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OFFICE OF THE SECRETARIAT

February 29, 2000

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

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Re: Comments - Proposed Rule Amendment to Commission Regulation 1.41

Dear Ms. Webb:

The undersigned farm and agricultural organizations submit the following comments in opposition to the adoption of the proposed rule that would amend Commission Regulation 1.41.

The proposed rule would allow contract markets to place new rules and rule amendments into effect on the business day following their submission to and receipt by the commission and eliminate requirements for prior Commission review of the submission.

Regulation 1.41 establishes the submission and review procedures for proposed contract market rules including those related to the terms and conditions of a contract, rules that are not related to terms and conditions, and exempt or emergency rules that may be implemented prior or simultaneous to filing with the Commission.

The Commodity Exchange Act provides the Commission broad exemptive authority from the requirements of Regulation 1.41 to promote innovation and fair competition. However, the Act requires the Commission determine that exemptions from the regulations are consistent with the public interest. Additionally, the Commission has adopted procedures to streamline and expedite the review and approval process of contract market rules and rule amendments.

In the Federal Register submission by the Commission, several questions were raised concerning the proposed rule. We support retention of the greatest level of flexibility by the Commission to:

- (1) Allow for the submission of contract rules and rule amendments to the Commission for review and approval.
- (2) Reserve authority to stay or to suspend the operation of a rule once in has initiated a proceeding under the Act.
- (3) Provide for further review of the implications of the proposed rule as it relates to electronic trading systems.

Concerning the issue of contracts with open interest, we encourage the Commission to take a broad view of the potential harm the proposed rule could have on traders and more particularly, those who are directly or indirectly impacted by the integrity, transparency and price discovery function of futures contract markets.

For commodity producers whose crops or livestock are traded on one or more exchanges, the price discovery function of the market has significant influence over the realized price obtained from physical commodity sales. Nearly all immediate and delayed pricing contracts for cash sale include pricing elements established through commodity exchange trading including both futures prices and basis. Allowing exchanges to change or amend rules without review, public notice or an appropriate time-frame for comment could serve to disadvantage those who commit to sales contracts based in part on the price discovery and other functions of the futures markets established under one set of rules only to find the rules have changed prior to contract settlement.

This situation extends far beyond the issue of open interest, where it might be expected that exchanges would seek to protect traders from any negative impact of proposed rules that have the potential to impact those with an open market position on a given contract.

The Commission is in the process of reviewing new approaches to its regulatory responsibilities. Under consideration is an entirely new framework that would allow the Commission to distinguish among different types of markets and establish an appropriate level of regulation for each market. The suggested framework is based on a number of characteristics unique to the specific trading environment such as potential for manipulation, price discovery function, physical delivery, sophistication of those who trade in the market, etc. We believe this process should be completed prior to further consideration of the proposed rule since its impact, if adopted, would negate many of the advantages associated with the recognition that it may be appropriate to establish alternative regulations based on market characteristics.

Finally, as Congress considers reauthorization of the Commodity Exchange Act, we believe that this public forum should be allowed to fully discuss and debate the merits of the types of regulatory reform, including the proposed rule, that may be suggested by the Commission, futures exchanges and the general public.

Thank you for your consideration of our views.

Sincerely,

American Farm Bureau Federation

National Association of Wheat Growers

National Corn Growers Association

National Farmers Union