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Commodity Services, Inc.

2946 104<sup>th</sup> Street

Des Moines, IA 50322-3815

515-251-3100~800-274-2074

1999 SEP 14 P 2:19 Fax: 515-251-3133~Email: csi1992@netins.net



RECEIVED  
C.F.T.C.

CONFIDENTIAL

COMMENT

September 9, 1999

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

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1999 SEP 14 P 3:17

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To whom it may concern:

I am writing to strenuously object to the proposed changes to the Agricultural Trade Options Rules.

In 1996 the commission proposed lifting the ban on off-exchange options. Comments were requested and hearings were held in Illinois. I attended and made suggestions for the proposed rules at that time. All segments of the industry were in attendance. Among the points almost unanimously agreed to were:

1. Stringent licensing, training, and testing for agricultural trade options merchants and their sales agents. The need for this is so obvious, to prevent fraud, abuse, and unintentional errors, that I cannot imagine the commission weakening these provisions.
2. Cash settlement for off-exchange options merely provides for an unlicensed, unsupervised, and unregulated futures market. Caveat Emptor.
3. At the time of the proposed rules, a need was recognized that would require registration and a credible financial requirement. One million dollars net capital was mentioned repeatedly. What do the proposed revisions do with this concept? What does "streamlined registration" mean?
4. Why would the Commission weaken the disclosure statements, reporting requirements, and record-keeping requirements?

Commodity Futures Trading Commission  
September 9, 1999  
Page 2

I have enclosed a copy of my January 10, 1996, letter to the Commission in response to the proposed lifting of the ban on off-exchange options. These points were valid then and are valid now.

The commission decided to lift the ban on off-exchange options even though the vast majority of the comments were against it. At that time the commission promised to implement rigorous training, licensing, testing, and oversight procedures.

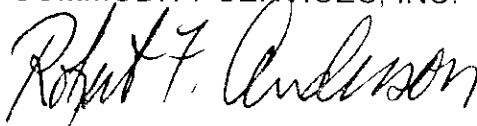
The proposed revisions to the agricultural trade options rules go against previous commission sentiments, against the interests of the vast majority of agriculture participants, and against common sense and the need to protect a currently vulnerable industry, agriculture.

The last venture in the murky area of off-exchange options was the "hedge to arrive" fiasco. Many producers were left bankrupt with worthless contracts issued by unscrupulous grain elevators and their unlicensed, untrained sales representatives.

Is the stench and carnage of that experience so soon forgotten?

Sincerely,

COMMODITY SERVICES, INC.

A handwritten signature in black ink that reads "Robert F. Anderson". The signature is written in a cursive, flowing style.

Robert F. Anderson

Enc.  
Cc: Iowa Congressional Delegation



Commodity Services, Inc.  
2946 104th Street  
Des Moines, Ia 50322-3815  
515-251-3100 \*\* 800-274-2074  
Fax 251-3133

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**COPY**

January 10, 1996

Fax Delivery: 202-418-5525

Jean A. Webb, Secretary  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21st Street, NW  
Washington, DC 20581

Dear Ms. Webb:

I am enclosing a news release that appeared January 2, 1996. It appears that CFTC Commissioner Dial wants to lift the ban on "off exchange" options.

I believe such action is fraught with peril for the following reasons:

1. Elevator operators, livestock buyers, and other cash agricultural personnel are not licensed to offer, trade, or solicit options. Thus there would be no licensing or screening of those who would be dealing with the public.
2. Currently, personnel who deal with the public in futures and options on futures are subject to the scrutiny and regulation of the CFTC, NFA and the appropriate commodity exchanges. Commissioner Dial's proposed action provides for no such oversight.
3. There is no requirement for the elevator or livestock buyer to actually buy offsetting options in the Dial proposal. The question should be asked: "What if the elevator or hog buyer offers the producer a guaranteed price for his product, accepts the "premium" from the producer, but does not buy the offsetting option?" In the futures industry this is called "bucketing a trade" and is clearly illegal. The next question to be asked is: "What if there is no offsetting option purchased and the market moves adverse to the elevator or livestock buyer so they can't perform on the contract?" The producer is stuck. Who does he turn to? What agency is guaranteeing the integrity of these contracts?

**COPY**

Ms. Jean Webb  
January 10, 1996  
Page 2

4. What is wrong with the current system of trading exchange listed agricultural options that are subject to competitive open outcry and are subject to numerous government agencies and trade supervision and licensing requirements? Under the present system, any proposed agricultural option that is to be traded on a futures exchange must go through a rigorous exchange and government review before it is offered to the public. Under commissioner Dial's proposed "off exchange" option plan, every elevator, hog buying station, sale barn, or packer would have their own option contract to offer the producer. I doubt this contract would favor the producer.

In summary, "off exchange" futures and options contracts have proven to be disastrous in the past. That's why they were banned. They attract a group of people who may not be suitable to deal with the public. The courts have long had to deal with unscrupulous dealers in "off exchange" options in metals, sugar, coffee and other commodities. The current bankruptcies and litigation involving "off exchange" traded derivatives in Orange County, the Barrings Bank scandal, and numerous investor disasters should put up strong warning signals. Will derivatives on ag products be next?

Ag options are currently available on the major futures exchanges. Why would we want to allow unlicensed, unsupervised "off exchange" options to be offered to the public?

Sincerely,

**COMMODITY SERVICES, INC.**



Robert F. Anderson