

COMMENT

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December 13, 1999

Ms Jean Webb, Secretary  
Commodity Futures Trading Commission  
Three Lafayette Center  
21st Street NW  
Washington, DC 20581

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RE: Proposed Amendments to the CBT Rice Futures Contract

Dear Ms Webb,

We are very much opposed to the above referenced amendments to the rough rice futures contract, which proposes a change to the amount of "stained rice" deliverable in satisfaction of the contract requirements.

This proposal suggests a 97% reduction in the amount of "stain" allowed under guidelines for a U.S. No. 2, the currently accepted grade. It suggests delivery specifications ten times more stringent than allowed for a U.S. No. 1 grade rice for "stain". Also, a U.S. No. 1 grade rice allows for one kernel of heat-damaged rice while this proposal prohibits even one kernel of heat-damaged rice.

The rough rice contract currently trades with CFTC imposed limitations of ownership for the July contract to both longs and shorts, speculators and hedgers. This limitation exists due to CFTC concern over the amount of deliverable supplies during July, being the crop marketing year end for U.S. rice. Any further restrictions on current specifications will diminish the potential deliverable supplies for all months.

Stain develops in rice during storage, and is not a quality consideration produced in the field. The longer rice is stored, the greater the likelihood of stain being present, which exacerbates potential year end deliverable supplies. Stain is also a color determination, leading to a plethora of debate between makers and takers of delivery. What has a slight coloration to one is not necessarily so to another, thus leading to amplified disagreements when rice is loaded out of a regular warehouse.

It is our opinion this proposal will lead to even greater attempts to corner the rice contract, and will lead to it's eventual demise. The pendulum advantage will overly favor the long position holder to the complete detriment of the warehouseman.

The proposed changes do not provide for any scale of discounts, just complete rejection if the warehouseman is out-of-specifications. It is virtually impossible for a warehouseman to maintain these stringent requirements for one year, which is the current accepted life of an outstanding warehouse receipt.

Warehousemen facing these specifications and the responsibility to maintain receipted rice at these quality specifications for an indefinite period will severely hinder their initiative in making delivery. Likewise, farmers will have increased difficulty in securing delivery space with warehousemen that will be required to maintain this proposed quality once the rice is in their warehouse.

Absent deliverable supplies each successive expiring futures month will trade at a large inverted price to the next expiring month, eliminating any carrying charge structure required by warehousemen purchasing rice for storage considerations. Such action then distorts the cash market, which in turn distorts the futures market further leading it toward a demise.

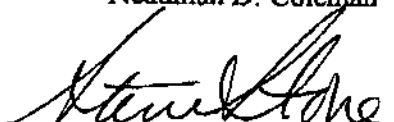
As regards to customs ordinarily observed in the cash market, it can be flatly stated that terms of contracts are always changing. Specifications required five years ago when the rice market had a small amount of rough rice exports, compared to the last three years have changed significantly. Also, terms ordinarily accepted for domestic rough rice millings has as many specifications as there are buyers. When a domestic miller requires "ice cream" quality rice he is willing to pay a premium price to get that quality. There does not exist an established scale of discounts for rice containing "stain" in the cash market currently.

It should also be noted that every rice receipt delivered against the futures contract has been used-up. It is noteworthy that crop year 98-99 saw the largest amount of receipts ever tendered, and they were all used. Takers of receipts desiring "no stain" rice were able to negotiate for that quality, just as they do in the cash market. Arbitrage and negotiation have not been eliminated but stand to be given this proposal.

We would suggest the CFTC return these proposed amendments to the CBT for further review.

Respectfully,

  
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