MANAGED FUNDS ASSOCIATION
The Voice of the Global Alternative Investment Industry
WASHINGTON, DC | NEW YORK

May 7, 2008

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

Re: CFTC Agriculture Forum on April 22, 2008

Dear Mr. Stawick:

Managed Funds Association ("MFA")[1] appreciates the opportunity to comment on the Agriculture Roundtable ("Roundtable") held on April 22, 2008 by the Commodity Futures Trading Commission ("CFTC" or "Commission").

We commend the Commission for holding a timely forum to address issues recently raised about the agricultural commodities markets. Some Roundtable participants attributed problems in the agricultural markets to institutional investors, including asset managers and fund traders. MFA does not believe these concerns have any factual basis and we commend the Commission and its staff for its analysis refuting those contentions based on sound economic principles and data.

Comments

1. Economic data does not support the allegation that index providers and speculators were the cause of market disruptions.

MFA commends the Commission for soliciting the views of a range of experts and academics and the Commission's staff for their economic research and analysis. Economic data presented at the Roundtable showed that the participation of alternative investment vehicles, such as hedge funds, commodity pools and commodity index funds, in the agricultural markets was price neutral and did not play a role during the 2007-08 price spikes in agricultural commodities.[2] Instead, the available evidence indicated that recent agricultural price movements can be attributed to a range of economic

[1] MFA is the voice of the global alternative investment industry. Our members include professionals in hedge funds, funds of funds and managed futures funds. Established in 1991, MFA is the primary source of information for policymakers and the media and the leading advocate for sound business practices and industry growth. MFA members represent the vast majority of the largest hedge fund groups in the world who manage a substantial portion of the approximately $2 trillion invested in absolute return strategies. MFA is headquartered in Washington, D.C., with an office in New York.

[2] John F. Fenton, Deputy Director of Market Surveillance, Division of Market Oversight, CFTC and Dave Kass, Industry Economist, CFTC, Presentation at the CFTC Agricultural Forum (Apr. 22, 2008).

fundamentals, including the depreciation of the U.S. dollar, increased demand world-wide for agricultural commodities, rising petroleum prices and its effect on energy prices, greater production of renewable fuels and decreased acreage of food grains, tight grain and soybean stocks, increased world wheat consumption, restrictions on world exports of grains, unfavorable climate conditions and higher input costs.[3]

Economists and academics, who formally presented their research at the Roundtable, found no factual support for the allegation that index providers or alternative investment vehicles were responsible for the recent increases in price and volatility in the agricultural markets.

With respect to the lack of convergence, as discussed by Mr. Jeffrey Harris and Dr. Eugene Kunda at the Roundtable, price differentials between the cash and futures markets result from the following variables: the spot price at that instant, the cost of storing the commodity, the value of having immediate access to the commodity, and the cost of delivering the commodity according to the contract.[4] Arbitrage trading by market participants tends to drive the prices of cash and futures to converge subject to these factors. The economic data shows that the recent lack of convergence occurred at different times for different commodities, so there is no ready explanation for the recent lack of convergence. The economic data also shows that participation by alternative investment vehicles was stable and consistent during the 2007-08 price increases in agricultural markets.

The economic principles and data underlying the issue of convergence simply do not support the proposition that participation of alternative investment vehicles in the futures markets are to blame for a lack of convergence. It also should be noted that most fund managers generally do not hold positions into the spot month and exit or roll their positions into subsequent contract months prior to the last trading day or first notice of delivery day, whichever is earlier. The empirical evidence supports the experts' analyses that fund trading has not caused the lack of convergence in the agricultural markets.

2. Trading by alternative investment vehicles in the futures market serves an important market and public function.

It is well established that alternative investment vehicles add important liquidity to agricultural and other markets which serves the congressionally-defined public interests in price discovery, price dissemination and hedging.[5] Alternative investment vehicles often assume the price risk that hedgers, especially in agricultural commodity markets, want to avoid. Futures trading by alternative investment vehicles has grown in popularity in recent years as the benefits of asset diversification through commodities has become more widely recognized in the financial and investment community. The investors in these funds represent the greater public, including pension funds of corporations, state and local government retirement plans that cover retired public service employees, endowments, charitable foundations, and retail investors, among others.

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[3] Gerald Bange, Chairperson, World Agricultural Outlook Board, Office of the Chief Economist, U.S. Department of Agriculture, Presentation at the CFTC Agricultural Forum: Volatility of Agricultural Prices (Apr. 22, 2008).

[4] Jeffrey H. Harris, Chief Economist, CFTC, Presentation at the CFTC Agricultural Forum, (Apr. 22, 2008).

[5] 7 U.S.C. § 5(a).

MFA believes that enhanced liquidity leads to better markets with less price volatility. It would not be consistent with the public interest for the CFTC to limit participation by funds in, and the liquidity they bring to, the futures markets absent compelling evidence of systemic harm funds have caused. As the Commission's forum demonstrated, no such evidence exists.

3. Any additional rulemaking should be founded on sound economic principles and data.

MFA appreciates the thoughtful, detailed and comprehensive approach that the Commission has taken in addressing the effective functioning of the agricultural markets which are vital to our nation's economy. MFA also appreciates that many legitimate market efficiency concerns have been raised relating to the relationship of futures and cash market prices. Nevertheless, we are concerned that additional regulation for the sake of trying to "fix the markets" would result in unintended consequences which could be worse than the perceived problems. We echo Dr. Eugene Kunda's recommendations that "[w]ithout a consensus as to the cause or causes of poor convergence performance, it may not be advisable to make substantial changes in contract specifications at the present time."[6]

MFA commends the CFTC for the thorough, fact-based approach it has taken in the past towards regulation. The CFTC regulatory approach has generally served the markets well in maintaining fair and efficient markets, and we urge the Commission to continue with such approach. We urge the Commission to proceed cautiously if it determines that new rules are necessary and to adopt any such rules only where justified based upon sound economic principles and data to promote fair and efficient markets and to prevent unintended consequences.

Conclusion

We thank the Commission for the opportunity to present important observations regarding recent events in the agricultural commodity markets. We hope to continue to serve as a resource for the Commission and its staff as it continues to address issues in the agricultural markets. Please do not hesitate to contact me with any questions at (202) 367-1140.

Respectfully submitted,

Richard H. Baker
President and Chief Executive Officer

[6] Dr. Eugene Kunda, Assistant Director, Office for Futures and Options Research, University of Illinois, Presentation at the CFTC Agricultural Forum (Apr. 22, 2008): Recent Delivery Performance of CBOT Corn, Soybean, and Wheat Futures Contracts.

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