



National Grain and Feed Association

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December 23, 2010

Mr. David A. Stawick
Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW.
Washington, DC 20581

Re: "KCBOT Contract Amendment for Wheat"

Dear Mr. Secretary:

The National Grain and Feed Association (NGFA) appreciates the opportunity to provide comments to the Commission regarding proposed changes to the Kansas City Board of Trade (KCBT) wheat contract as submitted by the KCBT on Dec. 1, 2010. At the outset, we would like to recognize the very challenging task taken on by the KCBT when basis widened dramatically earlier this year and convergence of cash and futures began to weaken. We appreciate the many hours of hard work by the KCBT's Wheat Contract Committee, executive leadership and others that culminated in this proposal.

The NGFA's guidance can be summed up in two words: "Convergence Matters!" – not just sometimes, but consistently and predictably. The NGFA believes strongly that any contract changes should be evaluated by industry, by the exchanges and by the Commission against this measuring stick.

In that context, the NGFA believes that the KCBT's adoption of a seasonal storage rate, or harvest storage premium, is at least an initial step in the right direction. We recognize that the KCBT's current proposal for a seasonal rate is a constructive effort that should assist in improving the contract's performance.

Regarding the proposal's element to establish a protein specification on the KCBT wheat contract, we would again pose the question: Does a protein specification assist in promoting convergence? There at least two potential answers to that question:

- 1) Some delivery elevators and other grain purchasers have raised concerns that a tighter protein standard on the futures contract than exists in cash markets might work to the detriment of convergence. In years of low-protein harvests in hard red winter wheat-growing areas, the protein spec could serve to shrink the pool of deliverable wheat supplies. If that occurred, deliveries would be curtailed – a situation that probably would not help the contract converge. In addition, there could be undesirable economic consequences for delivery elevators if they are challenged to source wheat supplies that meet the contract specifications.
- 2) Some end-users believe that the protein requirement could assist with convergence. A minimum protein level could give the “taker” of delivery greater assurance that he will receive wheat of sufficient protein levels to produce a product acceptable to customers and consumers (e.g., for a flour miller to produce all-purpose flour).

In an environment with competing views on the best changes to contract terms, it will be especially important for the CFTC to monitor closely implementation of the changes and to evaluate fully and carefully whether they contribute to convergence. Realistically, it may take a year following implementation in Sept. 2011 to judge whether the changes have helped reestablish a reliable cash and futures relationship.

If convergence does not occur by that time, additional contract revisions may be needed. If necessary, there are probably a number of potential changes that would help reestablish convergence – one worth considering at that time would be a Variable Storage Rate.

In closing, the NGFA values highly its close working relationships with both the KCBT and the CFTC. We look forward to a continuing constructive dialogue on how best to achieve convergence for the KCBT wheat contract and ensure its effectiveness as a critically important price discovery and risk management tool.

Sincerely,

A handwritten signature in black ink that reads "Matt Bruns". The signature is written in a cursive, flowing style with a large, sweeping flourish at the end.

Matt Bruns, Chair
Risk Management Committee