## secretary

**From:** NoReply@cftc.gov
**Sent:** Wednesday, May 18, 2011 11:57 AM
**To:** secretary
**Subject:** CFTC Public Comment on IF 10-016

A comment has been submitted on IF 10-016
Submitter Name: William Day
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Submitter Job Title:CFO
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Submitter City:Truman
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Submitter comment: Watonwan Farm Service is a grain cooperative with locations in Southern Minnesota and Northern Iowa, servicing over 2,500 farmer members. We have corn purchases averaging over 50 million bushels annually, all of which are hedged with the CBOT to reduce price risk for our members and the cooperative. As a grain cooperative, it is our policy to only buy grain when the CBOT is open and trading. Our members understand and accept that we are not able to buy grain when corn is locked up or down. Our competitors for buying grain, which consist of other cooperatives and multi-national companies such as Cargill, follow the same industry standard. Our average bushels hedged with CBOT have been nearly 30 million bushels since the beginning of August 2010. With the current limits, we incur a $9 million margin call if the market if locked up. With the proposed increased limits, that margin call would increase to $15 million, which will force our company to have a larger available credit line. The larger credit line causes multiple issues, the biggest being the availability of credit. The number of lending organizations that are willing to extend large operating lines of credit and have the wherewithal to stand behind a borrower in volatile times is becoming less. The increased limits will increase volatility and the need for a larger line of credit to support the daily operations. The result will be fewer lending organizations wanting to be part of this industry due to the hold limits they must abide by. With fewer lending organization in the industry, our costs to originate loans, unused commitment fees and interest costs will go up. We in turn will be forced to decrease the price that we will be able to pay the farmer for corn due to the increased cost of doing business. In the justification, CME group refers to the restrictions on price discovery that the current limits impose. In March of 2008 the limit was changed from 20 cents to 30 cents when corn was at between $5 and $ 6 dollars in the nearby months. Corn ran up to over $7 in July of that year before falling to between $3.50 and $4 by year end. The price discovery process seemed to work in those very volatile markets which are similar to today's volatility. In the last six months, the prices have only locked up once for two days in a row, which triggered the expanded limits and allowed the markets more flexibility. Thus in my opinion, there has been no restrictions on price discovery even as the market has become more volatile than 2010, but not compared to 2008, and proves the current limits are effective. The comments regarding the increased limits in March of 2008 reflected the same concerns we have now with the proposed increase in the limits. Those comments focused on widening the limits which would increase the volatility of the corn market. Since the change in 2008, the markets have become more volatile compared to the markets prior to the change, which in my opinion proves that those comments were right. Another comment in the justification is the number of corn futures projected to settle at their limits in 2011. The number seems high if looked at without considering the number of potential settled months. Let's assume that there are 14 open trading months every day and 250 trading days. Fourteen times 250 is 3,500 potential settled, or locked up or down trading months. The projected settled number per the CME group is 144 contracts. So, let's divide the projected of 144 by the potential of 3,500 which is about 4 percent. If the projected percentage

was over 10 or 15 percent, then I would agree that we do have an issue with price discovery, but at 4 percent there does not seem to be a major issue or even an issue at all. Another reason for the increased limits is the current futures price for corn. So, when the price moves down, they are going to reduce the limits so that they are in the same ratio as they propose? The comment from the CME group was that the feedback from a large number of participants was positive about the change. We are an active participant, but we received no letter or a survey asking us our opinion. Thus, it leads me to believe that the large number of participants was an informal word of mouth type feedback, which might not contain a true sample of the hedge users of the CBOT. What it might be is a sample of the speculators which are only using the market as a means of gambling without going to the casino. Submitter IP Address: