National Grain and Feed Association

1250 Eye St., N.W., Suite 1003, Washington, D.C. 20005-3922, Phone: (202) 289-0873, FAX: (202) 289-5388, Web Site: www.ngfa.org

May 20, 2011

Mr. David Stawick
Office of the Secretariat
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, D.C. 20581

Re: Revision to Proposal to Amend CBOT Rule 10102.D.
Increasing Daily Price Limits in Corn Futures
CBOT Submission No. 11-161R

Dear Mr. Secretary:

The National Grain and Feed Association (NGFA) appreciates the opportunity to provide comment and feedback regarding the CME Group's proposal to increase daily price limits for the Chicago Board of Trade (CBOT) corn futures contract.

The NGFA, on behalf of its approximately 1,050 member companies nationwide, does not support an increase in the corn contract's daily price limit from 30 cents per bushel to 40 cents per bushel. While we appreciate the CME Group's willingness to respond to customer concerns by revising downward the original magnitude of the price limit proposal, we continue to have serious reservations about impacts on agribusiness firms and U.S. agricultural producers that utilize the CBOT corn contract for price discovery and risk management purposes.

We believe that higher daily price limits will cause greater volatility in an already-volatile commodity marketplace. We fear that higher daily price limits will lead to yet-greater financial challenges through larger margin calls for an industry already stretched by high commodity values due to market conditions and investment demand. Increased volatility, in turn, likely would lead to increased initial and variation margin requirements being imposed by the clearinghouse, leading to even larger financial exposure for hedgers and their lenders.

Finally, we can see an outcome that would compel commercial grain and oilseed hedgers – the companies that are first purchasers from producers and that assist producers in their marketing strategies – to reduce offerings of cash forward contracts to producers out of economic necessity. That outcome is not desirable for producers or anyone engaged in U.S. agriculture.

Need for Daily Price Limit Increase Not Sufficiently Justified

During calendar 2011, the CBOT corn contract has closed limit-up on six trading days. However, on those days when the current 30 cent per bushel price limit is reached, the following day's expanded price limit of 45 cents per bushel takes effect just a few hours later when electronic evening trading opens. This allows price discovery to continue, while still allowing for a reasonable "circuit breaker" when markets become overly volatile. The current daily limits also allow an additional expanded limit of 70 cents per bushel on the next trading day, triggered only once since its implementation in 2008. It is difficult to see from this history that the current daily price limits have constrained efficient futures market performance or price discovery.

We believe that the current daily price limit levels are working well and as intended. They have expanded on a handful of days to allow for continued price discovery; then, price moves have returned to more normal levels. If commodity value advances and/or volatility merit the increasing of limits from current levels at some future date, such increases can be accomplished quickly at that time. It may be true, as the CME Group proposal states, that some market participants like index dealers and others who hold commodities for investment purposes, support the change. However, as detailed below, expanding limits unnecessarily or preemptively causes problems for traditional participants like grain hedgers and producers who rely on the contract for price discovery and risk management.

Financial Exposure

Since the dramatic escalation of commodity values in 2008, grain and oilseed hedgers and their lenders have been acutely aware of the financial stresses that ever-larger margin calls can exert. Today, there is renewed concern that price volatility and uncertain market conditions could lead to significant new borrowing needs by hedgers.

Higher commodity values will mean greatly increased financing needs simply to purchase this year's crops from producers. Greater futures market volatility may well lead to significantly increased margin calls. There is serious concern that higher daily price limits will escalate the situation, resulting in additional financial exposure that could even lead to industry consolidation or business closures.

It is important to understand that margin calls mean real money to hedgers. A portion of those funds can be borrowed from agribusiness lenders who, to date, have done a commendable job responding to much greater borrowing needs. The hedger must also provide a portion of the funds for margining from working capital. There is a limit to amounts that lenders can provide, and there is an amount above which a lender will not provide additional funding to any given customer. As financial demands grow, the ability of the hedger to continue offering certain risk management and marketing services to producers may become limited.

In addition, as the single-day potential 'loss' for a hedger grows with higher limits, brokerage firms have to assess whether the exposure is an acceptable risk to them. Some introducting brokers (IBs) or futures commission merchants (FCMs) might start requiring smaller or riskier accounts to retain more dollars on deposit than the minimum Initial Margins required by the CME, or the minimum a firm is satisfied with at present. In the most extreme cases, IBs or FCMs could restrict smaller accounts from trading certain commodities or limit the size of their positions – even as crops are growing and farmers seek to price farther forward. When viewed as potential commissions earned versus the risk of unmet margin calls – or the cost of errors in ever-wider price swings – a growing number of hedgers may not appear as very attractive customers to brokerage firms.

As outlined above, financial exposure and related risks are the most significant factors leading hedgers – companies large and small, merchandisers and processors, private and cooperative – to oppose an increase in daily price limits.

Producer Marketing Impacts

During 2008 when commodity values advanced rapidly, many first-purchasers of grain and oilseeds from producers were unable to continue their regular marketing programs due to financial demands. Firms large and small were stressed by very large margining requirements and, consequently, were compelled to become much more conservative in their offers to producers. Rather than offering cash forward contracts many months in the future to help producers lock in favorable pricing opportunities, many firms could purchase grains and oilseeds only 30 to 60 days out. At a time of significant opportunity, producers were frustrated not to be able to capitalize.

A similar situation could be forthcoming this fall, and we believe increasing the corn contract's daily price limits – potentially exacerbating an already stressful financial situation through larger margin calls and margining requirements imposed by the clearinghouse – could contribute to limiting producer opportunities again, an undesirable situation for the exchange, their hedger customers, and certainly for producers.

Concerns about Daily Price Limit Increases in Other Contracts and Margin Requirement Increases

A separate but closely related concern has been raised during discussions of the price limit increase proposal. Many hedgers fear that a corn price limit increase will lead to similar price limit increases in other commodities as exchanges seek to maintain long-established price-related relationships among commodities. In other words, an increase in the corn daily price limit could lead to increases in wheat and soybean daily price limits in the not-too-distant future, compounding the effects mentioned above.

Further, as referenced above, many hedgers understandably are concerned that price limit increases will lead to greater volatility leading, in turn, to increases in initial and variation margin required by the clearinghouse. If that happens, the financial stresses on hedgers will continue to snowball. The NGFA urges the CFTC and leadership of the CME Group to be cognizant of these related elements and to take seriously the financial concerns of their customers.

Futures Trading on Bank Holidays

An additional separate but related issue has arisen during discussion of the price limit increase proposal. On two days each year – Columbus Day and Veterans Day – grain and oilseed contracts continue to trade while banks are closed for the holiday. There may also be additional days around the Christmas and New Year's Day holidays when banks are closed but futures markets are open at least part of the day.

This presents a problem to futures market participants who are still responsible for margin calls but cannot access funds from their lenders on those days. Thankfully, this situation has not yet resulted in major disruption, but it does present an administrative challenge and an additional cost to participants who may have to estimate that day's margin requirements in advance – and it could present some level of risk to the clearinghouse. The NGFA does not recommend any action by the CFTC on this issue, but we will hope to engage the CME Group and other exchanges in discussion of a reasonable solution.

Again, the NGFA appreciates the opportunity to provide feedback to the Commission on this very important issue. Please do not hesitate to contact the NGFA if questions arise or additional information is needed.

Sincerely,

Matt Bruns

Matt Bruns, Chair
Risk Management Committee