

# COUNTRY HEDGING, INC

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April 2, 1998

## COMMENT

Jean A. Webb  
Secretary of the Commission  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21st Street N.W.  
Washington, D.C. 20581

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COMMODITY FUTURES  
TRAINING COMMISSION  
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Re: **Regulation of Noncompetitive Transactions Executed on or Subject to the Rules of a Contract Market**

Dear Ms. Webb:

Country Hedging, Inc. ("CHI") has reviewed the Concept Release by the Commodity Futures Trading Commission ("CFTC") regarding Regulation of Noncompetitive Transactions Executed on or Subject to the Rules of a Contract Market in the January 26, 1998 Federal Register. CHI appreciates the opportunity to comment.

CHI is a cooperative brokerage firm and a subsidiary of St. Paul based grain cooperative Harvest States. CHI is a registered Futures Commission Merchant with National Futures Association and is a clearing member of both the Minneapolis Grain Exchange and the Kansas City Board of Trade. CHI's customer base consists of country elevators, commercial grain companies, and agricultural producers.

CHI believes that the current regulatory structure governing EFPs is sufficient and should not be changed. By focusing on hedging in the grains and livestock, CHI has built a strong futures and options business with Exchange for Physical's ("EFP") as a valuable link between the futures and cash markets. With movement of grain, country elevator customers use EFPs to ensure a proper hedge position at all times.

Specifically, the elements of a bona fide EFP are clearly defined and should remain intact. A viable written contract is the only criteria necessary to determine if an EFP is bona fide. Items stated in the Concept Report, such as a strict price correlation or changes regarding string trades are not warranted.

Further, current reporting, record keeping, and internal control requirements are satisfactory. Pursuant to CFTC Regulations, FCMs are required to maintain all documents related to EFPs. Further, FCMs are required to furnish documentation of the cash leg of an EFP upon the request

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of the contract market, the commission, or the department of justice. These requirements are adequate to ensure that EFPs are bona fide and additional requirements would be burdensome.

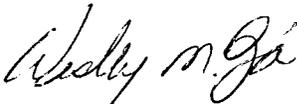
Additional disclosure statements for EFP customers are not necessary. Customers are required to sign a standard Risk Disclosure statement prior to trading commodity futures and options. Such disclosure statements cover the risks involved in holding any and all futures positions.

Also, CHI believes that Alternative Execution Procedures including Large Order Procedures should not be allowed. By allowing large quantity orders to trade at prices other than the prevailing price and outside the open trading pits, the integrity of the market is called into question.

The only additional type of noncompetitive transaction that should be considered is Exchanges of Options for Physicals ("EOFP"). EOFP may be a viable hedging tool. For example, Firm A has "Minimum Price Basis Fixed" contracts outstanding. Firm A is bought by another firm, Firm B. Currently, there is no way to transfer open option positions from Firm A to Firm B, even though the positions are imperative for proper performance of the contracts.

CHI appreciates the opportunity to comment on noncompetitive transactions. If you have any questions, please address them to Alison Crawford, CHI Compliance Supervisor, at 612/641-6598.

Sincerely,



Wesley M. Oja  
President