

**MINUTES OF THE MEETING OF THE
U.S. COMMODITY FUTURES TRADING COMMISSION'S
AGRICULTURAL ADVISORY COMMITTEE**

April 11, 2019

The Agricultural Advisory Committee (AAC) convened for a public meeting on Thursday, April 11, 2019, at 8:30 a.m., at the Marriott Kansas City Overland Park, located at 10800 Metcalf Avenue, Overland Park, Kansas. The meeting consisted of three panels. Panel I delved into the issue of the future of futures commission merchants (FCMs). Panel II discussed innovations in agricultural cash markets and futures market operations. Panel III examined the role of matching algorithms and the evolution of electronic trading in agricultural markets. The panels were followed by a robust discussion identifying potential work streams that could help generate actionable recommendation to the Commission on select issues.

AAC Members in Attendance

Joe Barker, Representative, National Council of Farmer Cooperatives
Chris Betz, Representative, Michigan Agri-Business Association
Larry Birgen, Representative, National Farmers Union (by telephone)
Darryl Blakey, Manager of Legislative Affairs & Market Regulatory Policy, National Cattleman's Beef Association
Robbie Boone, Senior Vice President-Government Affairs, Farm Credit Council
Amanda Breslin, Representative, Coalition for Derivatives End Users
Robert Creamer, Chairman, Futures Industry Association/Principal Traders Group (by telephone)
Neal Driscoll, Representative, Managed Fund Association (by telephone)
Edward Gallagher, President, DFA Risk Management, National Milk Producers Federation
Matt Hines, Risk Management Consultant/Licensed Broker, Loewen and Associates, Inc., American Farm Bureau Federation
Thomas Hogan, Vice Chairman-Board of Directors, Cocoa Merchants Association of America (by telephone)
Thomas Kadlec, Representative, Futures Industry Association
Chris Klenklen, National Association of State Departments of Agriculture (by telephone)
Randy Melvin, Chairman-Risk Management Action Team, National Corn Growers Association
John Owen, Chairman-Rice Futures Contract Working Group, USA Rice Federation
Monte Peterson, Director, American Soybean Association (by telephone)
Mark Scanlan, Senior Vice President of Agriculture and Rural Affairs, Independent Community Bankers of America (by telephone)
Stephen Strong, Vice Chair-Board of Directors, North American Export Grain Association
Justin Tupper, Co-Chair-U.S. Cattlemen's Association (USCA), Marketing & Competition Committee and Board of Directors Member, USCA
Hayden Wands, Chairman-Commodity and Agricultural Policy Committee, American Bankers Association (by telephone)

Speakers in Attendance

Matthew Kulkin, Director, Division of Swap Dealer and Intermediary Oversight, CFTC (Panel 1)
Joe Barker, AAC Member, President, CHS Hedging, LLC (Panel 1)

Thomas Kadlec, AAC Member, President, ADM Investor Services (Panel 1)
Jim Heneghan, Senior Vice President-Agribusiness, Gro Intelligence (Panel 2)
Jay Froscheiser, Senior Vice President-Financial Analytics, DTN (Panel 2)
Mark Pryor, Chairman and CEO, The Seam (Panel 2)
Tim Andriesen, Managing Director-Agricultural Products, CME (Panel 3)
John Scheerer, Senior Director Global Command Center, CME (Panel 3)
Andrew Vrabel, Executive Director, Global Head of Investigations, CME (Panel 3)

CFTC Commissioners and Staff in Attendance

J. Christopher Giancarlo, Chairman and AAC Sponsor
Rostin Behnam, Commissioner
Dan Berkovitz, Commissioner
Dawn Stump, Commissioner
Brian Quintenz, Commissioner
N. Charles Thornton III, AAC Acting Chair/Designated Federal Officer (DFO), Director of the Office of Legislative and Intergovernmental Affairs
Christa Lachenmayr, Economist, Division of Market Oversight

I. Opening Remarks

Mr. Thornton called the meeting to order.

Chairman Giancarlo began the meeting by noting that all five CFTC commissioners were in attendance, to highlight the importance of the event, and that the meeting represented probably only the second Commission meeting ever held outside of Washington, D.C. Chairman Giancarlo also paid homage to Kalo Hineman, former CFTC Chairman, native Kansan, and livestock producer, who was responsible for the creation of the ACC. He noted the importance of advisory committees to the Commission's work, and thanked the attendees for coming.

Next, Commissioner Quintenz gave his opening remarks, thanking Chairman Giancarlo. He echoed the Chairman's remarks and stated that the more that the Commission engages with the public through advisory committees the better it is able to do its work.

Then, Commissioner Behnam gave his opening remarks. He noted the importance of the agricultural community to the Commission's work. He thanked the Chairman and Mr. Thornton and Ms. Lachenmayr in organizing the event.

After that, Commissioner Stump gave her opening remarks, thanking all and especially those that organized including Mr. Thornton and Ms. Lachenmayr. She thanked the Chairman for ensuring that the Commission continues to serve the needs of the agricultural community.

Finally, Commissioner Berkovitz also provided his opening remarks. He thanked the Chairman, Mr. Thornton, Ms. Lachenmayr, and all who helped make the meeting possible. He emphasized that the agricultural markets are the core of the Commission's jurisdiction and that he looked forward to learning more to help better regulate these markets.

Following the opening remarks, Mr. Thornton had the AAC members introduce themselves.

II. Panel I: The Future of FCMs

After introductions, Mr. Thornton announced that the first panel would focus on the current operational and regulatory environment for FCMs.

Mr. Kulkin began the panel by describing trends facing the FCM industry broadly. With regard to the number of FCMs with customer assets, he observed a significant decrease over the past ten years. He noted that some FCMs have transitioned to introducing brokers, which means that customers have access to the same services, but their transactions are cleared through a different FCM. When looking at the total amount of customer assets held by FCMs, while the number of firms has gone down in recent years, the amount of assets has remained relatively flat. He noted that there has been an uptick in secured assets tied to swaps. He also observed that FCMs have increased the number of hedging tools to improve their service offerings. He concluded by stating that the panelists should consider the following market factors in their discussions: (1) costs; (2) market evolution; (3) customer evolution; and (4) macroeconomic market forces.

Mr. Barker presented next, discussing the trends facing the FCM industry in further detail. The first trend he described was the trend towards electronic trading. This has resulted in greater efficiency in the marketplace, better service, and lower costs. In addition, he noted the regulatory burden that FCMs face has increased greatly in the last ten years, which has increased their costs.

Finally, Mr. Kadlec discussed three fundamental changes facing the FCM industry. First, he observed that the conversion from pit to electronic trading has been positive, but that required a significant adjustment by market participants. Second, the demutualization of exchanges has shifted the power structure from FCMs to the exchanges, which control both clearing and pricing of trading and other services. Third, he noted that the 2007-2008 financial crisis had the dramatic economic effect of driving interest rates to zero and causing some FCMs to go out of business. He observed that the rules that came out of the financial crisis caused the banks to recapitalize and that FCMs responded to new rules for segregated funds and residual interest, etc., by charging for capital and reporting financials. He stated that the benefits of these new rules to the agricultural community were increased control standardization, efficiency, and accuracy. He suggested some synergies that the AAC could focus on. These include: (1) passing position limit rules and providing guidance on anticipatory and bona fide hedging; (2) working towards specifically identified cybersecurity protocols; and (3) focusing regulatory efforts in order to enhance exchange efficiency, standardization, and delivery mechanisms.

Questions or comments from the AAC membership followed. Generally, the concerns and discussion raised in this session included concern regarding the number of FCMs that have left the market and the resulting increase in costs and its impact on risk management, regulatory clarity, and how to developing and improve the cyber protocol.

[Break]

III. Panel II: Cash Market Innovations

After the break, Mr. Thornton called the meeting back to order.

Mr. Heneghan began the panel by stating that he would be discussing agricultural data and how this data might be used for innovation in cash and financial markets and might be useful for regulatory purposes in these markets. The main issues with agricultural data include: (1) difficulties in maintaining spreadsheets, legacy files, and processes; (2) disparate data sets that are difficult to combine and analyze; (3) data in different units, languages, and frequencies; (4) data updating, quality and integrity requirements; and (5) large scale and scope of agricultural data across many crop-country pairs. In order to address the issues, Gro Intelligence identifies, maps, and integrates data through a sophisticated standardization process. This combined agricultural data can be used to replace spreadsheets that contain multiple sources of data; used in various calculations including deliverable supply calculations; used in physical and futures price convergence calculations; used in futures delivery calculations; and used in understating data on enumerated agricultural commodities.

Mr. Froscheiser presented next and discussed the cash grains data they provide and how they provide services on both sides to producers and agribusiness providing data that helps inform their decision making. This includes: (1) providing data-backed marketing advice and strategies; (2) providing data that helps inform selling decisions; (3) providing on-demand pricing information; and (4) providing a portal to centralize offers. He stated that their data services help producers and agribusiness better deal with competition, changing technology, tightening margins, greater industry consolidation, and market volatility.

Finally, Mr. Pryor discussed how his company works within the cash markets for commodities (mainly the cotton industry) to provide trading and technology solutions. They provide anonymous trading with electronic warehouse receipts as collateral instruments. Data that is collected is made publicly available in real time and increases transparency. He then discussed new innovations and new possibilities including the tokenization of assets. These tokens would be non-fungible and traded on a decentralized distributed ledger. This new technology would allow trading to move with the commodity beyond the warehouse to its end user. Another new innovation on the horizon that he discussed is the interplanetary file system (IPFS), a protocol that is set to change the way files are sent and received on the internet. IPFS would facilitate large file distribution and data integrity assurance on a peer-to-peer, distributable file system. Last, he discussed the innovation of Ricardian contracts, a digital agreement that defines the terms and conditions of an interaction between two or more peers, that is cryptographically signed and verified. These contracts are readable by humans and machines.

Questions or comments from the AAC membership were also taken. Generally, the concerns and discussion raised in this session included: (1) the quicker pace at which technology is being adopted in China and India than in the U.S.; (2) how agricultural data is revolutionizing interaction in the market; and (3) how the data can be used in even better ways to make the marketplace even more efficient.

IV. Panel III: Evolution of Electronic Trading in Agricultural Markets: The Role of Matching Algorithms

Mr. Andriesen began the final panel by stating that he would discuss the role of matching algorithms in the electronic trading space. He noted that in an electronic market a set of rules must be established to make matching decisions. This space has been transformed by three dynamics in the electronic trading space: (1) things can happen in parallel with multiple bids and offers at the same time; (2) best bids and offers not being on the book at the same time; and (3) being able to see the depth of the book.

Next, Mr. Scheerer discussed how the rules and match algorithms work. He explained that Globex, the electronic trading platform, uses three basic algorithms: (1) First-in-First-Out (FIFO) (100%); (2) Pro-Rata (100%); and (3) a combination of the FIFO and Pro-Rata. Mr. Scheerer also discussed the K Matching Algorithm in grain futures.

Mr. Vrabel discussed spoofing and trade practice reviews of trades using the various algorithms. (Spoofing is the practice of bidding or offering with the intent to cancel the bid or offer before execution.) He discussed how the rules can deter spoofers. For example, in certain cases greater depth and liquidity must be maintained and as a result spoofing becomes much riskier in case a spoof order is filled.

Questions or comments from the AAC membership were also taken. Generally, the concerns and discussion raised in this session included: liquidity in market events, factors that help determine if there is spoofing, the impact that speed can have on the matching algorithm in which situations the different algorithms are used, and details regarding how the algorithms work.

V. Other New Business

Mr. Thornton turned the floor over to Ms. Lachenmayr for a recommendation to create an AAC subcommittee. Ms. Lachenmayr proposed forming a subcommittee to review the procedures and solicit recommendations for guidance to exchanges concerning the implementation schedule for amendments to futures contracts with open interest that are based on enumerated (Section 1(a)9) agricultural contracts. Following Ms. Lachenmayr's staff recommendation, Mr. Thornton made a motion to create an AAC subcommittee which was seconded. Mr. Thornton then called for a vote. All voted in favor of the motion and none opposed. The motion was passed.

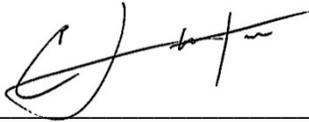
Following the vote, and before the closing remarks, Mr. Thornton opened the floor for comments from the AAC membership. The comments focused on the importance of bringing broadband to the rural communities, and the idea of a daily Commitment of Traders Report.

VI. Closing Remarks

In closing, the Chairman and Commissioners present all expressed enthusiasm for the excellent discussion and thanked all for their hard work.

Mr. Thornton adjourned the meeting at 12:00 p.m.

I hereby certify that the foregoing minutes are accurate.



N. Charles Thornton III
AAC Acting Chair/Designated Federal Officer

November 20, 2019

Date