--my crack staff just pointed out that in Fred's document, dated March 9, that was in your packet, there is a typo, at the bottom of the page that says 1994. It should say '95, 1995. So there is one typo. Thank you, Alan, for your contribution to the meeting.

Fred was going to introduce the topic, but I think it's more important for us to hear from David Lehman with the Chicago Board of Trade as they are probably the primary exchange that has dealt with this issue in regard to the corn and soybean complex. So with that, David, I'd like to turn it over to you, and you can outline the implications of this Warehouse Act as it deals with your exchange. Thank you.

MR. LEHMAN: Thank you, Commissioner Spears and I apologize, Fred, but really what I'm going to talk about today isn't really so much to do with the changes in the Warehouse Act, although if down the road the program that I'm going to give you just a brief overview of today will be expanded to warehouse receipt commodities.

The Board of Trade next month will be implementing an electronic delivery system for corn and soybean shipping certificates. This system dovetails in with the new Illinois River delivery system that was implemented in January of 2000, and obviously avoided the past restrictions in the Warehouse Act of requiring a paper or physical warehouse receipt to be in existence for warehouse receipts.

As I said, this Illinois River system uses shipping certificates, Board of Trade delivery instrument, and as a result, effective with the May 2001 deliveries, we will convert this system to totally electronic delivery system. The conversion process, and I might just point out, there are a couple of handouts out front, a notice from our Secretary's office that explains the implementation of the system, and conversion procedure, and also notices from our Board of Trading Clearing Corporation who will be operating the system and who developed the software for the system.

In this conversion process, later on in April here in a couple of weeks, holders of paper certificates will need to convert those into electronic certificates. If they choose not to convert them, they can continue to carry that piece of paper, and it's still valid claim on the loading capacity of the issuing firm.

They could also cancel the paper and load out the grain that that paper certificate represents. The conversion process is really just a matter of the holder taking the paper certificate back to the agent, which is a clearing firm that represents the shipper or the regular firm and requesting an electronic version.

The agent then creates that electronic version and submits it to our registrar, which is also a part of the electronic system for registration, and at that point, the paper certificate will be canceled. The electronic certificates, once they're registered, then will be free transferred back to the clearing firm that holds or represents the customer who is holding or was holding the paper certificate.

The advantages of this system, I think, are pretty obvious of removing paper, in creating efficiency by going to an electronic system. One specific cost saving that the system will create is there will no longer be an expiration on certificates. So firms that issue certificates, delivery firms, won't have to reissue those every six months or every year. In the case of corn and beans, it's every six months. That's about $100,000 a year cost on firms.

The system is a dedicated network. It's the Board of Trade Clearing Corporation's customer network so only clearing firms will be able to access the system. It will increase the integrity and safety over the current system of manually carrying warehouse receipts and paper shipping certificates from one clearing firm to another and also manually handling the money transfer.

The invoicing also will be done by the electronic system and that will all be automated. As I mentioned, the payment for deliveries will be done via the system through the SWIFT banking system that is currently used for the daily pay collect margin transfers. The ownership of the certificate will occur electronically as well, facilitated by the clearing corporation, and another feature is its storage payments are automatically debited and credited on the 18th of every month so that will enhance the timeliness of storage payments.

These last two slides are just screen prints of what the system looks like. It's kind of hard to read, I think, but this is the main menu. This system is built on top of the OTIS delivery system that the Board of Trade already has in place so it's something that our users are really already pretty familiar with.

And there is one last slide of once some electronic certificates are created just what the registered agent will see. As I said, the implementation this year is for corn and soybeans only. Our expectations are to move and expand that into warehouse receipt markets, wheat, oats, rice, once the Warehouse Act rules are in place to allow electronic warehouse receipts for those markets.

Soybean meal and soybean oil also can be implemented in the second stage. As we speak, I think in about two minutes ago, the first training session started, 2:30 this afternoon, in Chicago. We have half a dozen training sessions set up for clearing firms, for registered agents, and shippers themselves, regular firms if they want to come in and look at the system.

I think eventually also the next generation of the system will include a web application access for banks and also for entities that aren't currently customers of clearing firms. That's something that the Clearing Corporation has had some discussions with banks on in the last few weeks. So that's the system. Any questions I'll be happy to answer them. Thank you.

MR. GILLEN: Do you anticipate beginning with electronic from the outset so you don't have a paper certificate?

MR. LEHMAN: Yes, we do. We will mandate participation or participation in this system is mandatory so that as of the May deliveries for corn and soybeans, in order to participate in the delivery system, you must use an electronic certificate.

MR. GILLEN: Maybe Bill Dodds, Bill, do you anticipate going electronic at the elevator level like we have in cotton at the gin level, warehouse level?

MR. DODDS: I think we will. As far as this is concerned, it's overdue and the quicker the better.

MR. LEHMAN: We've got about 2,000 corn certificates outstanding right now, and about 300 soybeans. I think there is about 4,000 wheat receipts out. So it would--and there are 10,000 oil receipts on the street. So we've got some much more large volume delivery contracts coming in the future for this system.

CHAIRMAN SPEARS: Any other questions for David? Again, David, I want to thank you for your coming to the meeting. Your contribution as always is very much appreciated. You've been a contributor to this committee for a number of years, and it's greatly appreciated, as I said.

Also, before we move on, I want to acknowledge Fred Linse. Fred, thank you for--he's sitting over there--Fred, thank you for the memo, and I apologize for cutting your time, but so be it.

[Laughter.]

CHAIRMAN SPEARS: For our last topic, I'm going to turn to Phyllis Honor, who is the Acting Administrator of the Risk Management Agency. These last two or three topics were primarily on the agenda for information purposes for the committee members, and I think it's important that this agency has an excellent relationship with RMA. As you know, they've been a member of the committee for a number of years, and have been ably represented by Ken Ackerman, who is in the audience as well. In previous years Ken has been a very valuable member to the committee.

I know Phyllis has done an excellent job in her role as acting administrator. So she has graciously volunteered to shorten her presentation from an hour and a half--no--down to roughly five, ten minutes. So Phyllis take as much time as you want because we're going to go ahead--you'll be the last topic -- we're saving the best for last. You're going to be the last topic of this meeting.

John Bird, of our Division of Economic Analysis, who put together the information for the last item on the written agenda, which was recent developments in electronic derivatives trading, has graciously said that all his information is in your packet. So there is no use in him getting up just repeating what's already there. You can read that at your leisure. And we'll save that topic for a later time, a future meeting. I think it will be appropriate. It will be probably a more timely topic in the future as more exchanges come to the market dealing with ag contracts. So with that, I'll turn it over to you, Phyllis. Thank you.

MS. HONOR: You've already had some pretty weighty discussions here this afternoon, and we have a lot of food for thought. And I know that people want to move on. I am, as you have just said, the Acting Administrator, having been in the position since the change in administration in January, a little over two months, and everything that I have touched has blown up on me.

[Laughter.]

MS. HONOR: And I do not intend to go easily into a new area of operation without lots of discussion and deliberation. Ken did a great job of being an administrator even though I was not always kind to him while he was there. My sins have come home to me.

[Laughter.]

MS. HONOR: I'm not a program expert. My background is accounting and business administration, and I was the chief financial officer. I was the bean counter and wondering how you were spending your money and now I have to deal with the bigger issues.

In June of the past year, we had an Agricultural Risk Protection Act passed, and it significantly changed the way in which we operate, and so what this act does is it provides us a great deal of money, money in the tune of $8.2 billion to spend over five years to improve crop insurance. That's a lot of money and a big, big mission.

And what it does is it provides a number of incentives and things to farmers. It makes our buy-up coverage more affordable and it offered a premium discount so they would buy more crop insurance, and I was pleased to hear the positive comments about our products that you have stated here, and that's only due to the efforts of people who are back at the office working on products now and also the leadership that Ken provided during the time that he was there. And I have every reason to believe that the incoming administration will do the same thing.

But what you want to know today is about our risk management education program, and also about a new initiative for livestock. The act that was passed did, in fact, provide--mandate a new pilot approach for livestock pilot program, and this has limited up to $75 million over five years. That's a lot of money, and it is a new area for us.

It provides $10 million in the current fiscal year and in the following, and so in 2001 and 2002, we have $10 million to put into a livestock program. We have, of course, the dairy options pilot program that you may already know about and, of course, the risk management education, those kinds of things that you talked about today that are important that you want to know about. And we would be pleased to come back and go into more detail about those programs with you.

But I think that what you want to know is what's up with livestock and the risk management agency. The act provided a definition for livestock and in the subsection, the term "livestock" includes but is not limited to cattle, sheep, swine, goats and poultry. So these are the areas that they identify as livestock.

And the program requires that the corporation shall conduct two or more pilot programs to evaluate the effectiveness of risk management tools for livestock producers including the use of futures and options, contracts and policies and plans of insurance that protect the interest of livestock producers.

So the act does, in fact, allow us to enter into that very, very dangerous area for us of futures and options, and I say for us because that's not our background. That's not what we normally do in this very technical area, and, you know, we've been in developing programs, and we've had some, some work in the options area with our options pilot program, but we are by no means the staff with the competence to do this.

And so what has happened is--and our pilot program is in Section 523, our livestock pilot program--and it provides that livestock producers with reasonable protection that the financial risk of price or income fluctuation inherent in the production and marketing of livestock is what we're talking about, and the protection for production losses.

Now, the perils that have been identified as those that impact livestock that we're concerned about is financial risk of price or income fluctuations, production losses and poisoning and disease. And I'm telling you we didn't think about disease until the most recent things that are occurring to us now.

So I guess it's quite timely that it happened because that would be something that we would be covering, and we would not have thought about the advent of hoof and mouth and the other things, the mad cow, that other places have to consider at this time.

Where are we at this? At this time, the act was passed and we became aware of our new responsibilities. In the past, we developed our own. We did our own R&D, our own research and development on products, and we contracted out portions of that, and so we have some very good technicians in developing programs in the old style programs that we have, but we're in the 21st century now and the needs of farmers have changed and they need more products and more tools.

And so the tools that we traditionally provided to them, while still good, we need to expand and provide some different types and we need to have a vehicle to do that. And so the Congress in its wisdom has said that we need to contract out, and so they provided us authority to contract out.

And so that's what we're doing, and this past year we spent a lot of time taking people who know how to do the job and teaching them out to be contractors out and overseeing the job. Now that's a struggle because, you know, people who know how to do things want to continue to do it. They don't necessarily want to help other people learn how to do it and watch others do it. So that's been an internal challenge for us to get our people to become the people who develop task orders and write programs and review others in their efforts to develop programs.

So we do have a proposal that did come in that we're consulting on now and developing, a livestock proposal. It came in and we were not pleased with it, and so we're still working on it. We also have a task order out that will help us to understand what we have to address, and that task order will tell us what livestock producers need because we really don't know.

And it would also tell us what livestock producers are willing to pay for, what is feasible, and generally what we can do within the language of the new legislation. Now, we have many vehicles that we can use to accomplish our new responsibility in this area.

We can contract out for development. We can do what's 508(h) submissions which is private sector development of a program and bring to us and we put on line.

We also have and do receive unsolicited proposals. I'm sort of hoping that people here in the audience will know of others and will pass the word around that we do have this program and perhaps we will get more proposals in. And then we have partnerships through cooperative agreements, and those are the vehicles that we have available to us to use for our new livestock initiatives that we now have authority to do.

The bottom line in terms of that is that we're in the development stages of determining just what we will do and how we will do the things that will be necessary to help the producers meet their risk in the livestock area. It's an entirely new area, and actually as I was listening to some of the discussion here, it's really a very frightening area for the things that you have to consider, and I'm certainly hoping that I will not be so graced with this job long enough to make all the decisions on that program.

[Laughter.]

MS. HONOR: I hope I can pass that off to a wiser person. But that's where we are with it. Now you need to know that we are moving very, very cautiously in this area. Another thing that happened with the passage of the act that I'm pleased with--my colleagues are not--is that we have an expanded role of our board. And the board has a greater role in the management of our corporation and they make lots of decisions that they were not involved in before.

And in 1938 when the Crop Insurance Act first came out, the board of directors was move involved in the management and decision-making process, and over the years that has declined and it has changed. And the Congress decided that that needed to move back because a lot of the decisions that we're making are based upon our experience with the program that needs to be changed, and so we need a broader view.

And so the act says that our new board is made up of the Under Secretary of the Farm and Foreign Agriculture Section, an additional Under Secretary, which the Secretary will decide upon, the USDA Chief Economist--I think that's very important because we are fortunate to have Keith Collins as our economist, and he's a very intelligent and learned guy, and he asks a lot of questions, and he causes us to do a lot of thinking, and I'm very pleased to have him serving on our board, particularly while I'm serving in this role.

Also, the position that I hold acting is also a member of the board. It's a non-voting member now. Four farmers, at least one of which has crop insurance experience. So we, the board, has expanded and our board will be made up of farmers, and we're hoping to have farmers from across the United States to participate, and we need an individual who is knowledgeable in reinsurance or regulation on our board.

The reason that I'm bringing this up is that the legislation said that we had to have a new board by April 1, and that has been extended to the 13th.

[Laughter.]

MS. HONOR: But I know that you know a lot of people who could help us, and I know this is the place to bring this--April 13. At least it won't conflict with your tax day.

And so I have a handout that I'm going to give you and so if you know any individuals who would be interested in serving on our board, I'd be pleased to have more nominations of broad-based background and more experience, and it would be very, very important that we have that in our deliberative process because we have a lot of things to do, and we need as much support, as much information, as much background as we move into these new areas as we can, and so my biggest pitch today is to make sure that we get that out.

That's not an assignment that normally civil servants would do so I go very cautiously in that, but our time is short. So that's not normally what I would do. That's not normally my role, but our time is short, and I do need to get the message out, and I saw this is an opportunity to do that. So I beg your forgiveness of me for imposing on you in this way.

That's generally where we are in this, and I would be more than pleased to come back at another time and go more extensively in exactly what we're doing, talk to you a little more about our DOT program, and also about our risk management education program, which Craig Witt runs, and we're available, we're down the street. I'm getting a lot more visitors from people who want to know what's going on, and want to come in and talk about how do we get new programs on line because now you bring the programs to us, we don't generate them anymore.

So those programs that people are interested in, they just prepare them, develop the proposals and submit them to us, and we take a look at them, and you can develop them, and then they have to be reviewed and then taken to our board.

So we have a whole new process, but we have an opportunity to try a lot of new things. I know I've gone very quickly. I'm from the South, but I do talk fast, and I hope that you are able to get something out of the discussion. Thank you.

MS. KEITH: Phyllis, Susan Keith with the National Corn Growers. I just wondered if you have any preliminary data on program participation this year with the higher subsidy rates? I've heard anecdotally sales are up, but I haven't--

MS. HONOR: Yes. The sales are up, and, no, I don't have the figures with me. I should have them because I was--you know, I still retained some of my CFO duties, and I was working on the budget presentation this morning, and we did have some numbers, but then I went to a very contentious meeting following that and I've forgotten our numbers.

[Laughter.]

MS. HONOR: I know that they are up because that's the first thing that we did was to get all the package out that we could to the producers, and we had adjusted our accounting systems to be able to account for that. But I know that it's up, I want to say maybe 25 percent, but I'm not sure. So if you'll give me your card and number, I can get that back to you.

Yeah, I know we've done a good job and it's up, but I don't know exactly what it is.

CHAIRMAN SPEARS: Bob.

MR. METZ: I'd like to thank you for the improvements in crop insurance. I was in Washington last week and I guarantee you the senators and congressmen that I visited with, I did thank them for the work they've done in crop insurance. I think as agriculture enters a new age, it just becomes more important everyday that we have good solid crop insurance. And I think it is going in the right direction, so thank you.

MS. HONOR: I needed that today after the meeting I had. I like to tell people--I don't know if Ken ever agreed with this because he never agreed with me when he was there--

[Laughter.]

MS. HONOR: --that crop insurance is the program for the 21st century because the government is involved in helping to subsidize it, the private industry delivers it, and the producer pays part of the cost. And that's really where we want to go. We want to get the government as much out of people's decision-making and sponsorship and get people more involved in what they do.

And it goes back to the questions that have been raised here and the discussion that we've had is that sometimes people don't know what they're getting because they think the government is doing it all for them, and we have to get to the point where people are more involved in their decision-making and understand it more because our products that we have for them are products that they can understand.

MR. DIERLAM: Ms. Honor, I work with the National Cattlemen's Beef Association, and we just submitted a letter a few weeks ago to the Kansas City Risk Management Office that we'd like to participate and provide resources to the contractors that are developing the programs, particularly all pasture, range, and forage products, and then as we look specifically to the futures and options part of that, we definitely want to be able to consult.

We do have concerns on some implementation side, on some subsidy levels, and on federal money being used to go into the markets per se, but we'd like to sure be in a position to be able to discuss that, but we're definitely supportive, particularly on the pasture, range and forage side, working with Risk Management Agency and your contractors to develop programs that are going to work for calf producers out in the countryside.

MS. HONOR: That too is a new program that was introduced as of the act that we have just implemented and is moving alongside. I think it's going to be an improving program over the next year as we get out of the learning curve which is very high right now, but I thank you for hanging in there with us.

MR. DODDS: Phyllis, crop insurance is good. Like Bob, our producers like it. I haven't read the act, but I've heard that there is some language in there that might dictate that CFTC is exempt from regulation in this livestock risk management venture? Have you?

CHAIRMAN SPEARS: My understanding is that you're right, Bill, I think the--Ken, you're well aware of this language.

[Laughter.]

CHAIRMAN SPEARS: It is outside of the purview of our regulation, this portion of the program. Ken, come to the microphone so we can get you on tape.

MR. ACKERMAN: I'm kind of used to being a potted plant. It's very nice. There is a portion in the statute that says within the livestock pilot program, a new product that is, in fact, approved by FCIC for reinsurance would not be considered a trade option for purposes of the FCIC trade option rules.

CHAIRMAN SPEARS: We talked about this once before at a prior advisory committee meeting, and it was an issue that came before us, and is now part of RMA purview.

MR. GILLEN: Mr. Chairman.

CHAIRMAN SPEARS: Yes.

MR. GILLEN: I don't want to rain on Ms. Honor's parade, but--

MS. HONOR: It's already been rained on today.

MR. GILLEN: --but it seems that Ken Ackerman might have done too good a job. The Delta Farm Press earlier this week had an article indicating that maybe the Crop Insurance Program was too good because production is up substantially in the mid-south region, and it may well be that not only crop insurance but the fact that cotton is the best thing to plant for producers in that particular region compared given the low price of beans.

CHAIRMAN SPEARS: Phyllis, you mentioned that you're looking for nominations to your board. Now is the name of the board the FCIC board or what?

MS. HONOR: Yes.

CHAIRMAN SPEARS: Okay. So there are a number of producer groups here and we would certainly appreciate your pitch. Maybe some of these producer groups have an opportunity here within the next two weeks to present some names to your board that would be knowledgeable from groups representing corn, soybeans, wheat, livestock, whatever. So do you have anything else, Phyllis?

MS. HONOR: No, that's all.

CHAIRMAN SPEARS: Okay. Again, thank you for coming, Phyllis. It's very timely as it's been quite evident, I think, that with the different acts of Congress last year, the lines between our two agencies are somewhat blurred, and have somewhat come together. Because we now have some education responsibility and you have some livestock programs to administer. So there are some tendencies toward the blurring of lines between our two separate agencies.

So I think it behooves us to continue communication as we have in the past, and I think it further demonstrates the need to have RMA as a member of this Ag Advisory Committee. So we thank you for your attendance and for your help and look forward to your assistance in the future. Go ahead.

MS. HONOR: Well, I thank you also, and I think that relationship has already been established in the fact that the administrator sits on this committee and that you also sit on our Risk Management Education Advisory Committee. So I think that the communication channels are already there for our agencies to know what's going on at both places, and we need to continue to keep those there.

CHAIRMAN SPEARS: I appreciate that. With that, what was just handed out to you guys a minute ago while Mrs. Honor was talking was John Bird's portion of the program. I misspoke earlier. I thought it was in your packets. It was not. It was on the table in our office. Again, thanks to my crack staff. I think what's on here is a list of the various internet based, electronic ag market internet sites that are out there today, as well as copies of the slides that John was going to present. So hopefully, that will be helpful to you guys if you have a chance to review that.

Well, are there any other issues that need to come before this committee? Due to time management, we are now back almost on schedule. We are scheduled to adjourn at five o'clock, and it's almost five o'clock. Before I do adjourn, I wanted to have the opportunity once again to thank everyone for coming, and for staying through the entire program.

I want to thank the panelists who came to make their presentations to the group, Melinda, Jack and Bill as well, who is a member of the committee. I think that we accomplished some things today. I recognize these are difficult issues. These are issues that are put before you on relatively short notice, but they are issues that we're going to wrestle with, as I said before, and grapple with over the course of the next few months, and again I would stress the need for any future follow-up correspondence, comments, input, meetings, whatever it would take, to assist us in these matters, as we try to put together proposed rules on how to address ATOs and how to bilateral transactions in ag commodities.

So with that, I want to thank you all for coming, for being patient, and for being flexible in your schedules. I wanted to give Jim one last opportunity. Jim, did you have anything that you want to add before we close?

ACTING CHAIRMAN NEWSOME: No.

CHAIRMAN SPEARS: Okay. Wise chairman. Thank you again, and we look forward to working with you as always. Thank you.

[Whereupon, at 5:00 p.m., the meeting was adjourned.]