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COMMENT

April 27, 1998

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

Re: CFTC Concept Release titled "Regulation of Noncompetitive Transactions Executed on or Subject to Rules of a Contract Market"

Dear Madam Secretary,

Cargill, Incorporated is a merchant and processor of agricultural commodities and other bulk products. As such, we make significant use of futures contracts for hedging a variety of price risks at exchanges throughout the United States and around the world. We appreciate the opportunity to comment on the CFTC's concept release which was published in the Federal Register on January 26, 1998.

We see three main issues within the concept release and will comment on each of those separately. The three are:

1. Should the standards in place for the regulation of exchange for physical (EFPs) be changed?
2. Should other types of non-competitive transactions, such as exchange for swaps (EFSs) and exchange of options for physicals (EOPs), or off-floor block trades be permitted to be executed on, or subject to the rules of a contract market?
3. What standards should be applicable to execution facilities for non-competitive transactions executed on, or subject to the rules of a contract market?

EFPs have become an integral part of the grain market in the United States. The majority of the grain traded from country elevators beyond to regional terminals and then on to exporters or to processors utilizes this facility to "price" the grain. The trades between these parties are done as "basis" trades, with futures later exchanged.

The Commodity Exchange Act, which generally prohibits non-competitive transactions, provides exceptions for transfer trades, office trades and the exchange of futures for physicals which are traded in accordance with exchange rules. We believe that the current system works well and does not need to be modified. The exchanges are responsible for monitoring the transactions to be sure that they meet all rules and that transactions are bona fide EFP transactions. This self-policing system also works well and should not be changed.

Both swaps and the use of options are becoming more prevalent in today's marketplace. This is a natural evolution. We believe that the exchanges should be allowed to alter or amend their rules in line with this development. Thus, we recommend that the CFTC broaden the exceptions to the Commodity Exchange Act to allow for EFSs and OFPs following the same criteria used for EFPs. That would mean that they be integrally linked to a cash commodity transaction or a swap, and that they not displace price discovery from occurring in the centralized marketplace. Because different markets will evolve in differing ways, the development of specific rules governing EFSs and OFPs in various markets should be left to each individual exchange.

Block trades are a different matter. We are strongly opposed to allowing futures contracts to be traded 'off-exchange' and then come to the exchange for clearing purposes. We believe this would be non-competitive and could quickly lead to the demise of existing futures markets. Commodity futures are both risk transfer tools as well as price discovery mechanisms. If block trading were to be allowed, price discovery performance would be likely to deteriorate significantly and liquidity would be reduced. The net effect would mean a reduction in the risk transfer effectiveness of commodity futures.

Furthermore, we feel that block trading is in contradiction with the Commodity Exchange Act which specifies that the CFTC is "to ensure that all trades are executed at competitive prices and... focused into the centralized marketplace to participate in the competitive determination of the price of futures contracts." We realize that block trading is an accepted practice within equity markets but we believe there are fundamental differences between stocks and futures so the existence of block trading in securities markets does not support the adoption of block trading in commodity markets.

Current execution facilities work well. We see no reason to add any new regulatory criteria. EFS and OFP transactions should be governed in the same manner as EFPs currently are handled. We do not see the need for any new standards aside from the addition of EFSs and OFPs.

Thank you for the opportunity to comment on these issues. We appreciate the Commission's interest in making changes to the regulatory structure as markets change and evolve. We urge the Commission to ensure that they oversee needed evolutionary changes that will make the marketplace better for all users. More radical changes which could destroy the markets that we depend upon for risk transfer and price discovery must be avoided.

Sincerely yours,

A handwritten signature in black ink that reads "Jim Sutter" with a stylized flourish at the end that includes the letters "NSP".

Jim Sutter
Vice-President, Cargill Grain Division
Cargill Grain Division/Oilseed Processing Futures Manager