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MANAGED FUNDS ASSOCIATION
The Voice of the Global Alternative Investment Industry
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Mr. David A. Stawick
Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, D.C. 20581

Re: Comment Letter Regarding Petitioner's Request To Exempt Certain Over-the-Counter Swaps From Certain of the Requirements Imposed by Commission Regulation 35.2, Pursuant to the Authority in Section 4(c) of the Commodity Exchange Act, 73 FR 38403 (July 7, 2008)

Dear Mr. Stawick:

Managed Funds Association ("MFA")[1] appreciates the opportunity to submit comments with respect to the above-referenced petition, which was submitted jointly by the Chicago Mercantile Exchange, Inc. ("CME") and the Board of Trade of the City of Chicago, Inc. ("CBOT"). CME and CBOT's petition was submitted in connection with certain agricultural over-the-counter ("OTC") contracts to be listed for clearing-only on the CBOT and cleared through the CME (the "CME Clearing House"). CME and CBOT are requesting that the Commodity Futures Trading Commission ("Commission") issue an order under Section 4(c) of the Commodity Exchange Act ("CEA") that would permit qualified participants who enter into OTC corn basis swaps and OTC calendar swaps for corn, wheat, and soybeans (collectively "OTC Swaps") to submit those contracts to the CME Clearing House for clearing. The Commission has requested comment on whether to exempt the OTC Swaps from certain of the requirements otherwise imposed by Commission Regulation 35.2.

MFA's members are active participants in the commodities and OTC derivatives markets, and trade agricultural contracts both on exchanges and in OTC markets. Accordingly, MFA has a strong interest in the fairness and efficiency of these markets and the above referenced petition. MFA supports the Commission's efforts to enhance the transparency and efficiency of derivatives markets. We believe that granting the request of the CME and CBOT will further advance those goals. We strongly support the petition by the CME and CBOT as we believe the exemption: (1) will facilitate risk management, improve liquidity and market efficiency,

[1] MFA is the voice of the global alternative investment industry. Its members include professionals in hedge funds, funds of funds and managed futures funds, as well as industry service providers. Established in 1991, MFA is the primary source of information for policy makers and the media and the leading advocate for sound business practices and industry growth. MFA members include the vast majority of the largest hedge fund groups in the world who manage a substantial portion of the approximately $2 trillion invested in absolute return strategies. MFA is headquartered in Washington, D.C., with an office in New York.

enhance OTC market transparency, and reduce systemic risk; (2) is consistent with existing industry and regulatory initiatives; and (3) is consistent with the underlying policies of the CEA and Commodity Futures Modernization Act of 2000 (the "CFMA").

1. The requested exemption will facilitate risk management, improve liquidity and market efficiency, enhance OTC market transparency and reduce systemic risk.

The clearing of OTC Swaps through a central counterparty has the potential to free up credit lines for many agricultural market participants. This will assist agricultural market participants in their ability to utilize OTC derivatives to manage their market risk, which may otherwise be constrained by the cost of posting collateral with counterparties. This is particularly important given the reported tightening of credit standards and the difficulty some agricultural market participants are experiencing in financing their hedge positions.

The clearing of OTC Swaps will also facilitate creation of a fungible market for the OTC Swaps, and in turn, enhance market liquidity, although this will necessitate the adoption of more standardized contract terms. Today, OTC market participants must perform extensive financial due diligence on their prospective counterparties and enter into credit support agreements. This reduces the number of potential market participants and increases the amount of time and expense necessary to negotiate an OTC transaction. Clearing through a central counterparty allows market participants to trade without regard to the credit risk of their trade counterparty, further enhancing trading liquidity and reducing transaction costs. One example of the increased market liquidity and increased market efficiency that clearing of OTC Swaps can facilitate is in the OTC ethanol swap market. Before OTC ethanol swaps were centrally cleared, the OTC market in ethanol was illiquid and characterized by sporadic trading and extremely wide bid/ask spreads. Since the advent of clearing of OTC swaps in ethanol, liquidity and volume have improved, and bid/ask spreads have narrowed (indicative of a more liquid/efficient market).

The standardization of contracts combined with centralized clearing will make it easier for parties to exit transactions, which will also improve market liquidity. Today, when market participants want to exit an OTC contract they can do so only by negotiating an offsetting transaction with the original counterparty, negotiating an offsetting transaction with another counterparty who agrees to assume responsibility for the original contract (a "novation"), or negotiating an offsetting transaction with another counterparty and maintaining two offsetting positions, one with the original counterparty and an economically offsetting transaction with a second counterparty. Those approaches entail significant counterparty risk and are inefficient from a capital usage standpoint. Centrally cleared OTC Swap contracts will permit a market participant to exit a position and substantially eliminate counterparty risk by entering an offsetting transaction with any other counterparty that is a qualified participant.

In addition to facilitating risk management and enhancing market liquidity, permitting qualified participants who enter into OTC Swaps to submit such contracts to the CME for clearing will provide greater regulatory transparency. The CME Clearing House will clear the

OTC Swaps in compliance with the core principles of the CEA applicable to derivatives clearing organizations, and the Commission's rules and regulations with respect to, among other things, market surveillance and financial surveillance. The OTC Swap transactions will be subject to large trader reporting and position accountability levels. This will enhance the information available to the Commission regarding OTC transactions in agricultural derivatives. Furthermore, the clearance of OTC Swaps may provide additional transaction information to market participants regarding agricultural markets, which may enhance price discovery. Transparent markets facilitate accurate valuation of positions and reduce transaction costs.

Finally, clearing standardized OTC Swap contracts through a central clearing house reduces operational complexity, costs, and systemic risks. Currently, the processing of the OTC derivatives transactions is difficult to automate because each OTC contract is a customized agreement between two parties. As a result, when trade volumes increase, the back offices of market participants experience increased difficulty in processing OTC derivatives transactions. The centralized clearing of standardized OTC Swap contracts allows for automation of the clearance and settlement process, which increases operational efficiency and reduces costs. A centralized clearing house would also reduce systemic risk by functioning as a back-stop to prevent the failure of a single market participant from having a disproportionate effect on the overall market.

2. The requested exemption is consistent with existing industry and regulatory initiatives.

The OTC Swaps exemption petitioned for by CME and CBOT is consistent with MFA and the major OTC derivatives dealers' initiatives with respect to recent innovations in other OTC derivative products, particularly in the credit derivatives markets.[2] Over the last several years, MFA and the major OTC derivatives dealers have worked extensively with regulators, including the Federal Reserve Bank of New York, the Securities and Exchange Commission and the U.K. Financial Services Authority, to promote fairness, financial security and efficiency in OTC derivatives markets, as well as to reduce counterparty credit risk and systemic risk in those markets. MFA and its members continues to consistently support and participate in innovative and collaborative industry efforts that seek to improve market access, operational infrastructure and efficiency of the OTC derivatives markets. Such efforts include, enhancing operational efficiency (e.g., counterparty credit risk, operational risk, etc.) to reduce risk and MFA-sponsored seminars and meetings to educate industry participants and promote industry-wide infrastructure innovations that seek to achieve fairness, security and flexibility in the processing of OTC derivatives transactions.

[2] These efforts include the consideration of establishing a central counterparty for the clearing of all OTC credit derivatives products.

3. The requested exemption is consistent with the underlying policies of the CEA and CFMA.

Lastly, MFA believes that CME and CBOT's petition to exempt certain OTC swaps from certain provisions of Regulation 35.2 is consistent with the underlying policies of the CEA and in particular the CFMA, which encourage innovation in commodities markets, and specifically, the clearing of OTC commodity derivatives.

Conclusion

MFA is a proponent of fair, open and competitive commodities and OTC derivatives markets and of appropriate regulatory oversight to prevent market manipulation and systemic risk. To that end, we believe that granting the CME and CBOT their request to exempt certain OTC swaps from certain provisions of Regulation 35.2 will facilitate risk management, improve liquidity and market efficiency, enhance OTC market transparency, and reduce systemic risk.

Thank you again for affording us the opportunity to submit these comments. As always, MFA welcomes the opportunity to further discuss our position. If you have any questions concerning the matters discussed above, please do not hesitate to contact me at (202) 367-1140.

Very truly yours,

Richard H. Baker,
CEO and President
Managed Funds Association

cc: Acting Chairman Walter Lukken
Commissioner Bart Chilton
Commissioner Michael Dunn
Commissioner Jill E. Sommers