

99-34
15

NATIONAL GRAIN TRADE COUNCIL
SUITE 925
1300 L STREET, N.W.
WASHINGTON, D.C. 20005
Tel (202) 842-0400 Fax (202) 789-7223

COMMENT

RECEIVED
C.F.T.C.
1999 OCT -7 P 3:24
OFFICE OF THE SECRETARIAT

September 30, 1999

Office of the Secretariat
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

RECEIVED
C.F.T.C.
1999 OCT -8 A 7:30
RECEIVED CFTC
RECORDS SECTION

Dear Sir or Madam:

The National Grain Trade Council submits these comments on the proposed rulemaking regarding agricultural trade options. The Commission on August 31, 1999, asked for public comments on its proposal to streamline its regulations for the pilot program

The Council is a trade association whose voting members are grain exchanges, boards of trade, and national grain marketing organizations. The Council's associate members are grain companies and related businesses. The Council's mix of membership provides it with a unique perspective on futures trading issues.

The Council compliments the Commission on many of the changes contained in the proposed rule that will make the agricultural trade options program more workable. There are some areas where we feel further attention is needed. Our views are as follows.

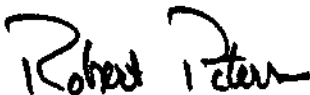
1. Cash settlement and offset. We support the Commission's proposed changes. We believe the pilot program should, as the Commission has proposed, permit cash settlement and offset or cancellation of agricultural trade options by removing the requirement that options, if exercised, must result in physical delivery. This change will provide users with important flexibility.
2. Registration and record keeping requirements. We welcome the changes the Commission has proposed. Some Council members are concerned with the registration requirements and believe the act of registration makes the parties subject to CFTC reparations on these contracts. With regard to record keeping, it appears to us that although these requirements have been streamlined that the rules would still be onerous. Some believe those record keeping requirements are more stringent than required of a futures commission merchant in dealing with the retail public. The Council supports further streamlining of the registration and record keeping requirements.

3. Producers writing a cover call option. We recommend changing the proposal to allow producers to write a covered call option. We believe the prohibition is an unnecessary restriction and could reduce the profit potential for an agricultural business and limit the potential for managing commodity price risk. Writing a covered call could be a method for a producer to enhance his income -- it could be a natural and manageable position for a producer. These tools, while they do not provide a firm price for the commodity involved, do provide a mechanism for a feeder who wants to buy inputs at a lower value to use this tool to place a "bid" on those inputs which will be bought in the event that prices for those inputs move lower. Conversely, a producer can offer to sell production above existing market prices at which they should be able to be profitable.

4. Exemption level. The Commission is proposing to maintain the \$10 million exemption level contained in the original rules. Under this provision, transactions are exempt where each party to the option has a net worth of not less than \$10 million from complying with all the specific conditions for trading agricultural trade options. We recommend the Commission reconsider this view and reduce the exemption level.

In closing, we compliment the Commission for taking a fresh look at the regulations for the agricultural trade options pilot program. We support the direction the Commission has taken in the proposed rules, but believe there are additional areas where change is needed.

Respectfully,



Robert R. Petersen
President