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COMMENT

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National Grain and Feed Association

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April 9, 2001

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

Re: Regulatory Reinvention

Dear Ms. Webb:

NGFA is a voluntary trade association of 1,000 companies involved in all aspects of grain marketing, handling, processing, feeding and related businesses. NGFA member companies operate more than 5,000 facilities and handle approximately two-thirds of the grain entering the commercial market sector. Our members use the futures and options markets to commercially price grain in the cash markets and to manage risk.

Overall, the NGFA supports the Proposed Rules. The Proposed Rules provide some regulatory relief and appear structurally sound. The design of the Proposed Rules recognizes the wide range of risk management products and provides at least some flexibility for regulated exchanges to choose the preferred or appropriate level of regulation based upon a business perspective. That should make U.S. markets more competitive and attractive for trading. While generally supportive of the Proposed Rules, however, the NGFA has some concerns.

The Proposed Rules do not grant relief to agricultural futures markets. While the NGFA is encouraged by the CFTC's intent to consider permitting the trading of agricultural futures on a derivative transaction facility ("DTF") in a future rulemaking, the NGFA proposes that CFTC permit this in these Proposed Rules. Proper exchange self-regulation and CFTC oversight can permit these markets to properly handle this new level of responsibility and the benefits would be broad across market participants. Customers of today's markets are protected most by the controls and financial strength of the exchange members and clearing corporation.[1]

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1 We remain concerned that, if exchanges are given the flexibility to split markets on the basis of type or class of trader, existing exchange volume and liquidity would be reduced, thus raising the cost of doing business on the thinner market. When the CFTC permits the offer of futures contracts based on the enumerated agricultural commodities on DTFs, we urge CFTC to encourage the exchanges to promote the

1250 Eye St., N.W., Suite 1003, Washington, D.C. 20005-3917
Phone: (202) 289-0873, FAX: (202) 289-5388, E-Mail: ngfa@ngfa.org, Web Site: http://www.ngfa.org

To keep agricultural markets in the most highly regulated class (with associated high transaction costs) in the face of mounting competition from abroad and elsewhere will entail some risks for agriculture. There is risk that institutional investors that provide liquidity, particularly for out months, will be less willing to participate in the markets. There is also risk that commercial commodity interests will seek lower cost alternatives to hedging products, including electronic exchanges, private contracting, swaps, etc.

The NGFA takes issue with the premise that agricultural markets should be regulated differently because they are somehow more subject to manipulation and that there is somehow a bright defining line among exchange products being traded. We agree that there should be some controls in place to protect against manipulation, but there may be more limited (and less costly) ways for markets and the CFTC to effectively police and have a deterrent effect on efforts toward manipulation without a continuation of existing regulations in their entirety. We would request that CFTC carefully consider the benefits and costs of such regulations for agricultural commodities.

The CFTC has a long history of being very protective of agricultural interests. Being overly protective and overly cautious can, however, effectively restrict access to useful risk management tools, contributing a **net cost** rather than **net benefit** to the overall economy. This is increasingly a concern to agricultural market participants, as it is perceived that every other market will be given more freedom and greater access to a wider range of risk management tools, while agriculture is granted little, if any, additional contracting and risk management flexibility.

We believe CFTC should take the time to carefully and objectively weigh the benefits and costs of its regulation of the enumerated agricultural commodities. Is there really a justification or is the division of treatment arbitrary? Agricultural markets are not, in our judgment, sufficiently different from other markets to justify the proposed disparity in regulatory treatment.

Sincerely,

Tom Coyle /AVL

Tom Coyle
Chairman
Risk Management Committee

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access of small commercial and retail traders to DTFs that trade agricultural contracts, as permitted by the Commodity Futures Modernization Act ("CFMA").