

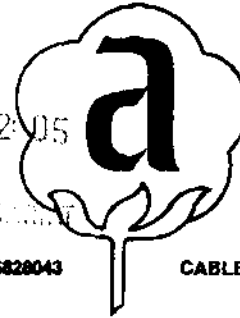
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allenberg cotton co.

COMMENT

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CABLES: ALLENBERG



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By fax: (202) 418-5521

September 30, 1999

Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, D.C. 20581

Attn: Office of the Secretariat

Ref: Agricultural Trade Options

Dear Sir or Madam:

Allenberg Cotton Company, a division of the Louis Dreyfus Corporation, is one of the largest merchandisers of cotton in the world. We would like to take this opportunity to provide our comments on the Commission's proposed rule for 17 CFR Parts 3 and 32, published in the Federal Register on August 31, 1999.

As the Commission notes, since the interim rule on agricultural trade options went into effect in June of 1998, not one single individual has applied to become an Agricultural Trade Option Merchant. We believe the reason for this has nothing to do (as the Commission suggested) with depressed markets for commodities.

From our viewpoint as a firm in the business of risk management and commodity merchandising, the reason that no one has applied to become an Agricultural Trade Option Merchant is that no one wants to submit his business to the onerous rules and requirements that the CFTC adopted in 1998. We said in our comment submitted at that time that the proposed rules "doom the fledgling instruments to failure". We stand by that statement today not only because that is what in fact happened, but because it will probably happen again if the Commission's present proposal is adopted.

We realize that the Commission has good intentions with these rules. However, they present a regulatory environment that is unacceptably intrusive and burdensome to private business in the United States. They are also incompatible with standard business management procedures in commodity merchandising. It is equally for this last reason that apparently no one in our industry wants to do business under those rules, nor (we believe) will want to do business under the proposed rules if adopted.

The 1998 proposed rule is proof that regulators do misunderstand things from time to time. This is also the case, for example, with the very idea of constructing a hedge exemption from the onerous segregated funds requirement. We are glad to see that the Commission wants to accommodate the hedge in its proposed rule, but the idea is impractical. We want the Commission to understand why it won't work for the mainstream firms in the business of commodity merchandising.

Most commodity merchandising firms treat their positions in a pooled manner, not as a group of individual trades. Does the Commission really believe that there is a difference between two firms, one

A Division of the Louis Dreyfus Corporation

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with a position short 100 puts and long 1 put, versus one just short 99 puts? If the position is managed as a pool, how can one go long or short without potentially being foul of the segregated funds requirement associated with a trade options position? It is incompatible with our book. It would require segregation of the position. We do not wish to operate our books in a manner where we associate "put number XYZ with trade option cash contract XYZ". Nor do we wish to be forced to carry a hedge to the maturity of its associated trade option, constrained in our ability to place and lift the hedge not only by the status of the exemption but by a financial requirement established by market conditions of an earlier day.

In our changing market environment yesterday's best hedge for a position may not be today the best solution financially to manage that risk.

We do not think anyone will submit to the requirements proposed this year if they are adopted as the new regulations one must abide by to trade these products. We realize that the Commission intends to protect the public with these rules, but people are best protected if they simply confine their dealings to reputable counter-parties. That is one of the first rules of doing business, and perhaps being reputable and properly capitalized should be the requirements to be an Agricultural Trade Options Merchant.

Sincerely,



Joe Nicosia
Chief Executive Officer/President