National Grain and Feed Association

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November 19, 2009

Mr. David A. Stawick
Secretary
Commodity Futures Trading Commission
Three Lafayette Centre, 1155 21st Street, NW.
Washington, DC 20581

Re: CBOT Variable Storage Rate for Wheat

Dear Mr. Secretary:

The NGFA and its member companies have worked many months for solutions to the lack of convergence in the CBOT wheat contract. Less convergence and less predictability in futures and cash prices have resulted in a less useful hedging tool for NGFA-member companies, who are the first purchasers from producers and hedge their price and inventory risk on regulated exchanges. The NGFA's member firms play a critically important role in helping producers market their crops by offering a variety of cash forward contracts. Unfortunately, the availability of some cash forward contracts has been constrained due to last year's spike in futures prices, which placed huge margining requirements on commercial grain hedgers, and due to the uncertainty created by the contract's lack of convergence.

Over the past two years, the NGFA has worked closely with the CME Group for solutions that will re-establish convergence. We support the contract changes made to date by CME, and we agree that additional action is needed to re-establish a reliable relationship between cash and futures values. With respect to the current proposal by CME to implement a Variable Storage Rate (VSR) on the contract, the NGFA agrees that this contract amendment is the next logical step. We believe that, over a period of time, the Variable Storage Rate will help re-establish convergence.

This is an important point – we believe the Variable Storage Rate will take some time to work. While the VSR should eventually result in convergence, there will be a process as the storage rate ratchets up over time. For that reason, the NGFA has advocated strongly that the VSR be implemented as soon as possible – we favored the December 2009 contract, as recommended by the Commission's Subcommittee on Convergence, so it could begin the initial process of working immediately.

In that light, the NGFA is disappointed that the CME Group's amended proposal to the Commission does not more aggressively accelerate implementation of the VSR sooner than July 2010. Even if December 2009 was not able to be accomplished, we would have preferred a March 2010 or May 2010 implementation date. As a practical matter, moving implementation from September 2010 to July 2010 does not accelerate the potential benefits of the VSR, because the notional increase from approximately five cents per bushel per month to eight cents per bushel per month – if indicated by the VSR's trigger of 80% of full carry – merely takes the place of the seasonal storage rate increase scheduled for July. In the meantime, the storage rate will move <u>down</u> in December under the current seasonal rate. Clearly, that is a move in the wrong direction.

In the interest of balance, we do recognize that implementing the VSR as early as December would have impacts on some market participants. However, we believe those impacts would be relatively small compared to the consequences for commercial grain hedgers and producers of deferring a realistic solution.

Generally, we agree with the CME Group that significant changes should not be implemented on contract months with high levels of open interest. However, in this exceptional and urgent situation, we have advocated that the Commission and the CME Group weigh potential impacts on market participants with open positions (who may already have assumed that the VSR is coming) versus the harm that would be inflicted on the wide swath of commercial grain hedgers and producers if convergence is deferred. We hold a strong opinion that the broader public good of implementing the VSR quickly outweighs concerns about potential negative impacts.

The CME Group amendment does contain one positive change in the NGFA's view. We believe that a trigger of 80 percent of full carry – rather than 85 percent, as contained in the CME Group's original proposal to the Commission – will more robustly and quickly encourage convergence.

The NGFA has worked diligently with the CME Group and CFTC on this important issue, and we continue to support efforts to bring balance and viability to the contract. We stand ready to continue with that support, and we will provide technical and practical assistance whenever we can be of assistance.

Sincerely,

Rod Clark

Rod Clark, Chairman
Risk Management Committee