APPENDIX

U.S. COMMODITY FUTURES TRADING COMMISSION
Three Lafayette Centre
1155 21st Street, NW, Washington, DC 20581
Telephone: (202) 418-5260
Facsimile: (202) 418-5527
www.cftc.gov

Division of
Market Oversight

July 29, 2005

[redacted]

Dear [redacted]

By filings dated July 11, 2005 [redacted] has requested, pursuant to Commodity Futures Trading Commission ("Commission") rule 1.47, that the Commission recognize as bone fide hedging specific transactions and positions in the Chicago Board of Trade's ("CBOT") corn, wheat, soybean, and soybean oil contracts, the New York Board of Trade's ("NYBOT") cotton contract, and the Kansas City Board of Trade's ("KCBT") wheat contract.[1] The filing represents that [redacted] enters, from time to time, into OTC price swap agreements based on a basket comprised of the Goldman Sachs Commodity Index and the Dow Jones AIG Commodity Index, which includes the above-referenced futures contracts as components of the indices underlying basket. [redacted] is the floating price payor under these basket swap agreements. [redacted] hedges its price exposure by purchasing the above-referenced futures and option contracts. The Commission understands that [redacted] will not hold hedge positions into the spot month of the above-referenced futures markets.

The filing states that [redacted] maximum long hedging requirements for futures and futures-equivalent option contracts are as follows:

Futures Contract	Single Month	All Months Combined
CBOT Corn	43,873	43,873
CBOT Wheat	26,345	26,345
CBOT Soybeans	17,910	17,910
CBOT Soybean Oil	10,755	10,755
NYBOT Cotton	9,725	9,725
KCBT Wheat	3,889	3,889

[1] The current filing supplements information provided in previous filings.

REPORT: EXCESSIVE SPECULATION IN THE WHEAT MARKET

EXHIBIT #1

The information furnished, including the nature of the price risks that these transactions would entail and the demonstration that the proposed long futures and futures-equivalent option positions are economically appropriate to the reduction of risk exposure attendant to the conduct and management of a commercial enterprise, satisfies the requirement of section 1.47 of the regulations under the Commodity Exchange Act ("Act").

Based on the information provided in your filing, the Division of Market Oversight ("Division"), pursuant to authority delegated to it under Commission rule 140.97, recognizes the described long futures and futures-equivalent option positions as bona fide hedging. However, at no time should the hedge position in the above-referenced futures and option contracts exceed the lesser of (1) the value fluctuation equivalent (in terms of the commodity for future delivery) of the transactions generically described in the filing, or (2) the maximum level of futures and futures-equivalent positions currently considered by the Commission as a bona fide hedge.

The Division's determination with regard to bona fide hedging and exemptions from position limits is based upon the facts and representations contained in [redacted] filing. Any different, omitted, or changed facts or conditions may require a different conclusion. The Division emphasizes that the above determination does not excuse [redacted] from complying with any otherwise applicable provisions of the Act and Commission rules. The Division expects that [redacted] has and will maintain adequate internal controls to monitor risks incurred in entering swap transactions. Additionally, Commission rule 1.3(z)(l)(iii) requires that positions must be established and liquidated in an orderly manner in accordance with sound commercial practices in order to be classified as bona fide hedging transactions.

Additional filings under section 1.47 only become necessary when specifically requested by the Commission or when [redacted] hedging requirements for the transactions described in this filing exceed the maximum levels specified in this letter. The current filing has demonstrated hedging requirements for long positions. However, [redacted] would be required to make an additional filing if it needs to establish short hedging positions that exceed position limits specified in Commission rule 150.2 Pursuant to section 1.47, supplemental statements must be submitted at least ten days in advance of the date on which it is expected that the position will exceed the hedge exemption.

Sincerely,

John Fenton

John Fenton
Deputy Director
Market Surveillance Section

CONFIDENTIAL

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DIVISION OF
MARKET OVERSIGHT

April 13, 2006

[redacted]

Dear [redacted]

By filing dated April 8, 2006, [redacted] has requested, pursuant to Commodity Futures Trading Commission ("Commission") rule 1.47, that the Commission recognize as bone fide hedging specific transactions and positions for Chicago Board of Trade corn, soybeans and wheat futures.[1] The filing represents that [redacted] is a dealer in over-the-counter ("OTC") swaps and options on exchange-traded commodities and commodity index contracts, including the Dow Jones AIG Commodity Index ("DJ-AIGCI"). [redacted] is the fixed price receiver in these OTC transactions. In connection with this OTC business, [redacted] hedges its financial risk by buying futures on the commodities that comprise the DJ-AIGCI index.

The filing states the [redacted]s maximum hedging requirements for long futures positions are as follows:

Futures Contract	Single Month	All Months Combined
Corn	83,000	85,000
Soybeans	42,000	46,000
Wheat	49,000	53,000

The filing represents that [redacted] will not carry any positions into the spot month for the above-referenced futures contracts.

The information furnished, including the nature of the price risks that these transactions would entail and the demonstration that the proposed futures positions are economically appropriate to

[1] By letter dated March 31, 2006, the Division previously recognized positions in corn futures up to a maximum of 75,000 contracts in any single month and 77,000 contracts in all months combined as bona fide hedging. By letter dated January 20, 2006, the Division recognized as bona fide hedging positions in soybean futures and wheat futures up to a maximum of 32,000 contracts and 39,000 contracts respectively in any single month and 36,000 contracts and 43,000 contracts respectively in all months combined. The current filing requests increases in these levels for corn, soybean and wheat futures.

REPORT: EXCESSIVE SPECULATION IN THE WHEAT MARKET
EXHIBIT #2

the reduction of risk exposure attendant to the conduct and management of a commercial enterprise satisfies the requirement of section 1.47 of the regulations under the Commodity Exchange Act ("Act").

Based on the information provided in your filing, the Division of Market Oversight ("Division"), pursuant to authority delegated to it under Commission rule 140.97, recognizes the described futures positions as bona fide hedging. However, at no time should the hedge positions in corn, soybeans and wheat exceed the lesser of (1) the value fluctuation equivalent (in terms of the commodity for future delivery) of the transactions generically described in the filing, or (2) the maximum level of futures positions currently considered by the Commission as a bona fide hedge. The quantity of futures contracts permitted under the conditions described above must be reduced by the quantity of futures-equivalent option contracts held as a hedge of the above transactions. In addition, the Division does not recognize as bona fide hedging positions that are carried into the spot month and such positions are not exempt from the spot month position limits.

The Division's determination with regard to bona fide hedging and exemptions from positions limits is based upon the facts and representations contained in [redacted] filing. Any different, omitted, or changed facts or conditions may require a different conclusion. The Division emphasizes that the above determination does not excuse [redacted] from complying with any otherwise applicable provisions of the Act and Commission rules. The Division expects that [redacted] has and will maintain adequate internal controls to monitor risks incurred in entering swap transactions. Additionally, Commission rule 1.3(z)(l)(iii) requires that positions must be established and liquidated in an orderly manner in accordance with sound commercial practices in order to be classified as bona fide hedging transactions.

Additional filings under section 1.47 only become necessary when specifically requested by the Commission or when [redacted] hedging requirements for the transactions described in this filing exceed the maximum levels specified in this letter. Pursuant to section 1.47, supplemental statements must be submitted at least ten days in advance of the date on which it is expected that the position will exceed the hedge exemption.

Sincerely,

John Fenton

John Fenton
Deputy Director
Market Surveillance Section

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U.S. COMMODITY FUTURES TRADING COMMISSION
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DIVISION OF
MARKET OVERSIGHT

August 21, 2007

[redacted]

By filing dated July 26, 2007, you requested on behalf of [redacted], pursuant to Commodity Futures Trading Commission ("Commission") rule 1.47, that the Commission recognize as bone fide hedging specific transactions and positions in the Chicago Board of Trade's wheat, corn, and soybean futures (and related options) contracts.

The filing represents that [redacted] uses the above-referenced futures contracts to hedge price exposure resulting from OTC swaps in various commodity indices, including the Dow Jones Commodity Index, the Goldman Sachs Commodity Index, and the Lehman Brothers Commodity Index.

The filing states that [redacted] maximum hedging requirements for net long futures positions are as follows:

Futures Contract	Single Month	All Months Combined
CBOT Wheat	10,000	10,000
CBOT Corn	15,000	15,000
CBOT Soybeans	10,000	10,000

The filing does not request an exempt from spot month position limits, as defined under Part 150 of the Commodity Exchange Act, for the above-referenced futures contracts.

The information furnished, including the nature of the price risks that these transactions would entail and the demonstration that the proposed futures positions are economically appropriate to the reduction of risk exposure attendant to the conduct and management of a commercial enterprise satisfies the requirement of section 1.47 of the regulations under the Commodity Exchange Act.

REPORT: EXCESSIVE SPECULATION IN THE WHEAT MARKET
EXHIBIT #3

Based on the information provided in your filing, the Division of Market Oversight ("Division"), pursuant to authority delegated to it under Commission rule 140.97, recognizes the described futures positions as bona fide hedging. However, at no time should the hedge positions in these commodities exceed the lesser of (1) the value fluctuation equivalent (in terms of the commodity for future delivery) of the transactions generically described in the filing, or (2) the maximum level of futures positions currently considered by the Commission as a bona fide hedge. The quantity of futures contracts permitted under the conditions described above must be reduced by the quantity of futures-equivalent option contracts held as a hedge of the above transactions. In addition, the Division does not recognize as bona fide hedging positions that are carried into the spot month and such positions are not exempt from the spot month position limits.

The Division's determination with regard to bona fide hedging and exemptions from positions limits is based upon the facts and representations contained in [redacted] filing. Any different, omitted, or changed facts or conditions may require a different conclusion. The Division emphasizes that the above determination does not excuse [redacted] from complying with any otherwise applicable provisions of the Act and Commission rules. The Division expects that [redacted] has and will maintain adequate internal controls to monitor risks incurred in entering swap transactions. Additionally, Commission rule 1.3(z)(l)(iii) requires that positions must be established and liquidated in an orderly manner in accordance with sound commercial practices in order to be classified as bona fide hedging transactions.

Additional filings under section 1.47 only become necessary when specifically requested by the Commission or when [redacted] hedging requirements for the transactions described in this filing exceed the maximum levels specified in this letter. Pursuant to section 1.47, supplemental statements must be submitted at least ten days in advance of the date on which it is expected that the position will exceed the hedge exemption.

Sincerely,

John Fenton

John Fenton
Deputy Director
Market Surveillance Section

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Division of
Market Oversight

April 1, 2008

[redacted]

Dear [redacted]:

By filing dated March 12, 2008 [redacted] has provided supplementary information, pursuant to Commodity Futures Trading Commission ("Commission") Rule 1.47, to support a request for an increase in its hedge exemption levels in Chicago Board of Trade ("CBOT") wheat and soybean futures (and related options) contracts.[1] The current filing requests an increased long-side exemption level for wheat up to 17,500 futures contracts in any single month and in all months combined, and an increased long-side exemption level for soybean futures up to 10,000 futures contracts in any single month and in all months combined. The filing represents that [redacted] seeks to hedge wheat and soybean price risks that results from transactions in OTC derivatives linked to various commodity indexes, as well as OTC derivatives linked directly to physical commodities.

The information furnished, including the nature of the price risks that these transactions would entail and the demonstration that the proposed futures positions are economically appropriate to the reduction of risk exposure attendant to the conduct and management of a commercial enterprise satisfies the requirement of section 1.47 of the regulations under the Commodity Exchange Act ("Act").

Based on the information provided in your filing, the Division of Market Oversight ("Division"), pursuant to authority delegated to it under Commission rule 140.97, recognizes the described futures positions as bona fide hedging. However, at no time should the hedge positions in CBOT wheat and soybean futures exceed the lesser of (1) the value fluctuation equivalent (in terms of the commodity for future delivery) of the transactions generically described in the filing, or (2) the maximum level of futures positions currently considered by the Commission as a bona fide hedge. The quantity of futures contracts permitted under the conditions described above must include, on a futures-equivalent basis, any related option positions held as a hedge of the above

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[1] The filing also provides information on the Chicago Mercantile Exchange's ("CME") live cattle futures contract. This contract does not have Federal position limits; the position limits in this contract are administered by the Exchange. Accordingly [redacted] must apply to the CME to request an increase in its hedge exemption level for this contract.

REPORT: EXCESSIVE SPECULATION IN THE WHEAT MARKET

EXHIBIT #4

described transactions. In addition, the Division does not recognize as bona fide hedging positions that are carried into the spot month and such positions are not exempt from the spot month position limits.

The Division's determination with regard to bona fide hedging and exemptions from position limits is based upon the facts and representations contained in [redacted] filing. Any different, omitted, or changed facts or conditions may require a different conclusion. The Division emphasizes that the above determination does not excuse [redacted] from complying with any otherwise applicable provisions of the Act and Commission rules. The Division expects that [redacted] has and will maintain adequate internal controls to monitor risks incurred in entering these transactions. Additionally, Commission rule 1.3(z)(l)(iii) requires that positions must be established and liquidated in an orderly manner in accordance with sound commercial practices in order to be classified as bona fide hedging transactions.

Additional filings under Section 1.47 only become necessary when specifically requested by the Commission or when [redacted]s hedging requirements for the transactions described in this filing exceed,the maximum levels specified in this letter. Pursuant to Section 1.47, supplemental statements must be submitted at least ten days in advance of the date on which it is expected that the position will exceed the hedge exemption.

Sincerely,

John Fenton

John Fenton
Deputy Director
Market Surveillance Section

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Division of
Market Oversight

March 4, 2008

[redacted]

Dear [redacted]:

By filing dated February 21, 2008, [redacted] has requested, pursuant to Commodity Futures Trading Commission ("Commission") rule 1.47, that the Commission recognize as bona fide hedging specific transaction and positions for wheat futures (and related options) traded on the Kansas City Board of Trade ("KCBT"). The filing represents that [redacted] uses the KCBT wheat contract to hedge its price risk against commodity indices, index related derivatives, and agricultural OTC business.

The filing requests that the Commission recognize positions in KCBT wheat futures up to a limit of 8,000 long contracts in any single contract month and 10,000 long contracts in all months combined. The filing further represents that [redacted] has no intention of making or taking delivery as a result of this increase, and that [redacted] will monitor the front month exposure to ensure that [redacted] has either rolled or liquidated before first notice day.

The information furnished, including the nature of the price risks that these transactions would entail and the demonstration that the proposed futures positions are economically appropriate to the reduction of risk exposure attendant to the conduct and management of a commercial enterprise, satisfies the requirement of section 1.47 of the regulations under the Commodity Exchange Act (Act).

Based upon the information provided in your filing, the Division of Market Oversight ("Division"), pursuant to authority delegated to it under Commission rule 140.97, recognizes the described futures positions as bona fide hedging. However, at no time should the hedge positions exceed the lesser of (1) the value fluctuation equivalent (in terms of the commodity for future delivery) of the transactions generically described in the filing, or (2) the maximum level of futures positions currently considered by the Commission as a bona fide hedge. The quantity of futures contracts permitted under the conditions described above must include, on a futures-equivalent basis, any related options positions held as a hedge of the above described transactions. In addition, the Division does not recognize as bona fide hedging positions that are

REPORT: EXCESSIVE SPECULATION IN THE WHEAT MARKET
EXHIBIT #5

carried into the spot month, and such positions are not exempt from the spot month position limit.

The Division's determination with regard to bona fide hedging and exemptions from positions limits is based upon the facts and representations contained in [redacted] filing. Any different, omitted, or changed facts or conditions may require a different conclusion. The Division emphasizes that the above determination does not excuse [redacted] from complying with any otherwise applicable provisions of the Act and Commission rules, thereunder. The Division expects that [redacted] has and will maintain adequate internal controls to monitor risks incurred in entering swap transactions. Additionally, Commission rule 1.3(z)(1)(iii) requires that positions must be established and liquidated in an orderly manner in accordance with sound commercial practices in order to be classified as bona fide hedging transactions.

Additional filings under section 1.47 only become necessary when specifically requested by the Commission or when [redacted] hedging requirements for the transactions described in this filing exceed the maximum levels specified in this letter. Pursuant to section 1.47, supplemental statements must be submitted at least ten days in advance of the date on which it is expected that the position will exceed the hedge exemption.

Sincerely,

John Fenton

John Fenton
Deputy Director
Market Surveillance Section

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Division of
Market Oversight

Richard A. Shilts
Director

CFTC letter No. 06-09
May 5, 2006
No-Action
Division of Market Oversight

Mr. Michael Sackheim, Esq.
Sidley Austin LLP
787 Seventh Avenue
New York, NY 10019

Re: Request for No-Action Relief with Regard to Commodity Exchange Act Section 4a and Commission Regulation 150.2, Speculative Position Limits for Certain Corn and Wheat Futures Positions

Dear Mr. Sackheim:

As you know, pursuant to Section 4a(a) of the Commodity Exchange Act (the "Act"), the Commission establishes and enforces speculative position limits for futures and option contracts on a limited group of agricultural commodities, including corn and wheat traded on the Chicago Board of Trade ("CBOT"). Those limits are set out at § 150.2 of the Commission's regulations. Section 150.3(a) of those regulations provides that certain positions may exceed the limits, including *bona fide* hedging transactions, as defined in regulation 1.3(z). Section 1.3(z)(3) provides that, in addition to certain enumerated hedging transactions listed in § 1.3(z)(2), the Commission may recognize other transactions and positions as *bona fide* hedging in accordance with requirements set out in § 1.47 of the regulations.

By letter dated March 1, 2006, you have requested, on behalf of your client, DB Commodity Services LLC ("DBCS"), no-action relief with respect to certain positions in CBOT corn and wheat futures, to be held by the DB Commodity Index Tracking Master Fund ("Master Fund"), a commodity pool owned and managed by DBCS. Specifically, you have asked that the Division of Market Oversight ("Division") to confirm that it will not recommend to the Commission that enforcement action be taken with respect to such corn and wheat futures positions if the positions (in any month other than the spot month) are in excess of the applicable speculative position limits.[1] For the reasons, and subject to the conditions, described in the remainder of this letter, the Division hereby grants the no-action relief you have requested.

Factual Background

[1] While contending that the futures positions to be held by the Master Fund are "akin" to *bona fide* hedging positions, your no-action request specifically does not constitute a request pursuant to regulation 1.47 to classify those positions as *bona fide* hedging under regulation 1.3(z)(3).

REPORT: EXCESSIVE SPECULATION IN THE WHEAT MARKET
EXHIBIT #6

The Funds

As stated in your letter, DBCS is the registered commodity pool operator ("CPO") with respect to both the Master Fund and the DB Commodity Index Tracking Fund ("Investor Fund"). The assets of the Master Fund consist of a portfolio of futures contracts on the commodities comprising the Deutsche Bank Liquid Commodity Index™ – Excess Return ("the index") and cash or cash equivalents. The Master Fund's only investor is the Investor Fund and the only assets of the Investor Fund are common units of beneficial interest ("shares") in the Master Fund. These shares are listed on the American Stock Exchange ("Amex") and are available for purchase by the public. The Investor Fund currently has $2 billion worth of shares registered with the Securities and Exchange Commission ("SEC") to be offered and sold to the public.[2]

The Index

You have stated that the index is composed of notional amounts of the following commodities in the following percentages: crude oil (35%), heating oil (20%), aluminum (12.5%), gold (10%), corn (11.25%) and wheat (11.25%). You have described the index as "a widely used commodity index and … an internationally referenced economic benchmark." The Master Fund will track the index over time by holding long futures positions that correspond to the commodities comprising the index.[3]

Both the index and the Investor Fund are highly transparent. The index sponsor calculates the intra-day index level every 15 seconds during the trading day, based on Reuters quotes for the underlying futures contracts. The intra-day and daily closing levels of the index are available on Reuters, Bloomberg, Deutsche Bank's website and Amex's website. Information on the daily closing and settlement prices of the futures contracts that make up the index is available on the websites of the respective futures exchanges and other sources and real time data on the contracts is available by subscription from Reuters and Bloomberg. Any adjustments to the index are published on Deutsche Bank's website.

Information regarding the shares in the Investor Fund is freely available on websites maintained by Amex, DB London and the Investor Fund itself. The Amex website makes available: the daily net asset value for the Investor Fund; number of shares outstanding; daily trading volume; intra-day and closing prices; the prior day's net asset value; current index value; indicative intra-day net asset value per share; and a link to the Fund's prospectus. The Investor Fund website includes the following information regarding the Fund: the prior business day's net asset value and index value, and the reported closing price; the mid-point of the bid-ask price in relation to the net asset value as of the time the net asset value is calculated; calculation of the premium or discount of such price against such net asset value; the prospectus; and other applicable quantitative information. DBCS, the CPO of the Investor Fund, also publishes or causes to be published the net asset value of the Fund and the net asset value per share daily, as well as the

[2] The Master Fund and the Investor Fund filed a joint registration statement with the SEC and are sometimes referred to in your letter as "the Funds."

[3] The futures contracts and the respective exchanges where they are traded include: crude oil and heating oil on the New York Mercantile Exchange ("NYMEX"), gold on the COMEX division of the NYMEX, aluminum on the London Metals Exchange ("LME"), and corn and wheat on the CBOT.

indicative intra-day net asset value every 15 seconds throughout the trading day. All of the foregoing is published on Reuters, Bloomberg and the Deutsche Bank's website.

Unique Regulatory Oversight

You have pointed out that, in addition to DBCS being regulated as a CPO by the Commission and the National Futures Association, both the Investor Fund and the Master Fund are subject to "unique federal and self-regulatory oversight" by virtue of the shares being listed on Amex, a national securities exchange regulated by the Securities and Exchange Commission ("SEC"). Thus, both the Investor Fund and the Master Fund are regulated by both the SEC and the National Association of Securities Dealers ("NASD"). In particular, the offer and sale of shares in the Investor Fund, and the secondary market therein, are subject to the comprehensive federal securities regulatory scheme administered by the SEC and the NASD (in its capacity as a self-regulatory organization) and all shareholders invest as securities customers through an SEC-registered broker-dealer (or other entity exempt from broker-dealer registration, such as a bank).

Trading Activities

You have stated that the Master Fund is "not an actively managed commodity pool (or other 'speculator' within the intent of Commission regulation 1.3(z))" because the Fund does not seek to generate positive returns under any and all market conditions, or based on the CPO's investment skill. Rather, the Master Fund's investment objective is simply to track the index over time "whether the index is rising, falling or flat." To that end, the Master Fund will acquire long futures position in the six commodities making up the index, in the proportions described in the Investor Fund's prospectus. You point out that, because the Master Fund is not an actively managed pool, it "does not use any third party commodity trading advisor, does not charge any performance or incentive fee based on the profitability of its portfolio, does not utilize a discretionary trading program or any other investment or trading methodology, and does not use leverage in connection with its futures portfolio."

You further note that regulation 1.3(z) provides in relevant part that hedging transactions "are economically appropriate to the reduction of risks in the conduct and management of a commercial enterprise."[4] You point out that the Master Fund's only objective is to track the index over time (through acquiring long futures positions), using a nondiscretionary methodology, with no investment objective to "achieve capital appreciation." Therefore, you suggest that the Fund should be viewed as "akin to a commercial enterprise that is in the business of investing and reinvesting in long futures positions in the index commodities," with "no intent to speculate … in the futures market" and which presents no "danger of excessive speculation."

Maximum Size of Corn and Wheat Futures Positions

[4] In that context, you point to the Commission's 1987 interpretation clarifying the hedging definition "to include certain investment strategies of institutional investors, such as through acquiring a long position in Treasury bond futures to hedge against interest rate exposure." 52 FR 27195 (July 20, 1987). You suggest that the Master Fund's activities are analogous to the financial hedging activities described in the 1987 interpretation.

You state that the Funds currently have registered $2 billion worth of shares in the Investor Fund, to be offered and sold to the public. Based on the percentages of the index represented by corn and wheat, and current price levels, that amount of shares translates to maximum long CBOT corn and wheat futures positions of approximately 17,500 corn contracts and 11,000 wheat contracts. However, there is no maximum amount of capital the Funds may accept (and accordingly, no maximum size of long positions the Master Fund may acquire) because the CPO intends to register additional shares in the event the supply of currently registered shares is exhausted. You have proposed that, in the event such additional shares are created, requiring additional long futures positions, DBCS be permitted to notify the Division, in reliance on the no-action relief granted in this letter. Upon receipt of such request, the Division could either confirm that the increased position size is subject to the relief granted in this letter and is, therefore, permitted, or inform DBCS that such increased position size is not subject to the relief and, therefore, is not permitted. In either event, DBCS would be able to learn the Division's decision through a simple notice filing and would not be required to reapply for no-action relief *de novo*.

You have also represented that DBSC "will not carry into the spot months any positions in wheat and corn futures contracts in excess of the [spot month] positions [limits] set forth in Commission Rule 150.2."

Conclusion

For the reasons, and subject to the conditions, described in this letter, the Division has determined that it will not recommend to the Commission that enforcement action be taken for violation of Commission regulation 150.2 with respect to the corn and wheat futures trading activity conducted by DBCS, and the futures positions held by the Master Fund, if those positions (in any month other than the spot month) are in excess of the applicable speculative position limits. In particular, the conditions governing this no-action relief include:

- The futures trading activity passively tracks a widely recognized commodity index;
- The futures trading activity is unleveraged;
- The futures trading does not result in price exposure for the Master Fund (*i.e.*, the price exposure is passed on to the shareholders in the Investor Fund);
- As noted, positions in excess of the speculative limits are not carried into the spot month;
- Both the index and the Investor Fund are highly transparent;
- Both the Investor Fund and the Master Fund are subject to unique federal and self-regulatory oversight by virtue of the shares being listed on Amex, and thereby subject to regulation by the SEC and the NASD; and
- The Master Fund will hold maximum long CBOT corn and wheat futures positions not exceeding 17,500 corn contracts and 11,000 wheat contracts.

The position taken herein is based upon the representations you have made to the Division. Any different, changed or omitted facts or conditions, including revisions to the legal requirements applicable to speculative position limits and exemptions thereto, might require the Division to reach a different conclusion. You must notify the Division immediately in the event that there is any significant change from the facts presented to us concerning the activities of DBCS, the Master Fund or the Investor Fund, as described in your letter. Further, this letter represents the position of the Division of Market Oversight only and does not necessarily represent the views of the Commission or any other division or office of the Commission.

If you have any questions concerning this correspondence, please contact Donald H. Heitman, an attorney on my staff, by email at dheitman@cftc.gov, or by phone at (202) 418-5041.

Very truly yours,

Richard A. Shilts
Director
Division of Market Oversight

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Division of
Market Oversight

CFTC letter No. 06-19
September 6, 2006
No-Action
Division of Market Oversight

Re: Request for No-Action Relief with Regard to Commodity Exchange Act Section 4a and Commission Regulation 150.2, Speculative Position Limits for Certain Soybean and Wheat Futures Positions

Dear :

As you know, pursuant to Section 4a(a) of the Commodity Exchange Act (the "Act"), the Commission establishes and enforces speculative position limits for futures and option contracts on a limited group of agricultural commodities, including corn, soybeans and wheat traded on the Chicago Board of Trade ("CBOT"). Those limits are set out at § 150.2 of the Commission's regulations.

By letter dated June 13, 2006, supplemented by an amended letter dated July 14, 2006, you have requested, on behalf of your client, X, no-action relief with respect to certain positions in CBOT corn, soybeans and wheat futures, to be held pursuant to P, a proprietary commodity investment program created by X.[1] Specifically, you have asked that the Division of Market Oversight ("Division") confirm that it will not recommend to the Commission that enforcement action be taken with respect to such corn, soybean and wheat futures positions if the positions (in any month other than the spot month) are in excess of the applicable speculative position limits. For the reasons, and subject to the conditions, described in the remainder of this letter, the Division hereby grants the no-action relief you have requested.[2]

Factual Background

The P Investments

As described in your letter, X's clients can invest in the P program in several ways. X is a registered commodity pool operator ("CPO") and commodity trading advisor ("CTA"). A client can invest in P through a separate account with a futures commission merchant ("FCM"), managed by X in its CTA capacity. A client can also invest in P through a fund that could be

[1] In addition to your June 13 and July 14 letters, including Exhibit A, "New 2006 P Weights," and Exhibit B, a copy of a "Confidential Private Placement Memorandum," dated December 2005, you have provided the Division with additional information through various e-mail and telephone contacts.

[2] As you know, the CBOT has adopted speculative position limit rules that mirror the limits set out in Commission regulation 150.2. This letter does not provide relief with respect to those CBOT rules. Therefore, X will have to secure relief from the CBOT's speculative position limits directly from the exchange.

REPORT: EXCESSIVE SPECULATION IN THE WHEAT MARKET
EXHIBIT #7

operated by X in its CPO capacity. Finally, a client can invest in P through a fund operated by a third party, which is advised or sub-advised by X in its CTA capacity. Such a fund could be offered in accordance with the Commission's Part 4 rules or pursuant to an exemption from certain provisions of the Part 4 rules, such as, for example, Rule 4.7, Rule 4.13(a)(3) or Rule 4.13(a)(4) (a "Rule 4.7 pool," a "Rule 4.13(a)(3) pool," or a "Rule 4.13(a)(4) pool").[3]

X manages these various funds and individual and pool accounts pursuant to P. X currently manages over $1 billion of assets pursuant to P. The no-action relief you have requested would apply to the aggregate of all positions managed or traded in accordance with P.

The P Strategy

You have stated that P's rules require investments in three commodities in each of the following six tangible commodity groups: agricultural (grains and grain byproducts); livestock (meats and animals); energy (the petroleum complex and natural gas); precious metals (gold, silver, and the platinum complex that are primarily held for investment or used in jewelry); industrial metals (copper, aluminum, zinc, nickel, tin and lead that are used almost exclusively for industrial purposes); and soft commodities and foods (coffee, sugar, cocoa and orange juice, as well as cotton and lumber). P's rules require further that investments in no one of these tangible commodity groups constitute more than 35% of P and that no single commodity constitute more than 70% of its respective tangible commodity group. These tangible commodity group weightings and individual commodity weightings are calculated in accordance with a mathematical formula that blends two-thirds of five-year global production and one-third of five-year trading volume of futures contracts traded in U.S. dollars. Both production and trading volume are valued using the average commodity prices during the preceding year. Weightings of each commodity group and of each commodity are reset at the beginning of each year, and each commodity is rebalanced to its target weighting if its actual weighting deviates from the target weighting by more than 10% of its intended weight. X reserves the right to assign different bands to each commodity, but historically has used this single band (+/-10%) to quantify acceptable deviation for all commodities in all cases.

You note that, during 2005, the percentage of corn, soybean or wheat futures contracts was rebalanced a total of ten times, in each case in accordance with P's predetermined rebalancing threshold, *i.e.*, when the actual weighting of the respective commodity deviated from the target weighting relative to all other commodities by more than 10%. You point out that rebalancing never reflects a view that a position in a particular commodity is trading at a discount to its fair value or that a position in a particular commodity will be more profitable than a position in another commodity. As described in Exhibit A to your letter, since the most recent reset early in

[3] In the case of a Rule 4.13(a)(4) pool, one such investment structure is described in Exhibit B, the Confidential Private Placement Memorandum that accompanied your letter. According to that Memorandum, Y, Inc. serves as the Investment Manager to (the "Fund") and (the "Master Fund"), with responsibility for the day-to-day management of the Fund's investments and administrative affairs, while X serves as the sub-advisor to the Fund and the Master Fund. Subject to the general supervision of the Investment Manager, X has complete discretion and responsibility with respect to the Fund's and the Master Fund's investments. Investors purchase membership interests in the Fund and all of the capital of the Fund is, in turn, invested in the Master Fund. The assets of the Master Fund consist of a long-only portfolio of exchange-traded, U.S. dollar-denominated futures and forward contracts in tangible commodities.

2006, corn futures contracts account for 3.94% of P, soybean futures contracts account for 4.84% and wheat futures contracts account for 4.72%.

You have stated that X's clients are furnished with a level of disclosure and transparency about P appropriate for the product, based upon the provisions of the Act and the CFTC's Part 4 rules. For example, X provides each prospective separate account client with a CTA disclosure document, even if the client is a "qualified eligible person" as defined in Rule 4.7. A separate account client also receives account statements no less frequently than monthly from the FCM carrying the account. In the case of an offering that is not subject to an exemption from the Part 4 rules, prospective participants receive a pool disclosure document containing the information required under the Commission's Part 4 rules, as well as periodic statements and a certified annual report of the fund's financial condition. In the case of a Rule 4.7, Rule 4.13(a)(3), or Rule 4.13(a)(4) fund, prospective participants receive a private placement memorandum (*see* Exhibit B), periodic statements, and a certified annual report of the fund's financial condition, even if not required under the relevant rules.

Trading Activities

You have stated that P is a long-only, diversified tangible commodity futures trading program that is designed to maintain consistent, fully collateralized exposure to tangible commodities as an asset class. P is intended to provide diversification for traditional portfolios of equities and fixed income instruments, as well as some protection from inflation risk. To implement P, X enters into long positions in a diversified basket of U.S. dollar-denominated futures and forward contracts on tangible commodities that have an annual trading volume in excess of 250,000 contracts. These contracts are traded on both U.S. and non-U.S. exchanges. In connection with managing accounts pursuant to P, X does not seek to incur any additional price exposure for itself in the futures markets, but rather seeks to offset the exposure it incurs in the course of offering P investments to its clients, by entering into exchange-traded transactions in the futures markets. P does not seek to generate speculative profits by predicting price trends.

You further state that P requires all futures positions to be rolled into later contract months prior to the last trading day or first notice of delivery day, whichever is earlier. You note that, to prevent the market from front running any of the roll orders, there has not been any fixed roll date and time. Rather, X has exercised its judgment in determining the precise timing of the roll, as well as the subsequent contract month to which the positions will be rolled. In that regard, you note that X evaluates such factors as liquidity, prevailing prices and spreads, and other market conditions. Nonetheless, you represent that positions in front month futures contracts are typically rolled during the week before the earlier of the last trading day or the first notice of delivery day, and that positions are never held into the delivery month.

Maximum Size of Corn, Soybean and Wheat Futures Positions

You have stated that, in view of the growth of interest in P and the development and marketing of new products, X anticipates that the amount of assets it manages pursuant to P could reach $4.5 billion over the next 12 months. At that level, the corn, soybean and wheat positions held pursuant to P could exceed the Commission's speculative position limits.[4] Given the foregoing considerations, and X's critical need to use futures contracts to offset its exposure, you have requested that X be allowed to hold: (1) in CBOT corn futures, a net long position of, (a) up to 17,500 contracts for a single month (other than the spot month) and (b) up to 27,000 contracts for all months combined (with no change in the spot month limit); (2) in CBOT soybean futures, a net long position of, (a) up to 9,000 contracts for a single month (other than the spot month) and (b) up to 15,000 contracts for all months combined (with no change to the spot month limit); and (3) in CBOT wheat futures, a net long position of, (a) up to 11,000 contracts for a single month (other than the spot month) and (b) up to 13,000 contracts for all months combined (again, with no change to the spot month limit). You have stated that these limits reflect a conservative estimate of X's reasonably anticipated requirements for meeting its risk management needs for the near future.

Analysis

You note that the P strategy, and the relief you have requested, are similar to the index trading program described, and the relief granted, in CFTC Letter 06-09.[5] First, as in the program described in CFTC Letter 06–09, P is a long-only, fully collateralized trading strategy. Thus, the value of the long futures positions will not exceed the aggregate amount of cash or cash equivalents (such as cash deposited in a money market mutual fund) set aside in an identifiable manner in respect of such futures positions plus any accrued profits on such futures positions held at the FCM. The unleveraged nature of the strategy is indicative of the absence of speculative intent and also minimizes any risk that these futures positions could be subjected to a forced liquidation due to adverse market movements.

Second, you point out that the cash market underlying the CBOT's corn, soybean and wheat futures contracts has a high degree of demonstrated liquidity relative to the size of X's anticipated futures positions. The Commission has traditionally recognized in its market oversight activities that the liquidity of the underlying cash market and the potential for substantial arbitrage positions between the cash and futures markets mitigate the influence that large futures positions may have on futures prices.

Third, you state that P's rules-based, non-speculative trading methodology is no more conducive to market manipulation or disruption than other currently recognized non-speculative strategies. As described, P utilizes a predetermined set of mathematical rules and criteria for calculating the weightings for tangible commodity groups and individual commodities and for the annual reset and any rebalancings. Thus, X resets the weightings annually based upon the economic significance and liquidity of each tangible commodity group in relation to all other tangible commodity groups, and of each commodity within a particular tangible commodity group in

[4] Under Rule 150.2, the speculative position limit in CBOT corn futures contracts, separately or in combination, net long or short, is 600 contracts for the spot month, 13,500 contracts for a single month other than the spot month, and 22,000 contracts for all months combined. The speculative position limit in CBOT soybean futures contracts, separately or in combination, net long or net short, is 600 contracts for the spot month, 6,500 contracts for a single month other than the spot month, and 10,000 contracts for all months combined. The speculative position limit in CBOT wheat futures contracts, separately or in combination, net long or net short, is 600 contracts for the spot month, 5,000 contracts for a single month other than the spot month, and 6,500 contracts for all months combined.
[5] CFTC No-Action Letter No. 06-09, 2006 WL 1419389 (CFTC), May 5, 2006.

relation to all other commodities in such group, not on the basis of speculative market views, price targets, or price trends. Similarly, any periodic rebalancing is implemented in accordance with a predetermined numerical threshold and not on the basis of speculative market views, price targets, or price trends.

Fourth, you note that, as with the program described in CFTC Letter 06–09, implementing the P strategy should not pose any concerns about trading activity in the spot month because X rolls all long futures positions into later contract months prior to the last trading day or first notice of delivery day, whichever is earlier. Thus, X is not requesting any increase in the spot month limit.

Finally, you state your belief that granting this request is supported by, and consistent with, the Division's no-action position in CFTC Letter No. 06–09 and that the facts and circumstances presented in your request are analogous to those presented in that recent no-action letter.[6] Consistent with the relief granted in CFTC Letter No. 06–09, you have also requested that, in the event of subsequent growth in the amount of assets under management pursuant to P requiring additional long futures positions, X be permitted to notify the Division in reliance on the no-action relief granted in this letter. Upon receipt of such a request, the Division could either confirm that the increased position size is permissible pursuant to the relief granted herein or is not permissible unless X requests and receives additional no-action or other relief. In either event, X would be able to learn the Division's decision through a simple notice filing and would not be required to reapply for no-action relief *de novo*.

Conclusion

For the reasons, and subject to the conditions, described in this letter, the Division has determined that it will not recommend to the Commission that enforcement action be taken for violation of Commission regulation 150.2 with respect to the corn, soybean and wheat futures trading activity conducted by X, and the futures positions held in connection with the P strategy, if those positions (in any month other than the spot month) are in excess of the applicable speculative position limits. In particular, the conditions governing this no-action relief include:

- The futures trading activity passively tracks the P strategy;

- The P strategy continues to reflect a broadly diversified basket of tangible commodities, calculated and rebalanced based on an objective, predetermined mathematical formula, as described in your letter;

- The futures trading activity is unleveraged;

- The futures trading does not result in price exposure for X (*i.e.*, the price exposure is passed on to the individual account holders or the various pool participants, including investors in funds subject to, or exempt from, the Part 4 rules, as the case may be);

[6] Also, consistent with the no-action request that gave rise to CFTC Letter 06-09, your request does not constitute a request pursuant to Commission regulation 1.47 to classify the positions in question as *bona fide* hedging under Commission regulation 1.3(z)(3).

- As noted, positions in excess of the speculative limits are not carried into the spot month;

- X's clients are provided with at least the level of disclosure and transparency described in your letter; and

- The maximum long CBOT corn, soybean and wheat futures positions held pursuant to the no-action relief do not exceed 17,500 contracts for a single non-spot month (27,000 contracts for all months combined) in corn, 9,000 contracts for a single non-spot month (15,000 contracts all months combined) in soybeans, and 11,000 contracts for a single non-spot month (13,000 contracts all months combined) in wheat.

The position taken herein is based upon the representations you have made to the Division. Any different, changed or omitted facts or conditions, including revisions to the legal requirements applicable to speculative position limits and exemptions thereto, might require the Division to reach a different conclusion. The relief granted in this letter applies only with respect to regulation 150.2 and does not excuse X from complying with any otherwise applicable provisions of the Act or Commission regulations. You must notify the Division immediately in the event that there is any significant change from the facts presented to us concerning the activities of X, or the Funds, as described in your letter. Further, this letter represents the position of the Division of Market Oversight only and does not necessarily represent the views of the Commission or any other division or office of the Commission.

If you have any questions concerning this correspondence, please contact Donald H. Heitman, an attorney on my staff, by email at dheitman@cftc.gov, or by phone at (202) 418-5041.

Very truly yours,

Richard A. Shilts
Director
Division of Market Oversight

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

Statement of the
National Grain and Feed Association
to the
Commodity Futures Trading Commission
April 22, 2008

The National Grain and Feed Association (NGFA) appreciates the opportunity to submit recommendations to the Commodity Futures Trading Commission (CFTC) concerning the performance of agricultural futures markets and impacts on commercial grain hedgers. We applaud the CFTC for holding this roundtable discussion to examine whether the futures markets are properly performing their risk management and price discovery roles. The NGFA's findings and recommendations are as follows:

- The NGFA strongly recommends a moratorium on all hedge exemptions for passively-managed, long-only investment capital entering agricultural futures markets. For funds already approved for hedge exemptions, the NGFA strongly recommends against expansion of hedge exemptions beyond levels already approved by the CFTC. The NGFA also recommends that all passively-managed, long-only investment capital participate in futures on a dollar-for-dollar, unleveraged basis, with all investment capital fully margined. This is consistent with rules proposed by CFTC late last year in its proposal to establish a hedge exemption for pension and index funds, and with rules governing the two funds that currently have hedge exemptions.

- The changes instituted by CFTC in its Commitments of Traders (CoT) report in early 2007 to identify "Index" participants was a very positive step, and the report has become a useful tool for market participants. The NGFA respectfully requests that CFTC analyze the report to assure that all long-only, passively-managed investment capital entering agricultural futures markets is correctly reported to the Commission and properly categorized and reported in the CoT report's "Index" category. The NGFA further requests that the Commission fully and clearly define futures market activity reported in each existing category of the report; and consider whether any additional detail/categories added to the report would provide additional clarity for market participants.

- The NGFA does not believe the pending storage rate (premium charge) changes for the CBOT corn, soybean and wheat contracts accurately reflect the real costs and value of storage capacity. The NGFA will ask the CME Group to poll the grain handling industry immediately to determine accurate commercial storage values. If warranted under current conditions, the NGFA will ask the CME

REPORT: EXCESSIVE SPECULATION IN THE WHEAT MARKET

EXHIBIT #8

Group to implement those rates, with CFTC approval, in lieu of currently pending storage rate increases for corn and soybean contracts, and also for the wheat contract, as soon as possible to enhance cash/futures convergence.

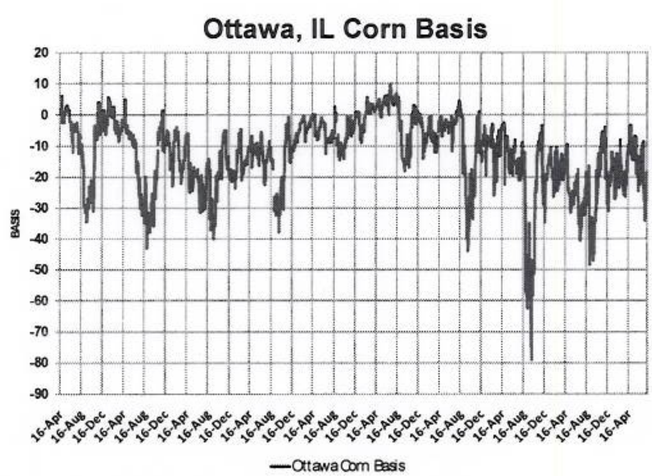
- The NGFA generally supports the concept of exchange-cleared swaps as a mechanism that creates the opportunity to spur innovation and new risk management products.

- The NGFA is supportive of repealing restrictive CFTC regulations on agricultural trade options. In their place, the NGFA supports rules allowing commercial participants (elevators, producers, processors) to engage in ATOs in the course of their businesses.

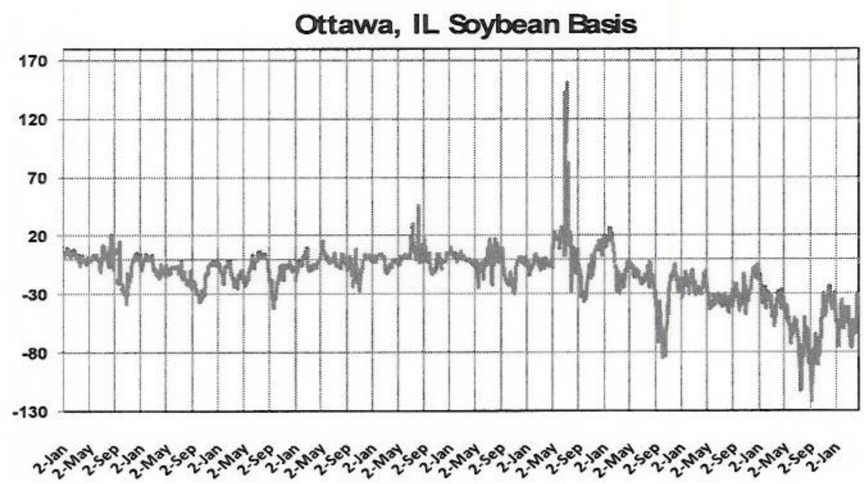
Convergence and Basis Issues

The NGFA's member companies are elevators and processors, many of them first-purchasers of grains and oilseeds from producers. These NGFA-member firms rely on well-functioning futures markets for price discovery and to help hedge price and inventory risk. One of the bedrock fundamentals on which hedging strategies are predicated is consistent and reliable convergence between cash and futures prices.

Today, that previously reliable relationship between cash and futures has deteriorated to a point where many commercial grain hedgers are questioning the effectiveness of hedging using exchange-traded futures. Genuine convergence occurs less often and only for short periods of time. The band, or range, of convergence has widened due to several factors, including: 1) higher and more volatile transportation costs; 2) demand for storage created by biofuels growth; and 3) the futures market running ahead of cash values due to passively managed, long-only investment capital. The following charts illustrate that basis has become more volatile and "weaker" than demonstrated historically – corn, to some extent, and soybeans and wheat more dramatically – thus, convergence has deteriorated:



Source: Advance Trading Inc.



Source: Advance Trading Inc.

Source: Advance Trading Inc.
Note: This chart represents river values in the St. Louis area; wheat mills in the St. Louis area are paying higher values (e.g., +5 Chicago on one recent day) for appropriate-quality wheat.

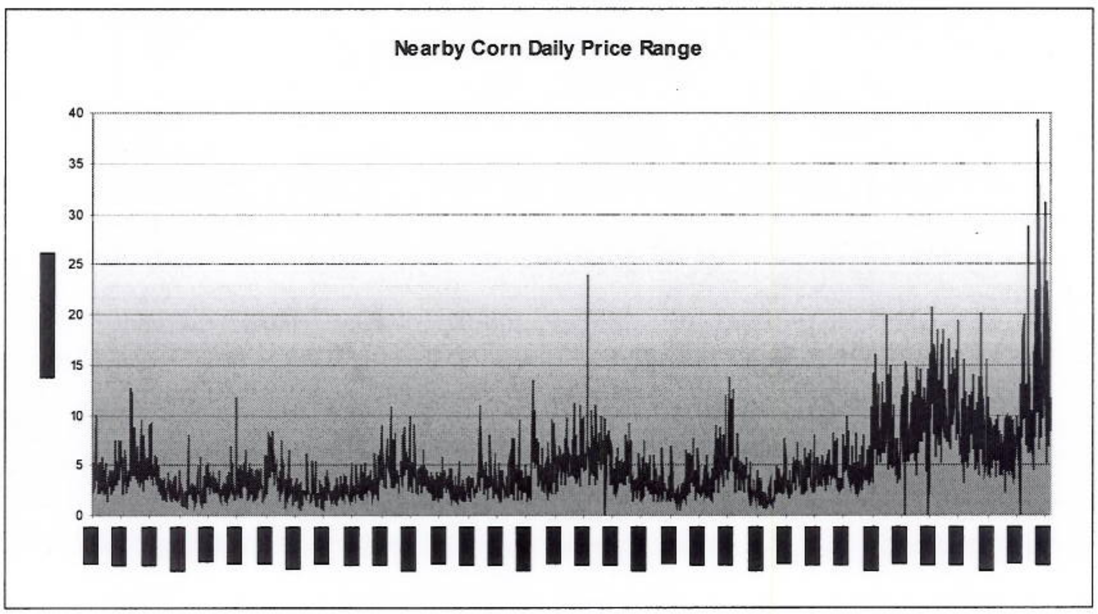
This lack of convergence – or "divergence" as some are calling it – is evident in wider basis levels between cash and futures. Cash bids to producers at any given location and time still reflect the true value of commodities, but rapid advances in futures price levels have widened basis to levels not historically expected. This wider basis can sometimes make commodity prices appear "too cheap" at the local grain elevator.

As mentioned above, many factors are at work to influence price levels and basis: transportation and fuel costs; changes in supply/demand fundamentals; carry-over inventory levels; farmer selling; storage rates; and more. Changes in any of these factors can result in significant changes to basis levels, and today we are seeing many changes occurring simultaneously. However, we believe that one new factor – the entry of large amounts of long-only, passively-managed investment capital into agricultural futures markets – is causing a disruption in markets.

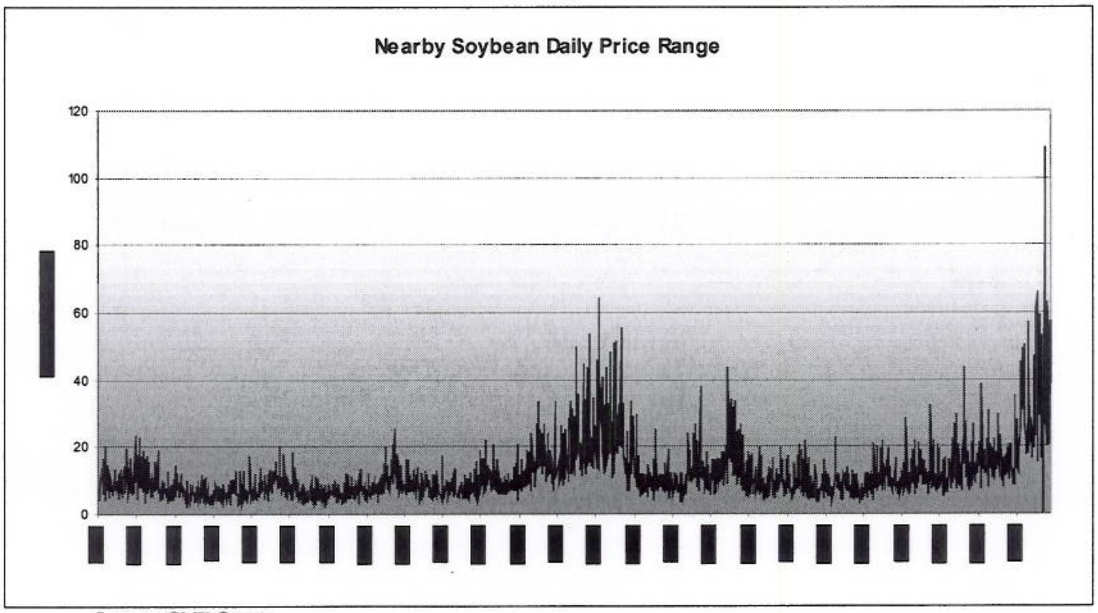
Financial Liquidity Issues

Decreased hedging efficiency due to deteriorating convergence and unpredictable basis patterns are not the only concerns for commercial grain hedgers today. As a result of significantly higher futures prices, driven in part by investment capital, elevators who purchase cash grain from farmers for deferred delivery have been hit with extremely large margin calls on their hedge accounts. Long-only investment funds account for a significant share of open interest in the CBOT grains and oilseeds contracts. These passively-managed, long-only contracts are not for sale at any price for extended periods of time, resulting in elevated prices not reflective of demand, increased speculative interest in the market, increased volatility, and pressure on banking resources to fund margins.

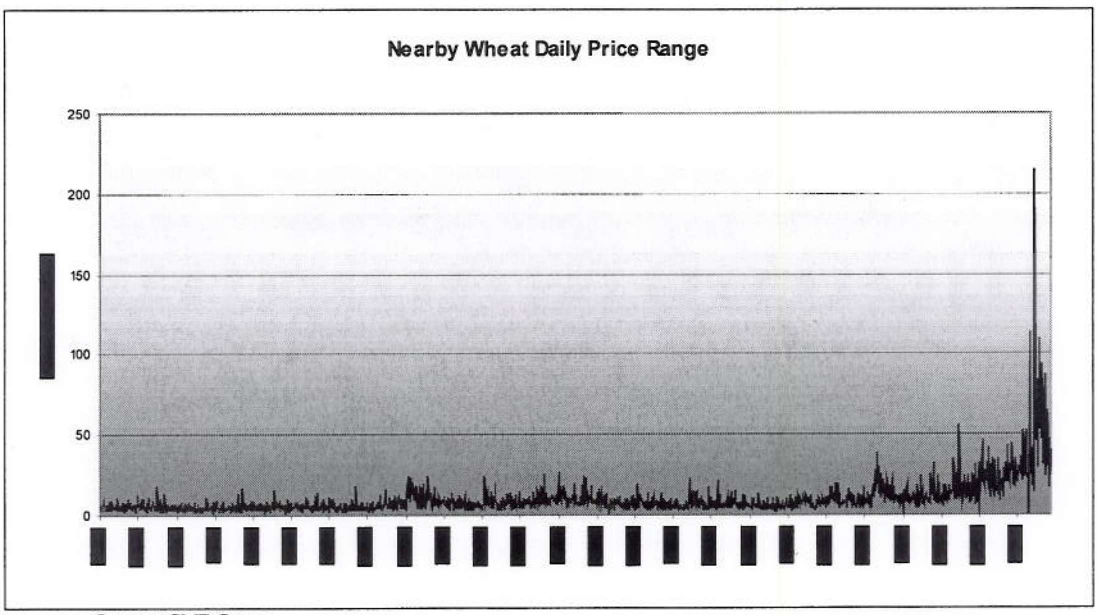
The following charts show the increased volatility for corn, soybean and wheat futures in recent months:



Source: CME Group



Source: CME Group



Source: CME Group

To finance inventory purchases and make margin calls, commercial grain hedgers' borrowing needs today are several times normal levels. Elevators have reached their borrowing limits and some lenders have reached the limit of amounts they can lend to the commercial grain sector. Additional futures price advances – due to supply/demand shocks, bad weather, or ever-larger amounts of investment capital – could lead to severe financial stress. Even today, some elevators lack the capital to finance additional hedges, so they have been forced to restrict or eliminate deferred purchase bids to producers. If the situation continues, producers who lack access to cash forward contracts they have come to expect will increasingly be frustrated in efforts to optimize their marketing opportunities at a time when cash prices are very attractive.

Moratorium on Hedge Exemptions

For the reasons detailed above, the NGFA opposed CFTC proposals issued late last year to increase federal speculative position limits and to create a new hedge exemption for index and pension funds. Today, we believe action is urgently needed to allow agricultural markets to "take a break" and adjust before additional large amounts of investment capital find their way into agricultural futures.

We are recommending **a moratorium on all hedge exemptions for long-only, passively-managed investment capital entering agricultural futures markets.** For funds already approved for hedge exemptions, the NGFA strongly recommends against expansion of hedge exemptions beyond levels already approved by the CFTC. The NGFA recommends that long-only investment capital participate in futures on dollar-for-dollar, unleveraged basis, with all investment capital fully margined, consistent with rules suggested by the CFTC late last year in its proposal to establish a new hedge exemption for pension and index funds, and with rules for those funds already possessing hedge exemptions.

Commitments of Traders Report

Early last year, the CFTC began publication of a supplemental Commitments of Traders report with a new "Index" category to report investment capital. The NGFA's member companies were extremely pleased with that new category, believing that transparency in the marketplace is of benefit to all participants. In particular, the new "Index" category was helpful in assisting commercial grain hedgers to develop their risk management strategies based on supply/demand fundamentals, rather than on speculative investment capital.

We believe that today's market environment calls for a re-examination of the CoT report. While some suggest that investment capital's share of open interest in agricultural futures contracts has not increased in recent years, we are skeptical of that claim. We suspect that some activity that rightly belongs in the "Index" category could now be showing up in other CoT report categories. For that reason, **we respectfully request that the CFTC analyze in detail the reporting it receives from market participants to determine if all long-only investment capital is reflected in the "Index" category.** Additionally, we request that CFTC fully and clearly define futures market activity reported in each existing category of the report; and consider whether any additional detail/categories added to the report would provide additional clarity for market participants.

Storage Rates

While a number of changes to CBOT contracts have been suggested that might enhance convergence, we believe that one of the most readily available and effective tools is adjustments to storage rates (premium charges). As the result of findings of its Futures Market Performance Task Force last fall, the NGFA recommended at that time an increase in monthly storage rates for corn and soybean contracts from 4.5 cents per bushel to approximately 5 cents per bushel – the same increase already had been adopted by the CME Group for the wheat contract. The CME Group subsequently agreed with this finding and is proceeding to increase its corn and soybean storage rates, with CFTC approval just recently received.

We believe the market situation now has changed, and that additional action to increase storage rates is needed to enhance convergence. We believe that neither the current nor the pending storage rates reflect the true value of commercial space. To help remedy the situation, the NGFA would like to work cooperatively with the CME Group to determine what increased storage rate is most appropriate to ensure an efficiently functioning contract and to enhance convergence.

From time to time, the CME Group has surveyed industry for prevailing storage rates to help establish rates for the grain and oilseed contracts. The most recent such survey was conducted in early fall of 2006. Now that commodity prices have risen significantly, **the NGFA recommends that the CME Group poll the grain handling industry immediately to determine commercial storage rates.** The NGFA will ask the CME Group to implement higher storage rates if supported by the updated poll, with CFTC approval, in lieu of currently pending storage rate increases for corn and soybean contracts, and also for the wheat contract, as soon as possible to enhance cash/futures convergence.

Exchange-Cleared Swaps

The NGFA, in principle, is supportive of the concept of allowing agricultural commodity swaps to be cleared on-exchange. We believe that granting exchanges this regulatory flexibility could be a catalyst for development of new risk management products of benefit to commercial grain hedgers. In a changed market environment, innovative ideas like this may help ease the market's transition during a time of broad change and may enhance short-term market balance.

Agricultural Trade Options

In November of 1999, the CFTC published rules governing agricultural trade options. Since that time, just one entity registered as an agricultural trade options merchant, and that registrant now has withdrawn. Clearly, the net worth requirements and the burdensome reporting requirements contributed to making ATOs unworkable for potential participants.

In today's marketplace, we believe access to a workable ATO program could give producers additional marketing opportunities, spur new-product innovation and help ease financial liquidity concerns. For example, an ATO contract between a producer and a country elevator could be beneficial if the producer has weather-related production problems, or if he wants to maintain flexibility on delivery locations. ATOs also could help ease financial liquidity concerns of elevators by attracting new capital into agricultural markets without burdensome margining requirements.

We understand that CFTC staff may be considering a proposal that would rescind the burdensome regulations published in 1999 in favor of a more flexible regulatory approach under which commercial participants such as elevators, producers and processors could enter into ATOs in the course of their businesses. In today's market environment, we believe that approach makes sense. We would support the Commission moving to ease the ATO regulations.

Summary

Ultimately, the solution to recent market upheaval may simply be time. In time, the market may respond to new realities. The market likely will create new ways to deploy capital in agriculture. In time, industry may expand storage, the CME Group may implement enhancements to their contracts. Without a doubt, market participants will create new products for risk management that reflect the broad changes in the agricultural landscape – transportation, biofuels, major acreage shifts, to name a few. The NGFA will continue its work to identify additional potential responses to assist commercial grain hedgers dealing with the volatility and financial stresses of today's markets, whether they be changes to futures contracts, regulatory action or some other course.

In the shorter term, there are real disconnects and real stresses, in particular on the commercial grain hedging sector. We believe these stresses call for action along the lines outlined above that will help build a bridge to new market realities. Failing to do so could have serious consequences for all sectors of agriculture, including producers and the elevators who work with them to facilitate efficient marketing and risk management for the grain sector.

American Bakers Association

Serving the Baking Industry Since 1897

May 7, 2008

The Honorable Walt Lukken
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

Re: CFTC Agricultural Forum, April 22, 2008:
Volatility within the Commodity Futures Market

Chairman Lukken:

The American Bakers Association (ABA) appreciates the opportunity to provide these comments for the record in response to the concerns raised during the April 22, 2008, Commodity Futures Trading Commission (CFTC) Agricultural Forum.

ABA is the leading advocate for the baking industry. It has been the voice of the baking industry since 1897, representing its members before the U.S. Congress, federal agencies, state legislatures, and international regulatory authorities. ABA addresses issues facing the baking industry and initiates positive reforms benefiting the industry and its customer, the consumer.

ABA member companies produce approximately 85% of all baked goods consumed in the United States. Membership includes large and small producers of all segments of grain-based foods, from bread and rolls to crackers, tortillas, sweet goods and other baked food items.

ABA commends CFTC for holding the April 22 forum to discuss current commodity market concerns, including extreme volatility and lack of convergence, and for its continued efforts to safeguard participating market entities from unreasonable fluctuations within the commodity futures market. The commodities purchased and sold on the Chicago, Kansas City and Minneapolis exchanges are vital to every ABA member. It is of the utmost importance that these markets continue to be accessible to all participants and are protected against unwarranted market manipulation.

ABA submitted comments in January 2008 regarding the CFTC's proposed rule to increase federal speculative limits, arguing that such a move would only exacerbate the current situation. ABA strongly supports the CFTC decision announced during the April 22 agricultural forum to postpone any action on this proposed rule. ABA continues to

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REPORT: EXCESSIVE SPECULATION IN THE WHEAT MARKET
EXHIBIT #9

oppose adoption of this rule as we believe its implementation will dramatically increase market volatility, possibly forcing traditional market hedgers, including many small businesses, out of the futures market. Unfortunately, even without implementation of this rule, volatility has dramatically increased and traditional participants have been forced to use alternative, less transparent means to purchase wheat and other commodities.

Overall, we believe that the root cause of the current dilemma is a lack of regulation upon the largest single participant in the futures markets- the long only commodity index. This index owns +60% of all futures contracts in wheat, soy, and corn. They have material length on crude oil, natural gas and precious metals. We cannot continue to ignore the impact of this futures participant. Over the counter products dwarf futures open interest and continue to distort their impact upon cash markets. Positions need to be visible (CFTC reporting) but more importantly, ABA believes that steps should be taken to ensure parity between market participants. There is increasing concern that all futures market participants are not scrutinized equally. ABA believes that clarifying definitions and roles of all market participants is an important first step in understanding the current conditions impacting today's markets. ABA asks that the CFTC investigate these abnormalities and aggressively pursue rules that will help level the playing field.

As we stated in our remarks at the forum, ABA believes the commodity exchanges have moved away from their original intent – to allow producers to sell their product in a transparent, regulated manner to physical users of the commodity. ABA is concerned that traditional market participants are being pushed out of the market – in favor of more non-traditional, new market participants that are essentially using the commodities market as a financial investment.

While we encourage active participation in the agriculture markets by all entities, we ask that you examine the way in which some of these participants enter into the futures market. If the agriculture markets are being used for a financial hedge, we advocate that the risk be spread over more than the one or two of the closest options to expiration. We suggest that the CFTC consider limiting the investment in the nearby futures months while, at same time, allowing these entities to invest in the "strip" at the total volume limitations put upon them.

We also ask the CFTC to re-examine the "hedge exemption clause" exempting certain participants from speculative position limits. ABA is opposed to increasing contract limits for any market participant, since it could create an opportunity for market monopolies.

Furthermore, ABA is troubled by the lack of convergence between futures and cash prices. By implementing the restrictions outlined above, we believe the exodus of these financial hedgers in the expiring futures option will have less of a distorting effect on the convergence between futures and cash prices. This would also prevent the nearby month from being "overvalued" due to the nonequivalent presence of these entities in those positions.

Finally, ABA is extremely apprehensive about the sustainability of our current cash trading model due to the abnormalities being experienced in the agriculture futures markets. This volatility has put an inordinate amount of financial pressure on all those that use these instruments for hedging in the cash market. If we choose to continue status quo in the agriculture futures markets over action to address these critical issues, we risk significantly altering the effectiveness of these markets and the effectiveness of those who rely on them for many years to come.

Again, ABA thanks the CFTC for the opportunity to provide these written comments following the April 22 agriculture forum. We look forward to working with CFTC staff and others in the agriculture community to ensure the strength, transparency and effectiveness of the agriculture futures markets.

Sincerely,

Robb MacKie
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National
Corn Growers
Association
www.ncga.com

Statement
of the
National Corn Growers Association

Commodity Futures Trading Commission
Agricultural Markets Roundtable

Garry Niemeyer
NCGA Corn Board

April 22, 2008

REPORT: EXCESSIVE SPECULATION IN THE WHEAT MARKET

EXHIBIT #10

Good morning, I am Garry Niemeyer and I'm here today representing the National Corn Growers Association (NCGA), as a member of NCGA's Board of Directors. NCGA represents the interests of over 32,000 corn farmers throughout the U.S.

For over 100 years the commodity exchanges have played the valuable roles of price discovery and risk management. Currently, we are witnessing a lack of convergence as contracts in the delivery months close out. This loss of convergence has many asking if the futures market still provide price discovery. And, are there still market fundamentals underpinning the current grain prices? This lack of price discovery is rippling into the farm credit system causing banks to restrict lending to elevators and farmers alike.

More recently, we have been asked shouldn't farmers be happy with $6 corn? Absolutely, we just wish they could sell some. Over the past several years we have seen a major change in U.S. agriculture markets, specifically grain crops. In the 2005-06 marketing year, the average farm gate price for corn was $2.00 per bushel. I can speak for everyone in agriculture when I tell you this price was too low. The latest crop year estimate now has the average corn price at $4.00 - $4.60. So what has changed? Most people point to ethanol and say we've increased the demand for corn driving up the price. During the last three years, corn for ethanol has increased from 1.6 billion bushels to a projected 3.1 billion. What frequently gets lost is that production has jumped to record levels as well from 11.1 billion to 13.1 billion bushels over this time. I am not sure that a 2 billion bushel increase in usage offset by a 2 billion bushel increase in production provides the necessary fundamental underpinning for a more than doubling of corn price.

All of that aside, the price of corn is what it is. But the recent run up in price has not carried equally into the cash markets. Farmers are increasingly experiencing a widening basis. For example, on Thursday, April 17th, my local corn price was 25 cents under the Board of Trade for nearby contracts, but on December 08 contracts, that basis spread to approximately 50 cents. That's 25 cents under at a unit train loader, not a country elevator. The recent run on corn prices has many far reaching impacts beyond my current marketing plan.

We frequently hear stories of elevators facing serious financial problems and have even heard of a few elevators failing. Other elevators are straining their credit limits; are offsetting their hedge positions, frequently at a loss; or as I mentioned earlier, are spreading the basis. The most troubling development is the restrictions on grain contracts. Each of the large grain companies have instituted limits on taking new grain contracts from farmers. Which of the big players is taking new contracts more than 12 months out? So, as a farmer, how am I supposed to manage price risk, if my elevator will not contract grain? I am not discussing locking in 2010 or 2011 prices, but currently many elevators will not take contracts on any new crop corn, and many others will not take sales beyond May 2009. That is the crop I'm planting right now. As a side note, fertilizer dealers are asking farmers to lock in prices for this fall, yet I cannot contract the grain that fertilizer will produce in 2010. There is one tool still available, which I'll get to below.

NCGA is not blaming the elevator industry for this recent phenomenon. The elevators are a business like any other. They have to recoup losses and manage price risk. So, they spread basis to cover losses and build in additional risk principles; they initiate fees on Hedge to Arrive contracts (HTA) or book the basis contracts; or they just forego future risk by not offering forward contracts.

Given the grain companies' unwillingness to offer contracts beyond 12 months, the only price risk management options remaining for most growers are the futures and options markets. While these have always been valuable tools for growers, they have not been widely used. By one estimate, probably less than 10 percent of farmers are directly using the futures markets for risk management. Perhaps the recent developments in the cash market will drive more growers to use these tools. However, farmers will now have to carry the margin risks, or Options premiums, that were previously carried by the grain elevators.

I would like to commend the CME Group, the Minneapolis Grain Exchange, Kansas City Board of Trade, and the Commodity Markets Council for hosting a two-day meeting on market convergence in early April. This Task Force provided NCGA an opportunity to address convergence issues. During our scheduled time, NCGA presented the following points for consideration to address only convergence.

Simply to fix convergence in the market, we must fix delivery. For this problem, there are no easy solutions. Here are a few recommendations we put forward to the CME Group.

1) Provide a mechanism for farmers or small elevators that have taken a short position to actually deliver against that futures contract. Currently, farmers cannot make delivery against these positions. Farmers can only sell futures and deliver against shipping certificates, provided the owner of that certificate plans to make delivery and go to load out. If the delivery stations realized that a farmer or an elevator could call a clearinghouse and set up delivery, it would cause the commercials to drive the futures down at contract expiration to the cash price. I understand this is no easy feat, and could be disruptive to an orderly close out of contracts, but the possibility of a significant number of farmers making delivery would certainly cause the commercials to re-establish convergence, lest they suddenly find themselves in possession of overpriced grain. A possible hybrid would be to restrict farmer delivery to only a few points with a 1 or 2 day delivery option.

2) Implementing a Forced Load Out plan, whereby some set portion of contracts has to go to delivery would also restore convergence. However, it remains unclear on how these load outs would be distributed. Likewise, it would seem this would drive the non-commercials out of the market prior to contract expiration, severely impacting liquidity.

3) Increase the number of shipping stations. By our count, there are currently 28 shipping stations approved as "regular" for corn delivery through June 30, 2008. These stations can be further reduced to 9 firms. Of these 9 firms, I would contend that only 2

are truly sellers. In other words, they can write a shipping certificate, but since they cannot use the grain internally (processing or through their own export facilities) they must sell the grain, and therefore, may be more inclined to make delivery against a diverged market. I believe balancing or at least increasing the number of sellers that can write shipping certificates may help to re-establish convergence. There are a number of large ethanol plants operating or being built in proximity to the Illinois River. Some of these will have docks that can load out if necessary. A similar approach would be to look at adding shipping stations that are not located on the Illinois River, but are in the same homogenous market. Specifically, there are a number of unit train rail loaders which are all within 50 to 100 miles of the Illinois River which could deliver a train destined for New Orleans which is similar to a loaded barge on the river.

4) Lower Regularity. If the Working Capital rate was lowered from $2 million to $500,000, and the volume down reduced from 55,000 bushels, some larger country elevators with existing agreements with docks or maybe railroads connections might be encouraged to write shipping certificates. As mentioned above, additional players able to write shipping certificates would help in delivery.

5) Storage Rates. NCGA is not opposed to periodic adjustments in storage rates. These rates should be a closer reflection of actual storage costs.

6) Basis Contracts. Recently, NCGA received a brief from Dr. Eugene Kunda at the University of Illinois regarding a proposed basis contract. While it appears to be beneficial in managing basis risk, it really has limited impact on convergence. Although we have only given this proposal a cursory look, this new contract's real value would only be realized if the exchanges did not re-establish convergence.

Although directly impacted by the lack of convergence, we are troubled that this development may only be a symptom of a larger problem. Specifically, we are concerned that there may be a "commodity bubble" developing. If this is in fact the situation, several steps should be considered to temper unsupported futures market inflation. Among these are:

Speculative Limits
Although NCGA has not taken a formal position on the proposed increase in Speculative Limits, we believe the proposed increases would be ill-advised and would only increase the disparity between cash and futures markets.

Daily Trading Limits
NCGA formal policy states "NCGA will oppose an increase in daily trade limits on all commodity exchanges" (Policy IV-C, 14). It is our position that the proposed increase in daily limits will not aid price discovery as proposed. Instead, this change only increased market volatility. Current CBOT rules a 3 day bear run could only take the corn price down $1.05, or roughly 17.5% of the current value (assuming $6.00 corn).

Hedgers vs. Speculators

NCGA recognizes the valuable role all parties play in providing liquidity in a market. Many of our growers have witnessed first hand non-liquid markets. I, personally, have been to a trading session of the Bolsa in Buenos Aires. While it attempts to have the same look and feel of the Board of Trade, this market lacks liquidity, and hence, really doesn't provide price discovery.

It is NCGA's opinion that the large funds are having an overwhelming influence on the futures markets and are "non-commercial" traders. Frequently, we see dramatic shifts in the futures market that have no substantiated fundamental drivers. While we do not want to drive the index and hedge funds from the market, they should be treated for what they are, "speculators". I realize this flies in the face of some CFTC decisions, but I believe to truly be classified as a hedger, an entity must have a cash commodity position. NCGA realizes that the large Index Funds are selling a commodity index and then going long in each of their market basket commodities which could be construed as a hedge. But, they are selling a market basket of futures prices, not a market basket of physical commodities.

NCGA proposes that the Index Funds no longer be afforded the same margin requirements as traditional commercial hedgers. Specifically, to be classified as a hedger the entity must have a cash position. We are not suggesting that they have an equal or proportional cash position, but somewhere within that company they must be buying or selling cash grain to retain the "hedger" classification.

We believe this will have a very limited impact on market liquidity. The large funds are still welcome to take there net long positions in each commodity market, but they will have higher margin requirements just the same as any other "speculators".

We have seen a run up in most commodity prices, most with the most dramatic rise beginning around September 2007. There is no doubt that this recent run up coincides with the downturn in the stock market. Commodities have always offered sensible investment during periods of inflation or economic uncertainty. We are concerned, though, that the volume of money and the market influence of non-traditional players may be developing a "Commodity Bubble".

If in fact a "Commodity Bubble" is developing and ultimately pops, the entire grain sector would be devastated. Similar to the increase in grain prices, other input costs have risen dramatically, particularly for seed, fertilizer, fuel, and land rents. Farmers are now carrying significantly higher financial risk to plant their crops. Where I would normally hedge my crops through an elevator that carries the risk, I find that I now have to carry the margin risks because elevators will no longer contract grain. A rapid deflation in grain prices would result in tremendous financial losses to farmers, especially given our recent inability for growers to contract grain at the current prices. If a disconnect exists between futures prices and cash (fundamentals) as I alluded to earlier, the impact of the bubble bursting would be all the more dire. For this reason, it is imperative that the CFTC review recent decisions concerning the market power some of the major players wield and to consider the potential impact of pending decisions from the perspective of inflating a commodity bubble.

On behalf of NCGA, I would like to thank the CFTC for holding this important and timely forum on the impacts of the futures market on the grain trade.

Comments
Of
American Cotton Shippers Association
To
Commodity Futures Trading Commission
On
Speculative Disruption In Cotton Futures Contract
April 22, 2008

The American Cotton Shippers Association (ACSA) submits these comments for the record in the Commodity Futures Trading Commission's (CFTC) Round Table Forum impelled by the disruption caused in the agricultural futures contracts by excessive speculative interests. In particular, our comments pertain to the speculative disruption in the Intercontinental Exchange's (ICE) No. 2 Cotton Contract.

Interest of ACSA

ACSA, founded in 1924, is composed of primary buyers, mill service agents, merchants, shippers, and exporters of raw cotton, who are members of four federated associations located in sixteen states throughout the cotton belt:

Atlantic Cotton Association (AL, FL, GA, NC, SC, & VA)
Southern Cotton Association (AR, LA, MS, MO, & TN)
Texas Cotton Association (OK & TX)
Western Cotton Shippers Association (AZ, CA, & NM)

ACSA's member firms handle over 80% of the U.S. cotton sold in domestic and export markets. In addition, our members also handle a myriad of foreign growths of cotton, which is forward priced based on the New York futures market. Because of their involvement in the purchase, storage, sale, and shipment of cotton, ACSA members, along with their producer and mill customers, are significant users of the ICE's No. 2 Futures Contract. Therefore, they are vitally interested in a return to an orderly futures market reflecting market fundamentals that are not grossly distorted by speculative interests. Accordingly, we urge the CFTC to restore orderly price discovery to allow the cotton contract to once again be utilized by commercial participants who physically handle cotton for price discovery and to effectively hedge their purchases and sales.

Congress Authorized Futures Trading in Agricultural Commodities for Price Discovery & Hedging

In 1921, the U.S. Congress authorized contract market designations in the agricultural commodities for the purposes of trading in futures contracts primarily for the purposes of:

- Hedging against price risks;
- Discovery of prices through vigorous competition; and
- Actual pricing of commercial transactions.

REPORT: EXCESSIVE SPECULATION IN THE WHEAT MARKET
EXHIBIT #11

The Congress acknowledged that while futures contracts offer an investment opportunity, this conduct should be subordinate in importance to the commercial uses for which the agricultural contract markets were created.

In establishing the agenda for the April 22nd Roundtable Discussion, the Commission requested comments on Price Discovery in the Agriculture Futures Markets, including an overview of the market fundamentals, the role of speculators, index funds and commercial hedgers, the adequacy of transparency in the markets, and the adequacy of contract terms and conditions. In the discussion that follows we establish that the market fundamentals bear little relationship to the speculative activity in the ICE Number 2 Cotton Contract. As a result, commercial hedgers have exited this market, due to the fact the traditional cash to futures relationship has ceased to exist.

This situation is the result of a recent phenomena, the advent of index funds with an estimated aggregate value of $1 trillion and the participation of Over-the-Counter (OTC) traders, which take a myriad of forms. While bringing record liquidity to the agricultural contracts, these entities have turned such contracts into investment contracts, thereby defeating the purposes for which said agricultural contracts were created. The result has rendered the agricultural contracts, particularly the cotton contract, ineffective for hedging against price risks, the discovery of prices, and the actual pricing of commercial transactions. The physical markets in the agricultural commodities have been adversely impacted precluding cooperatives and merchants from offering price quotations to farmers or end users since they cannot use the contracts for hedging purposes.

The New Speculative Activity Ignores Market Fundamentals Creating Severe Strain on the Cash Trade Resulting in the Lack of Price Discovery, the Loss of a Hedging Tool, & Higher Margin Costs

Since January, the U.S. cotton industry and its supporting financial institutions have lacked confidence in the ICE Number 2 Cotton Contract as a vehicle to manage its price risks through hedging and to seek price discovery.

By early March, the open interest had reached record levels of just over 300,000 contracts or 30 million bales of cotton. About two thirds of this open interest was in the May and July contract periods, while the other third was in the December contract month. Since the U.S. produced only19 million bales in 2007, the commercial trade (producers, cooperatives, merchants, and mills) represented a much smaller portion of this volume. The commercials that held the physical cotton had sold futures to lock in their basis and carry the cotton until sold and shipped.

This basis was determined when the producer, cooperative or merchant agreed to the physical sale. It is imperative that a traditional hedger be able to hedge by locking in his basis to reduce price risk, and that the market providing the hedge represent the underlying cash market value. It is equally critical to the interest of his or her lender. Banks demand that a client's position be marked-to-market on a daily basis so that they can value the collateral held by the bank in the trader's account.

Speculative trading, at a time when not one additional bale was consumed or destroyed by weather, drove up cotton futures prices by over 50 percent in a two-week trading period in late February. On March 3rd, the price in the front month (March) reached $1.09, when two weeks previous to that it was at 72 cents. At the same time, the physical price was in the low 60 cent range. On that day, in a short time frame, the commercial trade did not have sufficient time to adjust to this irrational event, which was unrelated to the physical or cash market – a market with half of last year's 19 million bale crop still unsold – the highest level of U.S. stocks since 1966 - a market with a 50 percent U.S. and world stocks-to-use ratio given record world yields and reduced consumption due to poor economic conditions.

The commercial trade was subject to an immediate, unwarranted, and severe financial strain – a strain never realized before in the history of the U.S. cotton industry. Credit lines and lender's perceptions of client risk were tested well beyond the norm. To meet margin calls, banks would have had to value a clients' physical stocks well beyond what the market could bear. The value of the cash commodity bore no relationship to the futures or option prices. No potential buyer of the physical commodity, either a textile mill or another merchant, would pay an amount in excess of its spot or cash market value. Therefore, to satisfy its lenders, the commercial trade had to close out futures at huge losses to generate the cash to repay its loans. Some smaller merchants, who could not withstand these losses, were forced to discontinue operations. Larger merchants with more substantial balance sheets were severely impacted as well and in some cases had to cease or greatly reduce the scope of their operations. At the end of the day, over $1 billion would be posted in margin calls.

The current futures market situation precludes any form of price discovery because of the potentially high margin risks. Lacking the financial ability or willingness to hedge in the futures market, the result is that merchants and cooperatives cannot offer farmers forward prices. This situation also precludes individual farmers from using the futures market.

Lacking price discovery, the U.S. cotton farmer cannot adequately make production plans. The same goes for a U.S. textile mill who cannot determine what his raw fiber costs will be in future months. Further, this situation has severely impacted foreign producers, particularly in Australia and Brazil who use the ICE Contract to price forward contracts up to two years in advance of planting.

The entry of large speculative funds and index funds into the agricultural futures contracts has clearly distorted both the futures and the physical or cash markets in agricultural commodities. There is such an abundance of cash in the hands of these funds that their impact on the agricultural markets is overwhelming and negates the primary purposes for the existence of such contract markets.

Re-examine Hedge Exemption for Index Funds Not Involved In Agricultural Markets

Lacking confidence in price discovery, the U.S. cotton industry and some of the world's leading producers are now at a virtual standstill.[1] The U.S. cotton trade has successfully utilized the cotton futures contract as the foundation for its business model for over 135 years. Overnight, we have been stripped of a vital tool in which to conduct our business. We are now exposed to greater risk, which allows only the few highly financed or leveraged companies to function.

Unregulated speculation has severely limited our role of making a market for our producer and mill customers. In the future, how can producers maximize their price at the

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[1] In normal times of abundant supply, futures will trade at full carry from the first to the second futures month. "Full carry" in this context is for the certificated stock – cotton eligible for delivery on the futures contract as distinguished from regular cotton inventory. The difference between the two is the weight and overage penalties that accrue on certificated stock as it remains under certification for extended time periods. For cotton under certification between four and twelve months, these penalties amount to 3.5 lbs of weight per bale per month. So if, for example, a trader were to take delivery of this cotton in May and re-tender the bales on July futures, he would invoice each bale in July at seven pounds less than he paid for it in May. This seven pounds amounts to just over $5 per bale at current prices (7 lbs @ .73 equals 5.11). This needs to be added to the cost of carry on regular inventory. Regular carry amounts to about $5.50 per bale per month in a Memphis warehouse (Memphis is where the bulk of the current cert stock is stored). To summarize, the cost of carrying cert stock for two months from May to July amounts to about $16.10 per bale ($5.11 penalty + two months carry @ $5.50). This amounts to 322 points at 500 pounds per bale.

Between May 1 and July 1 there will be 600,000 bales of certificated stock with an age of four months or older. This is roughly 60 percent of the 1 million bales in the cert stock. This means the weighted cost of carrying the entire cert stock from May to July is 290 points (600,000 bales @322 and 400,000 bales @ 243). In theory, then, 290 points is the maximum spread that May should trade under July, since that is sufficient discount to ensure a risk-less transaction, buying May and selling July. "Risk-less," that is, except for the cash flow risk of owning over one million bales hedged with short July futures for two months! In the event the cotton market should repeat its recent performance and spike say thirty cents per pound, the owner of the cert stock would need to come up with an additional $150 million to meet margin calls before he could liquidate his seemingly "risk-free" trade. Few if any members of the cotton trade are in position to take this cash flow risk. This is proven by the 360-point spread at which May/July was trading at last week.

The additional 70 points over the cost of carrying the position for two months reflects the trade's current unwillingness (or inability) to take this cash flow risk. In normal times, merchants would trip over each other to lock in such a margin, yet the market has traded at this level. In fact, far from rushing to lock in this margin, merchants continue to add additional bales to the cert stock, presumably to get the cotton off the balance sheet along with the accompanying short futures. This implies extraordinary levels of risk aversion, and a failure of the market to provide accurate price discovery.

farm gate or textile mills minimize their costs at the receiving dock lacking a futures market that provides accurate price discovery?

We simply cannot function in a market with unrestrained volatility unrelated to supply-demand conditions or weather events. The ICE Number 2 Contract is no longer a rational market for price discovery and hedging – its use to the commercial trade has been minimized. It is now an investment vehicle for huge speculative funds that have created havoc in the market unimpeded by fundamentals or regulation. It is a market overrun by cash precluding convergence of cash and futures prices, hedging, and forward contracting – a market lacking an economic purpose – a market not contemplated by the Congress when it authorized futures trading of agricultural commodities.

While speculative interests are vital to the functioning of a futures contract, a balance must be struck. In that regard, the CFTC is urged to take the necessary and immediate action to bring this about and restore the commercial trade's confidence in the futures market. Therefore, **we recommend that an index fund with a hedge exemption should restrict its position in a commodity to the dollar allocation or the percentage of funds allocated to that commodity as defined in its prospectus and recorded with the CFTC. Further, any variation should be subject to speculative position limits, and that such funds should report their cash positions on a weekly basis.**

We also submit that the role of the unregulated swaps market is contributing to this situation since there is no limit to or transparency in their trading activity. It is our recommendation **that the CFTC monitor and oversee all swaps and OTC activity by requiring the reporting of all swap and OTC contracts by market participants, and that it determine the aggregation of positions from all sources, including the exchanges, ETFs, swaps, OTC, and all other trading entities. Further, that all non-traditional hedge accounts, those not involved in the commercial enterprise of physically trading bales of cotton, be reported as a separate individual category.**

Cotton Margin Requirements Are Arbitrary & Onerous

The role of margin requirements should insure the efficient operation of a contract market by maintaining a balance of accounts between the longs and shorts and when necessary by requiring additional margin calls to effect orderly settlement in volatile markets. Most importantly, margin requirements should be fair, consistent, and facilitate the efficient functioning of a contract market. That is not the case with cotton margin requirements.

The margin requirement in the ICE Number 2 Cotton Contract is arbitrary, capricious, and unreasonable. The cotton contract does not margin futures to the close of the futures contract month, but establishes margins at the synthetic level determined by the close of the options contract in that month. While the futures month may be locked at the limit there are no limits on the option's contract, therefore, in that situation the option is likely to close at a level well above the futures close. This onerous requirement limits the ability of the commercial trade to obtain the requisite financing to use the contract market, thereby precluding the use of the contract market for price discovery and hedging.

While the margins are established by the contract markets and do not require approval of the Commission, the Commission does have emergency authority under Section 12a(9) of the Commodity Exchange Act[2] "to direct the contract market whenever it has reason to believe that an emergency exists, to take such action as, in the Commission's judgment, is necessary to maintain or restore orderly trading in … any contract market." The current situation is such an emergency pursuant to the statutory definition as it constitutes a "major market disturbance which prevents the market from accurately reflecting the forces of supply and demand for such commodity."[3] In this case cotton. Such an emergency exists, and we urge the Commission to use it emergency authority to, inter alia, **require that the ICE and its clearing members adhere to the practice of margining futures to futures settlements and options to option settlements and that only those involved in the physical handling of the agricultural commodity (cotton) be eligible for hedge margin levels.**

We urge the Commission to promptly adopt our recommendations. These appropriate and minimal measures should help bring transparency to the cotton contract, limit excessive and disruptive speculation unrelated to market fundamentals, restore price discovery, and encourage the commercial trade to utilize the contract as a hedging mechanism thereby allowing producers and textile mills to once again have access to forward contracts as risk management tools.

In taking this necessary action we respectfully suggest that the Commission be firm in its resolve and that it ignore those who would justify this irrational imbalance in the U.S. agricultural contract markets on the grounds that the necessary oversight, reporting, and regulation of the index funds and swaps operators would drive this business offshore. That is a competition issue that should be resolved in the international marketplace. It is not the role of the Commission to guarantee the exchanges record trading volumes, but to assure that the agricultural contracts provide price discovery and hedging. The CFTC's role is to protect those that Congress intended it to protect - the commercial users of the agricultural contract markets.

By taking action to restore the integrity of the agricultural contract markets the Commission will be fulfilling the legislative intent that its role as an independent regulatory agency is to prevent "excessive speculation … to the detriment of the producer or the consumer and the persons handling commodities and the products and byproducts thereof in interstate commerce rendering regulation imperative for the protection of such commerce and the national public interest therein."[4]

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[2] 7 USC 12a(9)
[3] Id.
[4] 7 USC 5

ACSA supported the establishment of the CFTC as an independent regulatory agency in 1974. It continues to support the Commission as such and urges it to fulfill its statutory duty and resolve the current crisis in the agricultural contract markets. The Commission's failure to assume that duty would call into question its role as an independent regulatory agency.

Statement of the American Farm Bureau Federation

TO THE

COMMODITY FUTURES TRADING COMMISSION

PUBLIC MEETING TO DISCUSS RECENT EVENTS AFFECTING THE AGRICULTURAL COMMODITY MARKETS

BOB STALLMAN, PRESIDENT

April 22, 2008

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REPORT: EXCESSIVE SPECULATION IN THE WHEAT MARKET

EXHIBIT #12

The American Farm Bureau Federation (AFBF) respectfully submits its views to the commission as it reviews the turbulent conditions in the futures market. As the nation's largest general farm organization and the representative of millions of farmers and ranchers in every state in the nation, AFBF has a vital interest in how commodity marketing issues affecting our members are perceived, examined and decided. We are seriously concerned about the effective performance of futures exchanges as mechanisms for price discovery and risk management.

Over the past months, we have witnessed extreme price volatility, expanding and volatile cash/futures basis relationships, and the difficulty of hedgers to meet margin calls. In addition, the role of speculative and commodity-index-related trading in agriculture futures markets, while growing for some time, has reached historic levels and added to the uncertainty in these markets.

The basic purpose of the Commodity Futures Trading Commission (CFTC) is to ensure that futures and options offered by the designated contract markets under its jurisdiction manage price risk and discover cash prices.

However, the futures market mechanism is, at least, bent at this point in time, and the fact that several major grain and oilseed marketers are only offering firm crop price bids 60 days into the future is a rather ominous sign the breaking point might not be far away.

Lack of Convergence Between the Futures and Cash Prices

Convergence is the idea that futures prices by the close of the contract eventually equate to what is occurring in the cash market. It varies by commodity and geography, but historically the relationship between the cash and futures markets has been fairly constant with predictable seasonal variation. Certainly local market conditions might move the basis level around a few cents on any given day, but the underlying basis figures – predicated on the futures and cash markets coming together at the end of the contract – allowed all involved to function in a well-informed manner.

Today neither the convergence of futures to cash nor reasonable expectations of basis levels applies for a number of contracts. This is significantly increasing the risk faced by producers and will likely induce major structural change in the grain/oilseed/fiber handling sector over the next few months.

These developments challenge producers' abilities to develop and implement risk management programs for marketing their products. The problem is compounded by the fact that many producers are being asked to make firm price commitments for inputs. In some instances, they are even being asked to pre-pay for inputs they will not utilize until next crop year. This results in the uncomfortable position of producers locking in future input costs without similar opportunities in future crop prices.

Possible technical solutions to these issues could be implemented by the exchanges either voluntarily or via order of the CFTC. For example, one reason futures prices may not be making an orderly convergence to cash prices is part of the process established in 2000 when the river system delivery process was instituted by the Chicago Board of Trade. This system introduced the concept of a certificate of delivery that does not have to be redeemed by any certain date. Consequently, there is little incentive for the taker to move the grain into the physical market and force convergence. There also has been much discussion regarding the exchanges' increasing the cost of carrying these certificates by boosting the cost of grain storage.

Some possible solutions to the convergence problem may be:

1. We encourage the CFTC to require additional delivery points to prevent market manipulation and assure an adequate delivery system. We note the Kansas City Board of Trade is currently in the process of increasing its wheat contract delivery points from two to four. We would encourage other exchanges to consider similar changes.

2. End the certificate of delivery and return to the notice process originally used for delivery against the futures contract. This should not cause any major disruption to futures trading. Once the change is made and traders realize delivery means actual physical acceptance of the commodity or that there will be some monetary penalty for re-tender, then we should see the orderly liquidation of open interest going into a contract delivery period and moving toward contract expiration and a more orderly convergence.

3. An option which merits examination is cash settlement. There are cash-settled grain and oilseed contracts today; however, the volume for those contracts is probably too small to test this in practice. Moving to cash settlement should not be undertaken lightly, but it should be studied as a way to improve convergence.

Impact of Higher Margin Requirements and Expansion of Daily Trading Limits

Volatility is at a record high in the agricultural markets. With already high trading limits and high margin requirements, the average farmer has a difficult time using futures and options for price protection. Even larger commercial hedgers are having problems with financial liquidity.

Daily trading limits are of great interest to our members. While the rationale behind the increased limits is to let the markets clear and resume trading, in practicality, margin calls have become prohibitive. In fact, many hedgers simply do not have sufficient lines of credit to cover these high margin calls.

We request the CFTC analyze the possible effects on market participants of lowering the daily trading limits. We are not necessarily seeking to lower price limits, but we believe a study of the potential effects on margin requirements, risk, volatility, and financing charges could be instructive for the exchanges and market participants, as well as the commission. A thorough economic review should examine adjustments that could reduce volatility while still allowing the markets to clear.

Role of Speculators and Commodity Index Traders

As hedgers, our members understand that speculative interest is an important component of any commodity market by facilitating its primary function of price discovery and providing market liquidity. Though speculators – including small investors – have always been integral to market function, they are now playing an exponentially greater role than ever before. Market analysts report a continued, massive inflow of capital into the grain pits, much of it by long-only, passively managed index funds that buy futures and roll them forward according to a set schedule.

According to Chicago-based agricultural research firm AgResource Co., total index-fund investment in corn, soybeans, wheat, cattle and hogs has increased to $42 billion, up from just over $10 billion in 2006 – more than quadrupling in less than two years. That number doesn't even include the flood of index funds that have moved into other agricultural markets, primarily cotton, during the same period. Barron's estimated in its March 31, 2008, cover story that "index funds right now account for 40% of all bullish bets on commodities."

The recent level of long positions translates to the funds actually "owning" significant amounts of the entire U.S. corn, soybean and wheat crops. Independent analyst Steve Briese calculated at the end of March that index funds had effectively bought 36.6 percent and 62.3 percent of the 2007 domestic soybean and wheat crops, respectively.

Trading activity by funds is certainly one of the contributing factors generating high futures prices for commodities. Ordinarily, this would appear to be positive for agriculture. But if the futures markets do not converge with cash markets, there is little information on what real price levels should be either for producers or consumers of the commodity in question. With convergence, even if futures market prices fall precipitously in the delivery month, there are still economic signals being sent that producers can respond to. Without convergence, these trades become just so much froth.

In mid-March, index funds represented approximately 42 percent of the open interest in Chicago wheat, meaning that roughly two out of every five outstanding contracts were held by funds with limited need to trade on supply and demand fundamentals – they simply buy and hold. The result was a disconnect of the cash price (traditionally based on futures as a means of price discovery) from the high of the futures market. Forward contracting virtually ceased.

Historically, AFBF has supported open market participation and encouraged interest from speculators as well as hedgers, and we continue to support market involvement. However, our policy also supports CFTC oversight to ensure that market integrity is maintained and to curb practices that result in artificial price swings. In essence, it is up to the CFTC to ensure that participants do not prevent the futures markets from serving their roles as price discovery tools.

AFBF policy opposes restricting speculative funds from the commodity markets because they do provide pricing opportunities and liquidity that might not otherwise be available. We do not want to end speculative participation, nor do we believe the CFTC has that authority. Even if CFTC could restrict index fund investment activity, such an action could result in less liquidity and lower prices in the markets.

However, we do have some concern that from time to time fundamental price movements may be overwhelmed by extreme levels of financial speculation. It is critical for hedgers trying to manage price risk of the physical commodity to fully understand who is in the market and, perhaps more importantly, why. Therefore, additional transparency about the funds involved in the futures market should be required so that the markets can fulfill their primary functions of price discovery and risk management.

The CFTC is charged by Congress with ensuring the commodity markets do not become solely a speculative trading arena, rather than a price discovery/marketing tool for the agriculture industry. To that end, it must restore marketplace integrity with appropriate transparency.

Conclusion

We reiterate that we continue to support the CFTC's regulation of the commodity futures business. While there has been discussion of merging the CFTC and the Securities Exchange Commission in response to the volatile trading environment, we vigorously oppose efforts to weaken the CFTC by transferring or reducing its authorities, or by combining it with the SEC.

Finally, we thank CFTC officials for arranging this public meeting to better understand recent market happenings, and for allowing us to share producers' views of current issues. We hope this discussion will inform the commission's future actions where it has regulatory authority to correct market situations. If additional authorities from Congress are needed in order to ensure future market functionality, we stand ready to work with the CFTC and legislators.

BUNGE

August 21, 2006

Ms. Eileen A. Donovan
Office of the Secretariat
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, D.C. 20581

RE: Comprehensive Review of the Commitments of Traders Reporting Program (71 F.R. 119 (June 21, 2006))

Dear Ms. Donovan:

Bunge North America, Inc. is pleased to provide brief comments to the Commission's request for comment regarding its Commitments of Traders (COT) reports.

Bunge North America, the North American operating arm of Bunge Limited, is a vertically integrated food and feed ingredient company supplying raw and processed agricultural commodities and specialized food ingredients to a wide range of customers in the livestock, poultry food processor, foodservice and bakery industries. Bunge operated grain elevators, oilseed processing facilities edible oil refineries and packaging plants, and corn dry mills in the United States, Canada, and Mexico.

As a commercial market participant with a significant stake in well functioning futures and option markets, Bunge shares the concerns raised and responses made in the comments submitted to the Commission by the National Grain and Feed Association (NGFA) and the National Grain Trade Council (NGTC). Thus, rather than respond to the specific questions asked by the Commission and answered comprehensively in the NGFA and NGTC submissions we simply will amplify on several of the issues raised in those comments.

As many others have noted, there is no question that the COT reports have value in agricultural markets. Farmers, merchants, processors, food manufacturers, as well as agricultural lenders each look to the reports for insight into market supply and demand trends. As such, COT reports serve an important role as an objective third-party source of aggregated market information. The weekly "look-back" provided in the Commission's report has served the sector well.

Despite this record of success for the industry and Commission, we are concerned that the historical value of the COT reports may soon lose relevance. The current definition

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REPORT: EXCESSIVE SPECULATION IN THE WHEAT MARKET
EXHIBIT #13

BUNGE

of commercial participant used by the CFTC to report data has more recently included the new "non-traditional" financial hedge community. While welcome as a class of investors, the Commission's decision to lump their positions into the commercial side of the report ledger has, in fact, masked true market supply and demand signals in some cases. Agricultural cash and futures markets are incredibly dynamic and are dependent on information that enables the sector to respond quickly. However, the sector is also dependent on growing cycles; once production decisions are made, they are made for an entire crop year. Separating out the financial hedge investors from traditional hedgers would help to better inform all market participants about underlying cash market conditions and influences.

Finally, the Commission through its questions appears to have serious reservations about separating out financial hedge positions for concern about revealing sensitive information. The CFTC for years has identified the aggregate commercial positions of Bunge and others without incident. While the Commission's abundance of caution is commendable, we believe it is misplaced. The purpose of the COT report should be to provide aggregate information about market activity in a manner that bolsters confidence and reinforces the commercial utility of the futures and option markets. Traditional hedgers of physical commodities use the futures and option markets to manage cash market price risks. The COT reports must convey information in a manner that retains the direct connection between cash and futures markets. We believe the current reporting definitions, which include participants with no cash market risk, ultimately could disconnect cash from futures and risk the very utility of the underlying futures and option contracts traded on US futures exchanges.

For these reasons we strongly urge the Commission to take prompt action to separately report the positions held by the new class of non-traditional commercial participants.

Thank you for providing this opportunity to comment.

Sincerely,

Thomas J. Erickson
Vice President Government & Industry Affairs

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Market Observations: CBOT Wheat

Using Bunge estimates we draw the following conclusions about commodity index fund positions in CBOT wheat:

1.) Index fund positions equal 180,000 contracts WZ

- GSCI $80 billion in total assets, 2.51% of which is CBOT wheat = $2.01 billion notional, or 89,000 contracts (at $4.50/bu)
- DJ Aig $18 billion in total assets, 4.87% of which is CBOTwheat = $877 million notional, or 39,000 contracts (at 4.50/bu)
- Deutsche Bank $8 bilion in total assets, 11.25% of which is CBOTwheat = $900 mil notional, or 40,000 contracts at $4.50/bu
- Miscellaneous smaller indices, like Rogers, CRB, SPCI, UBS, etc = at least another 15,000 contracts and probably more.

2.) SRW open interest

• Index Fund position in Dec	180,000
• Dec open interest	250,000
• Total open interest	470,000

3.) SRW 2006 crop size equals 78,000 contracts

• Index Fund position as % of crop	230%
• December open interest as % of crop	320%
• Total open interest as % of crop	602%

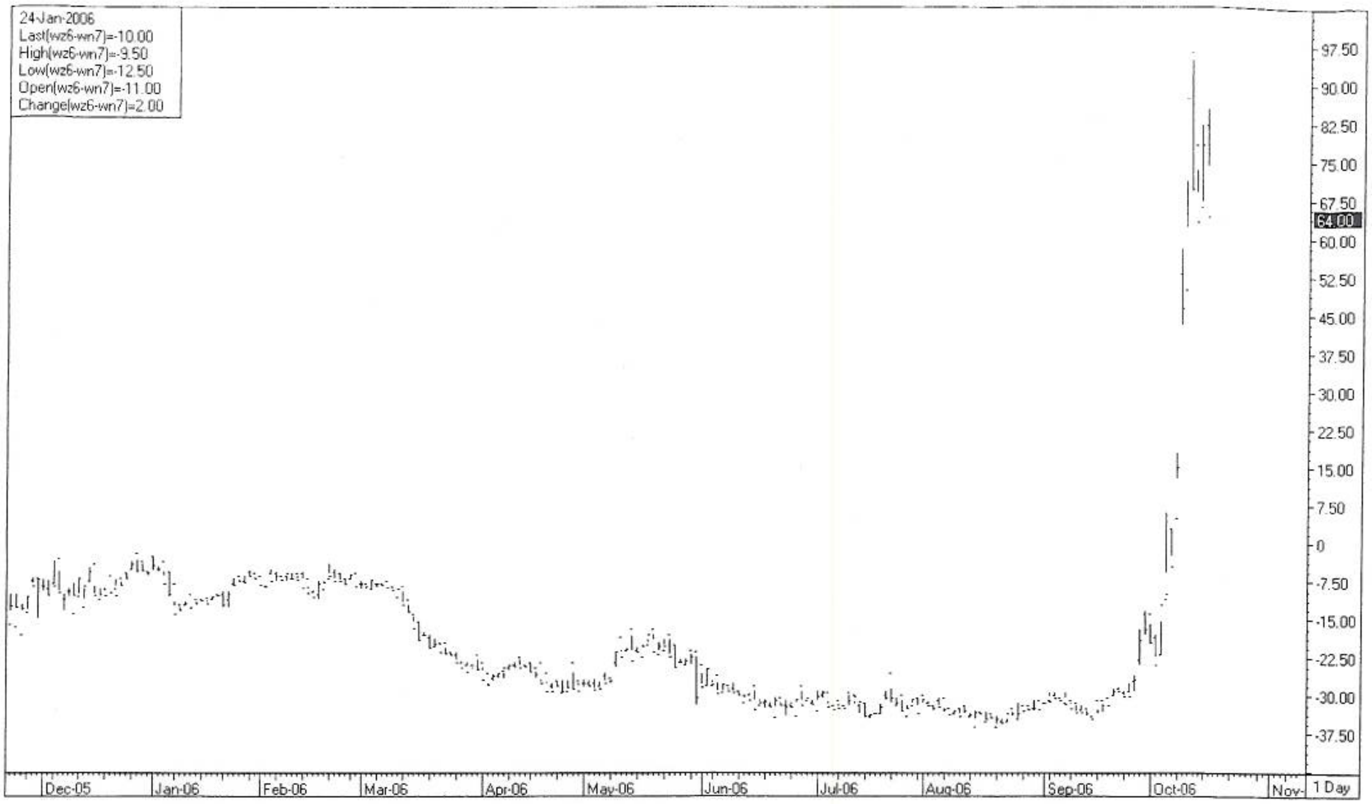
While the relative size these fund positions have to open interest and crop size warrant consideration, the serious issue presented is that this money must follow the rules of the underlying index and is hence not liquid capital until the roll dates are reached and even then the position may not move to what is considered by market fundamentals to be supported by underlying economics. Simply stated, we conclude that the positions are liquidity takers, not liquidity makers.

From the above one can see that the % of index participation is a problem for wheat and that is why the liquidity crunch has occurred. Traditional commercial hedgers who hedged US SRW, wheats of other class, and non-us wheat in the December futures contract at the CBOT were unable to exit positions when fundamental cash market conditions warranted.

The index fund participant is not a hedger in the historic sense and does not respond to market economics. Instead, they follow their index rules and buy and sell depending on net inflow and outflows to their underlying index.

The move in CBOT dec wheat vs n wheat has everything to do with the index position and very little to do with market economics. The underlying cash is weak and the balance sheet is loose. The index position is too large in

December wheat. The chart below demonstrates the effect of this “sticky” money.



Chicago Board of Trade Wheat Contract Concerns

Issue

The growth in commodity funds and the corresponding growth in financial hedge positions has created in some physical commodity futures markets an investment class that is large and non-responsive to economic conditions in the underlying cash market. This phenomenon perhaps is most readily apparent in trading in the nearby December futures for soft red wheat at the Chicago Board of Trade, where traditional basis relationships have eroded and the price discovery and risk management utility of the wheat futures contract is in question.

Request

The Commodity Futures Trading Commission use the full extent of its authority to maintain agricultural futures markets that reflect cash markets and provide real, not illusory liquidity.

Background

The phenomenal growth in the open interest in agricultural commodities in recent years reflects the investor interest in commodities. With the advent and maturation of commodity index funds, retail exposure to agricultural commodity price movements has become simpler and arguably less volatile because the funds are comprised of a basket of physical commodities that go beyond agriculture. The index fund investment has created price risk exposure to agricultural commodities for a class of market participants that is not so much driven by cash market fundamentals as they are by the rules of their own index.

As index funds have grown they have become a much larger force in futures markets. For example, open interest in the CBOT's wheat futures contract has soared from a historical average of 2 times the production of wheat to approximately 10 times the production of wheat at times this past year. The consequences of this growth – positive and negative – are increasingly visible in the agricultural complex.

The most noteworthy market from a negative consequences perspective is in the CBOT soft red wheat futures market. It is increasingly the view among traditional commercial market participants that the index fund positions are not necessarily market liquidity providers, but are rather takers of liquidity, as they generally do not trade on cash market fundamentals.

Commission Rule 1.3(z) defines hedging as follows: "Bona fide hedging transactions and positions shall mean transactions or portions in a contract for future delivery . . . where such transaction or positions normally represent a substitute for transactions to be made or positions to be taken at a later time in a physical marketing channel,. . . . Notwithstanding the foregoing, no transaction or positions shall be classified as bona fide hedging for purposes of section 4a of the Act unless their purpose is to offset price risks . . . And such positions *are established and liquidated in an orderly manner* in accordance with sound commercial practices . . . ."

Market data and economic inference suggest that the index fund positions in wheat that are passive investments are causing market congestion and are not being liquidated in an orderly manner. The Commission's provisions reinforce this by stating in effect that a hedge is only a hedge if it can be put on and liquidated without causing market congestion or other pricing anomalies.

Market Observations: CBOT Corn

If we look at Corn we have the following estimates:

1.) Corn open interest

- Index Fund position in Dec 250,000
- Dec open interest 570,000
- Total open interest 1,300,000

2.) 2006 Corn crop size equals 2,220,00

- Index Fund position as % of crop 11%
- Dec o/i as % of crop 26%
- Total o/i as % of crop 59%

Commercial Proposal to Relieve Liquidity Congestion Concerns

Issue

The growth in commodity funds and the corresponding growth in financial hedge positions has created in some physical commodity futures markets an investment class that is large and non-responsive to economic conditions in the underlying cash market. This phenomenon perhaps is most readily apparent in trading in the nearby December futures for soft red wheat at the Chicago Board of Trade, where traditional basis relationships have eroded and the price discovery and risk management utility of the wheat futures contract is in question. Specifically, the non-responsive index fund investments created a loss of liquidity in the market when the market most needed and expected trading responsive to underlying cash market activity.

Proposal

The futures exchange community and traditional commercial hedging community together approach the index fund community urging them to voluntarily spread their positions in agricultural commodity markets across the front three to six months of open interest, rather than concentrating the investment into the front month only.

Rationale

Agricultural markets are generally not as deep and liquid as their financial market counterparts and thus more susceptible to disruption due to significant open interest that does not trade in a manner reflective of cash market dynamics. Index fund positions, spread out over several months of open interest could bring improved balance in front month participation and greater predictability in market responsiveness.

Background

The phenomenal growth in the open interest in agricultural commodities in recent years reflects the investor interest in commodities. With the advent and maturation of commodity index funds, retail exposure to agricultural commodity price movements has become simpler and arguably less volatile because the funds are comprised of a basket of physical commodities that go beyond agriculture. The index fund investment has created price risk exposure to agricultural commodities for a class of market participants that is not so much driven by cash market fundamentals as they are by the rules of their own index.

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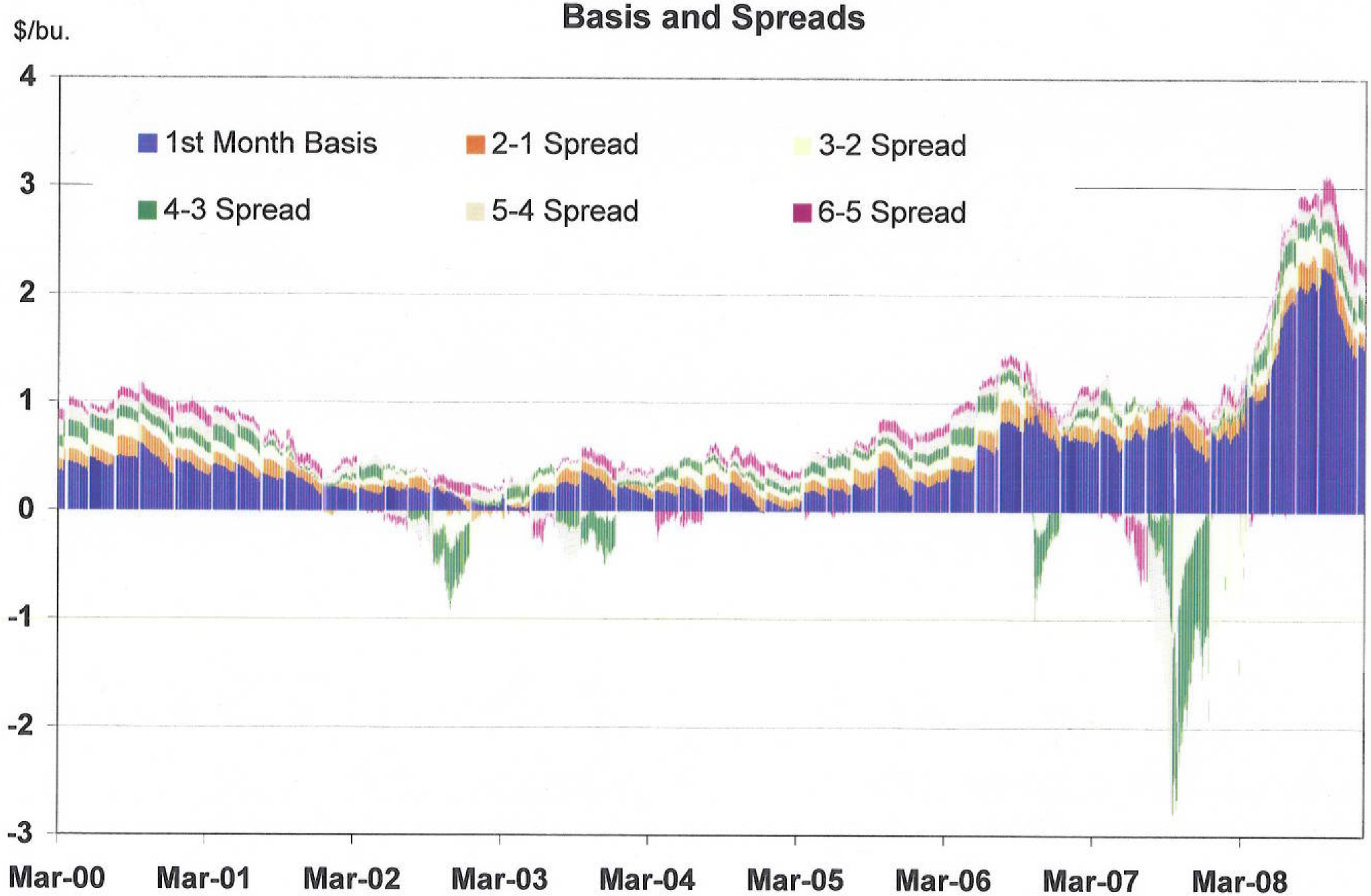
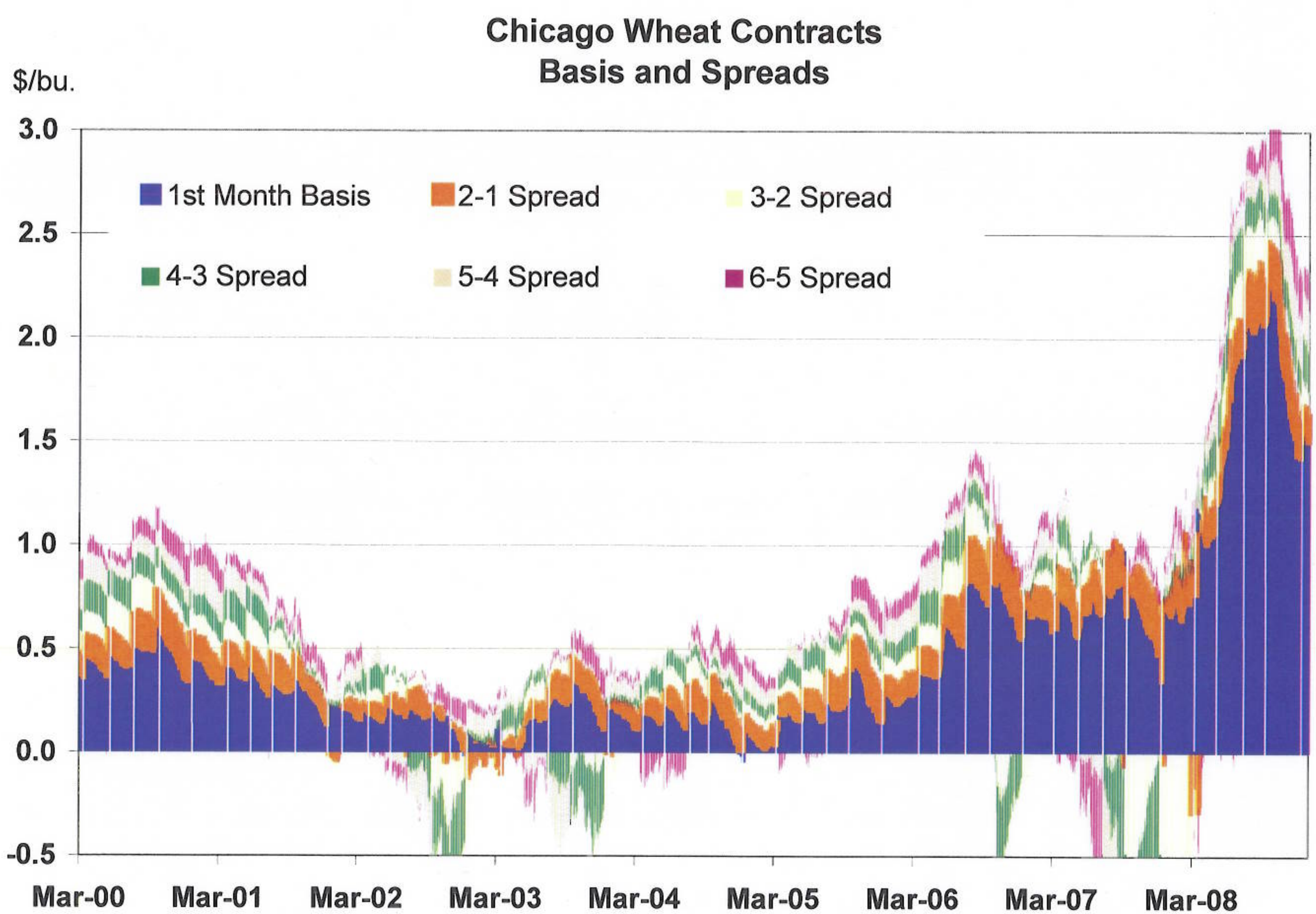
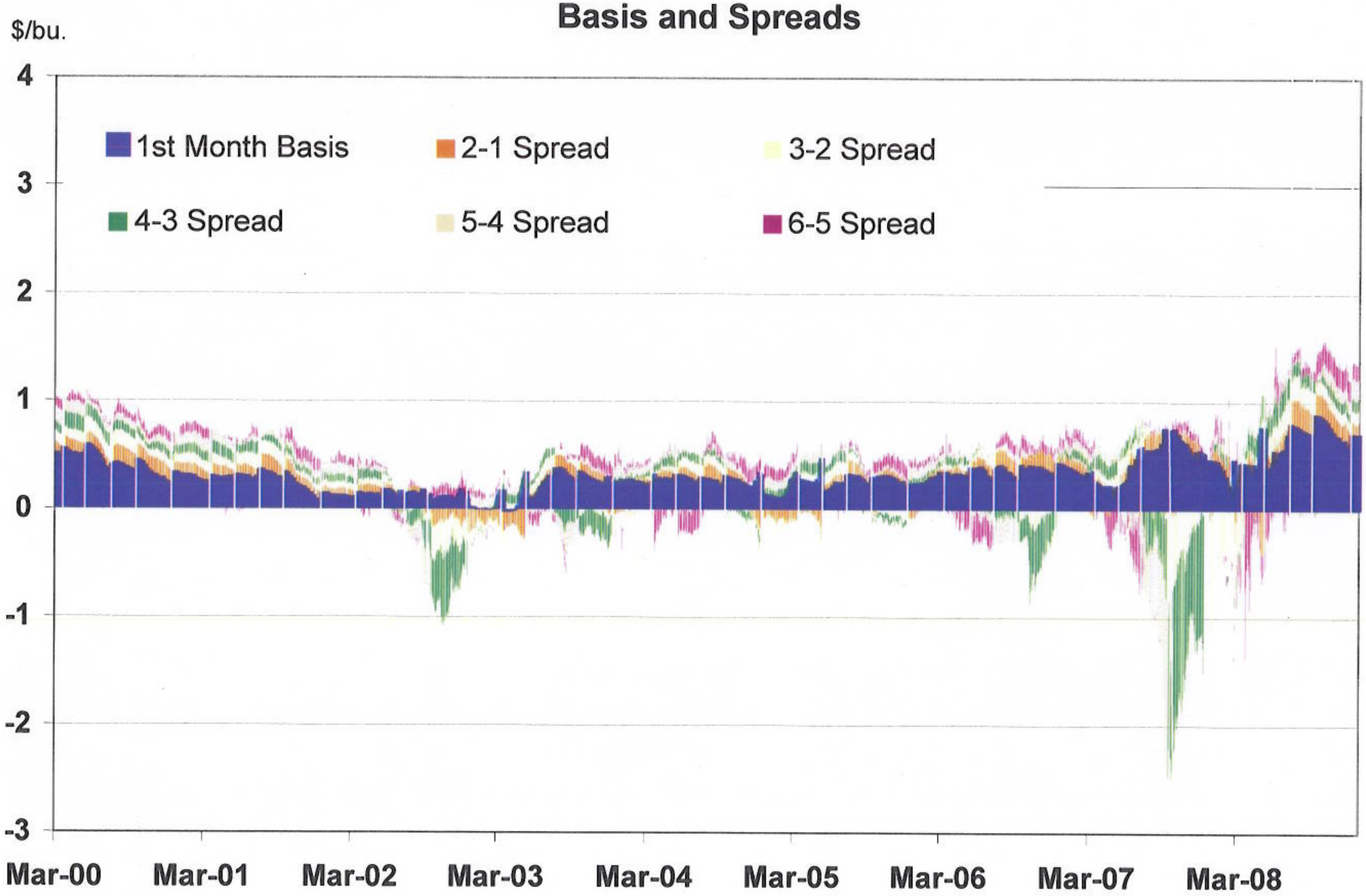
Chicago Wheat Contracts
Basis and Spreads

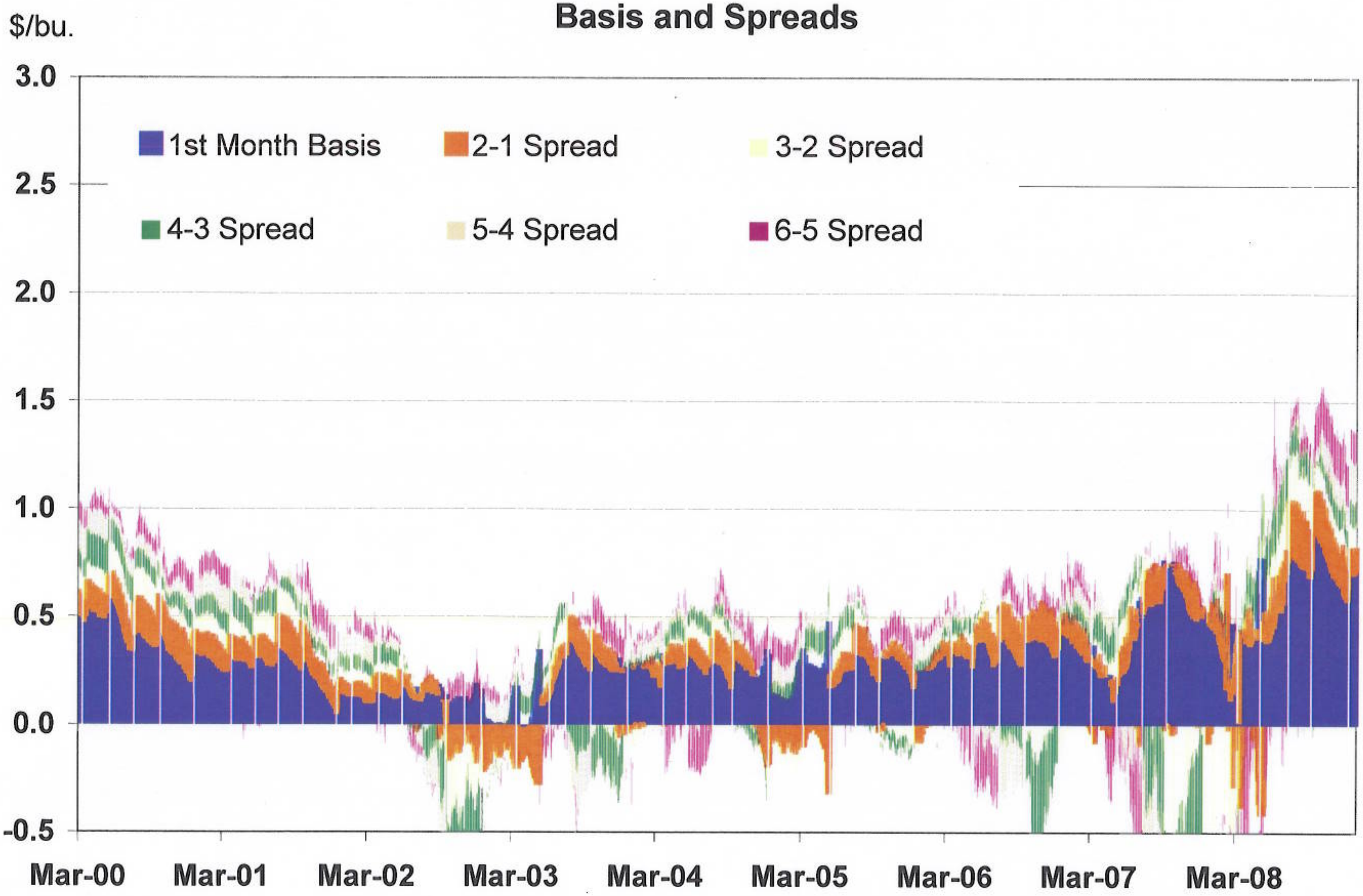


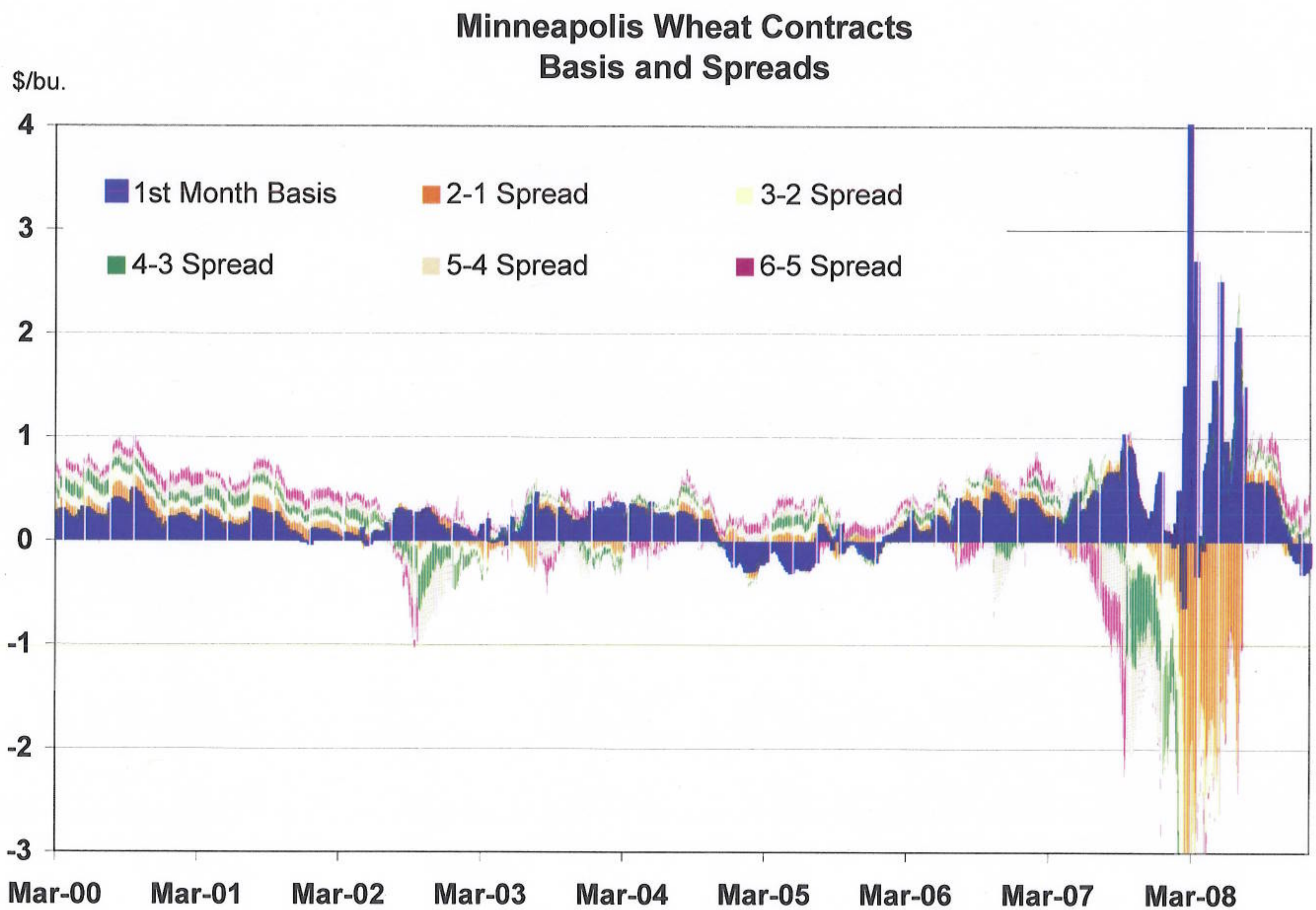

Chicago Wheat Contracts
Basis and Spreads
$/bu.
3.0
2.5
2.0
1.5
1.0
0.5
0.0
-0.5
1st Month Basis
2-1 Spread
3-2 Spread
4-3 Spread
5-4 Spread
6-5 Spread
Mar-00
Mar-01
Mar-02
Mar-03
Mar-04
Mar-05
Mar-06
Mar-07
Mar-08

Kansas City Wheat Contracts
Basis and Spreads



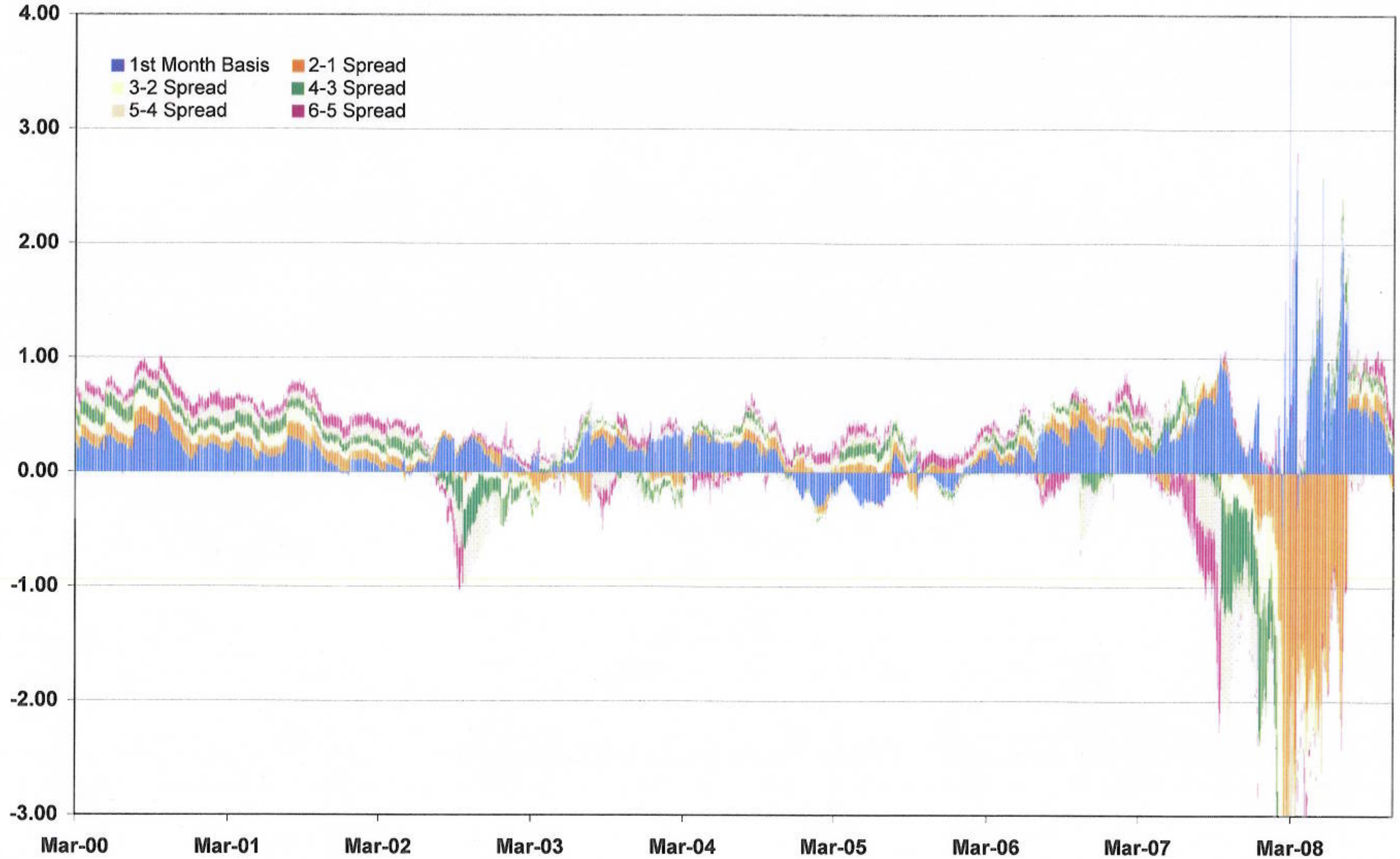
Kansas City Wheat Contracts
Basis and Spreads



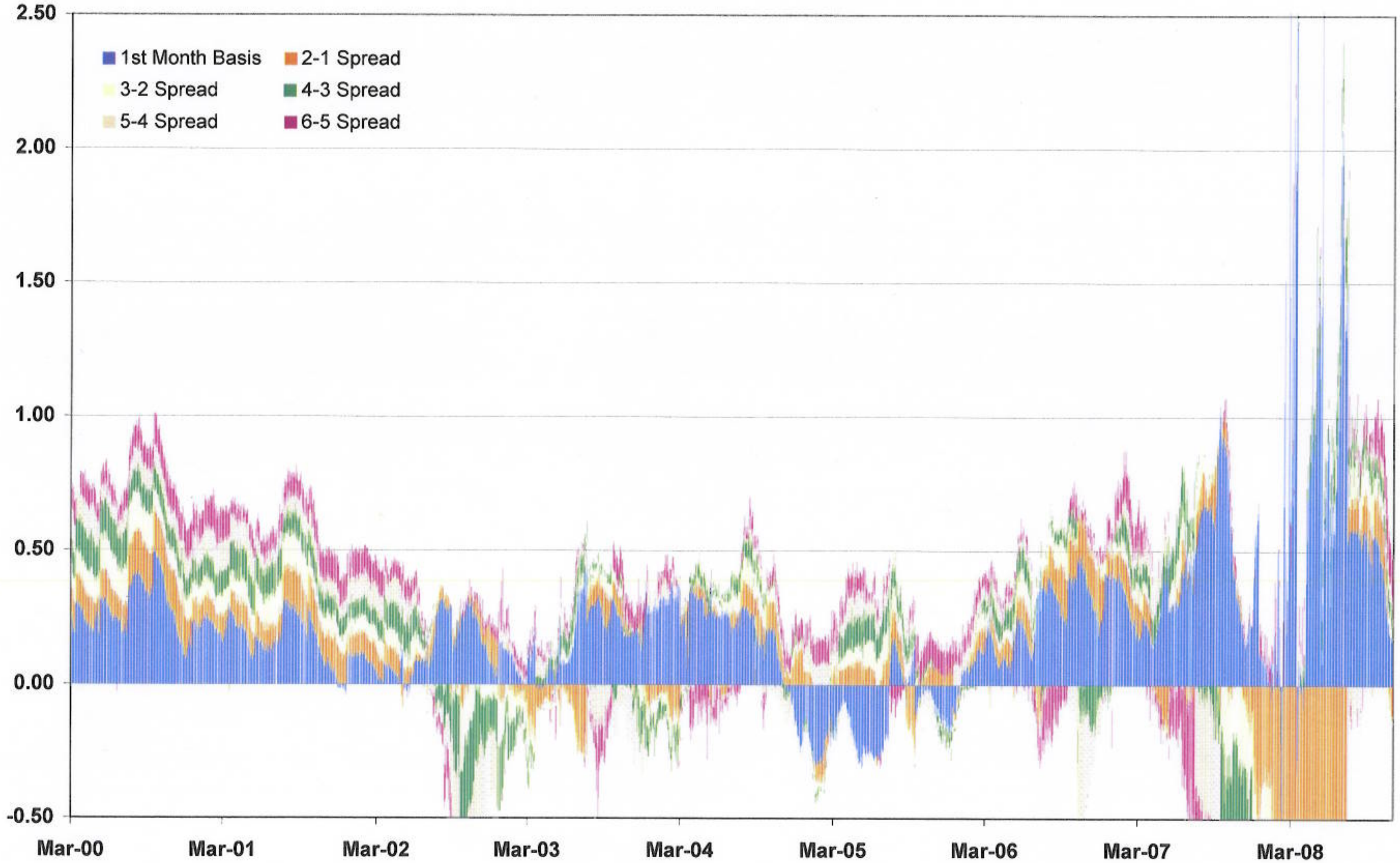


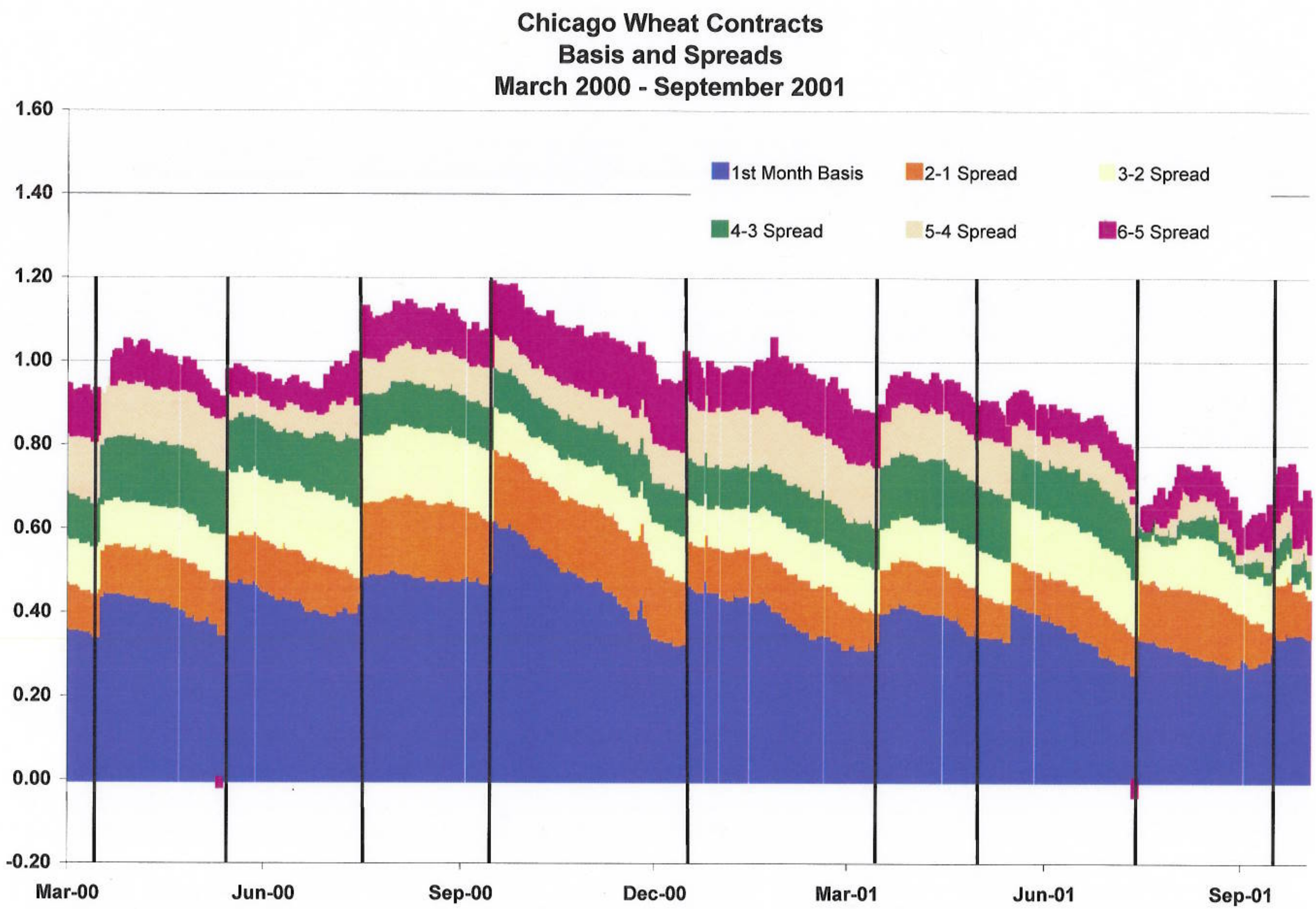
Minneapolis Wheat Contracts
Basis and Spreads
$/bu.
1st Month Basis
2-1 Spread
3-2 Spread
4-3 Spread
5-4 Spread
6-5 Spread
4
3
2
1
0
-1
-2
-3
Mar-00
Mar-01
Mar-02
Mar-03
Mar-04
Mar-05
Mar-06
Mar-07
Mar-08

Minneapolis Wheat Contracts
Basis and Spreads

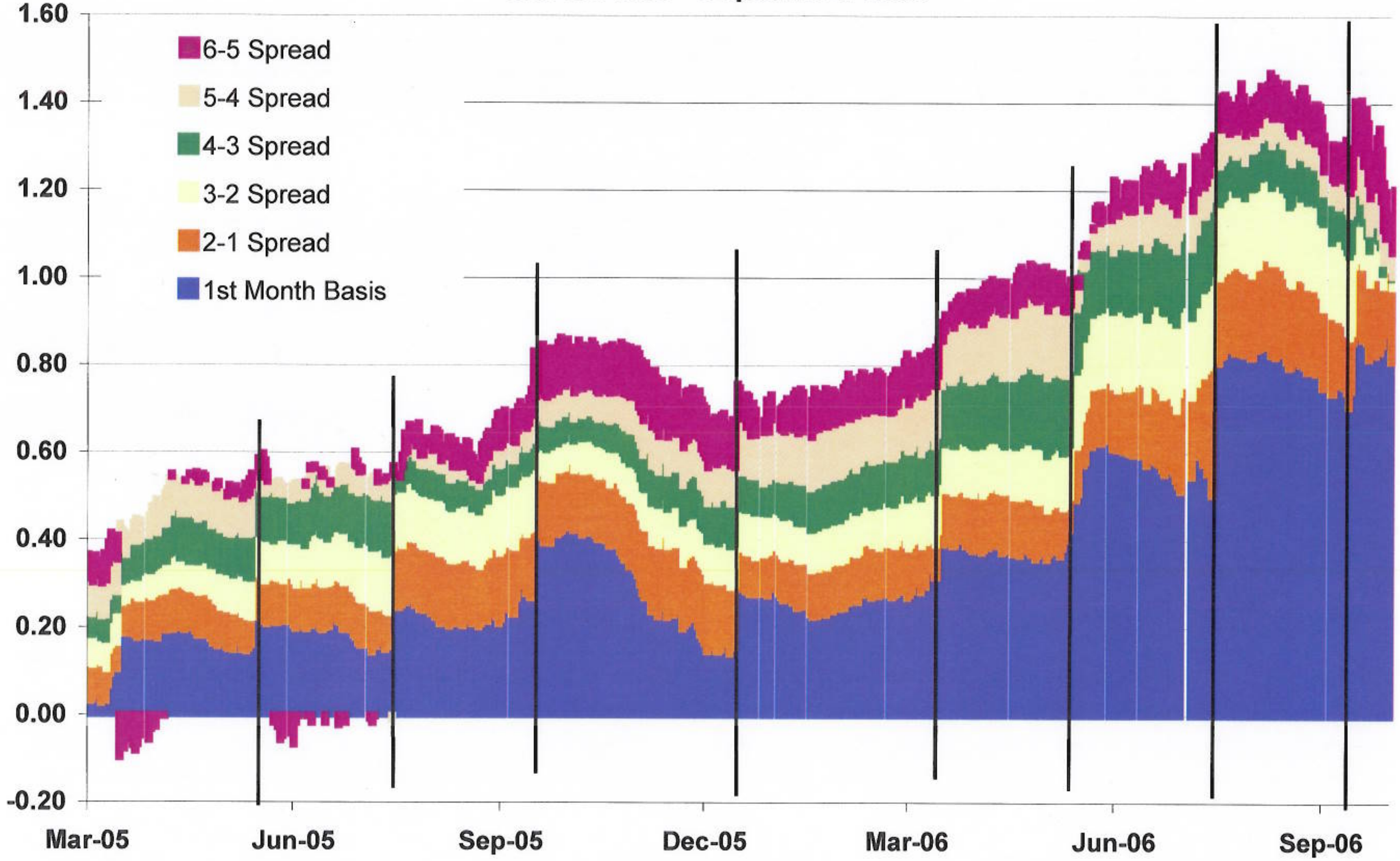


Minneapolis Wheat Contracts
Basis and Positive Spreads

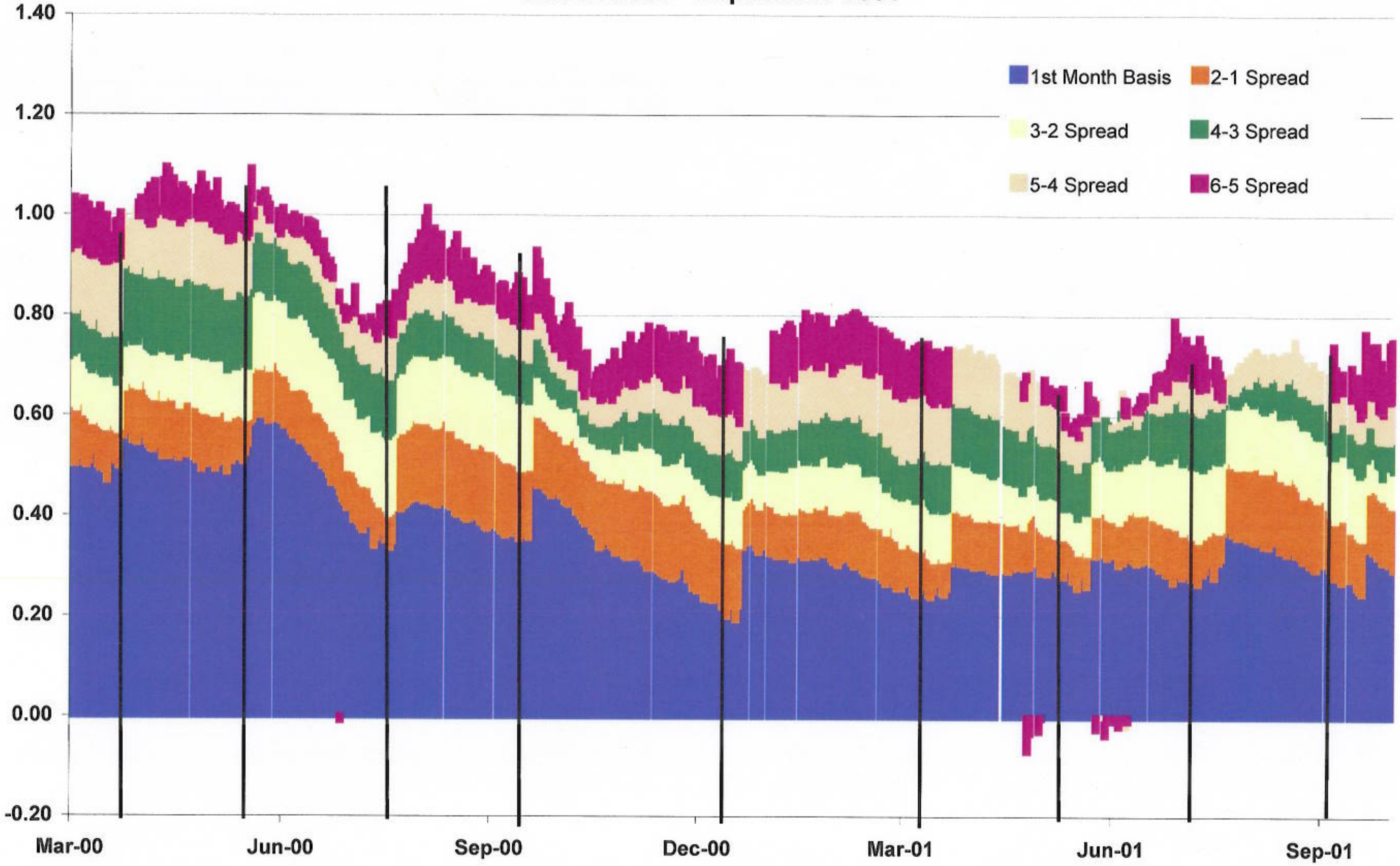


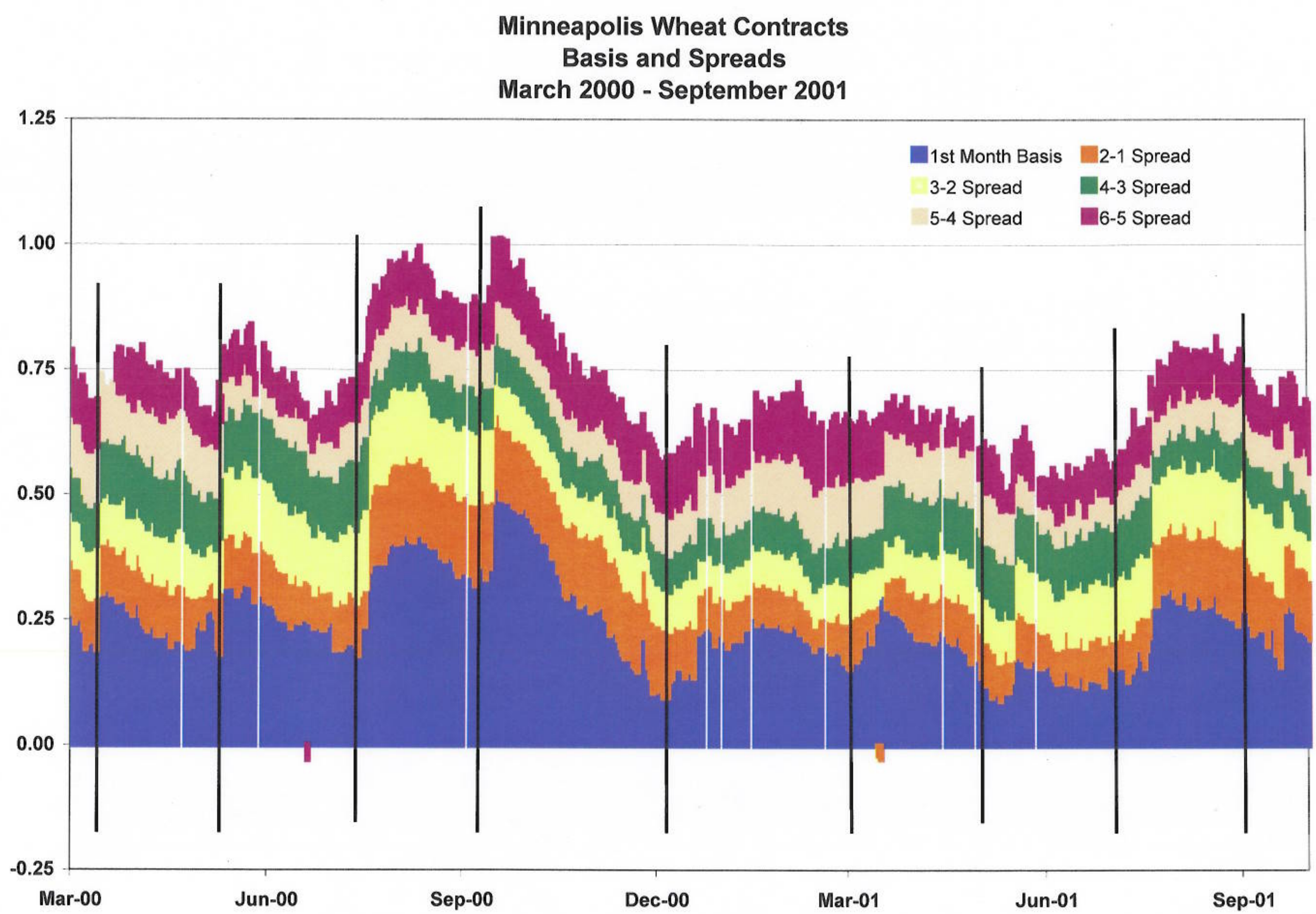

Chicago Wheat Contracts
Basis and Spreads
March 2000 - September 2001
1st Month Basis
2-1 Spread
3-2 Spread
4-3 Spread
5-4 Spread
6-5 Spread
1.60
1.40
1.20
1.00
0.80
0.60
0.40
0.20
0.00
-0.20
Mar-00
Jun-00
Sep-00
Dec-00
Mar-01
Jun-01
Sep-01

Chicago Wheat Contracts
Basis and Spreads
March 2005 - September 2006



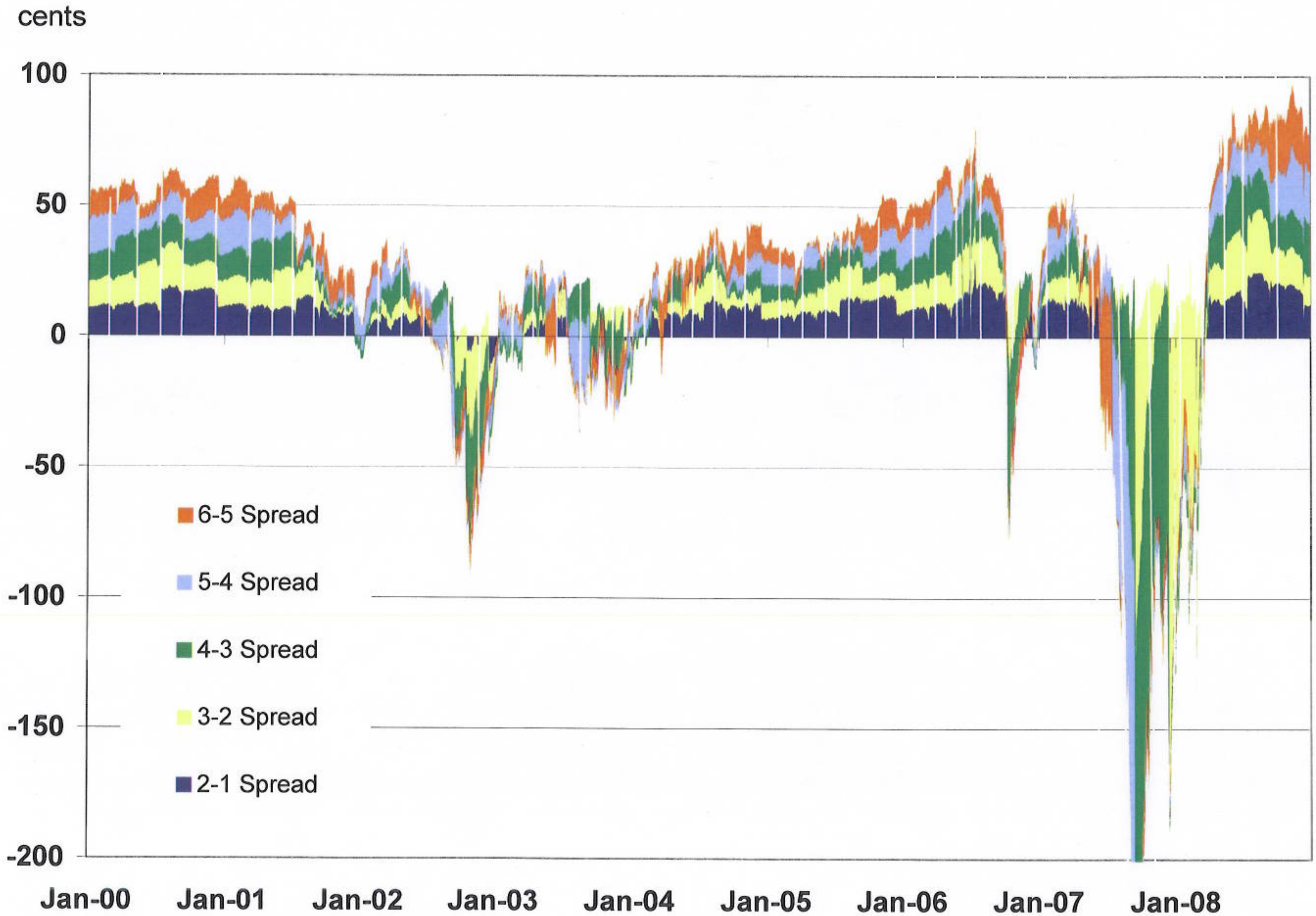
Kansas City Wheat Contracts
Basis and Spreads
March 2000 - September 2001



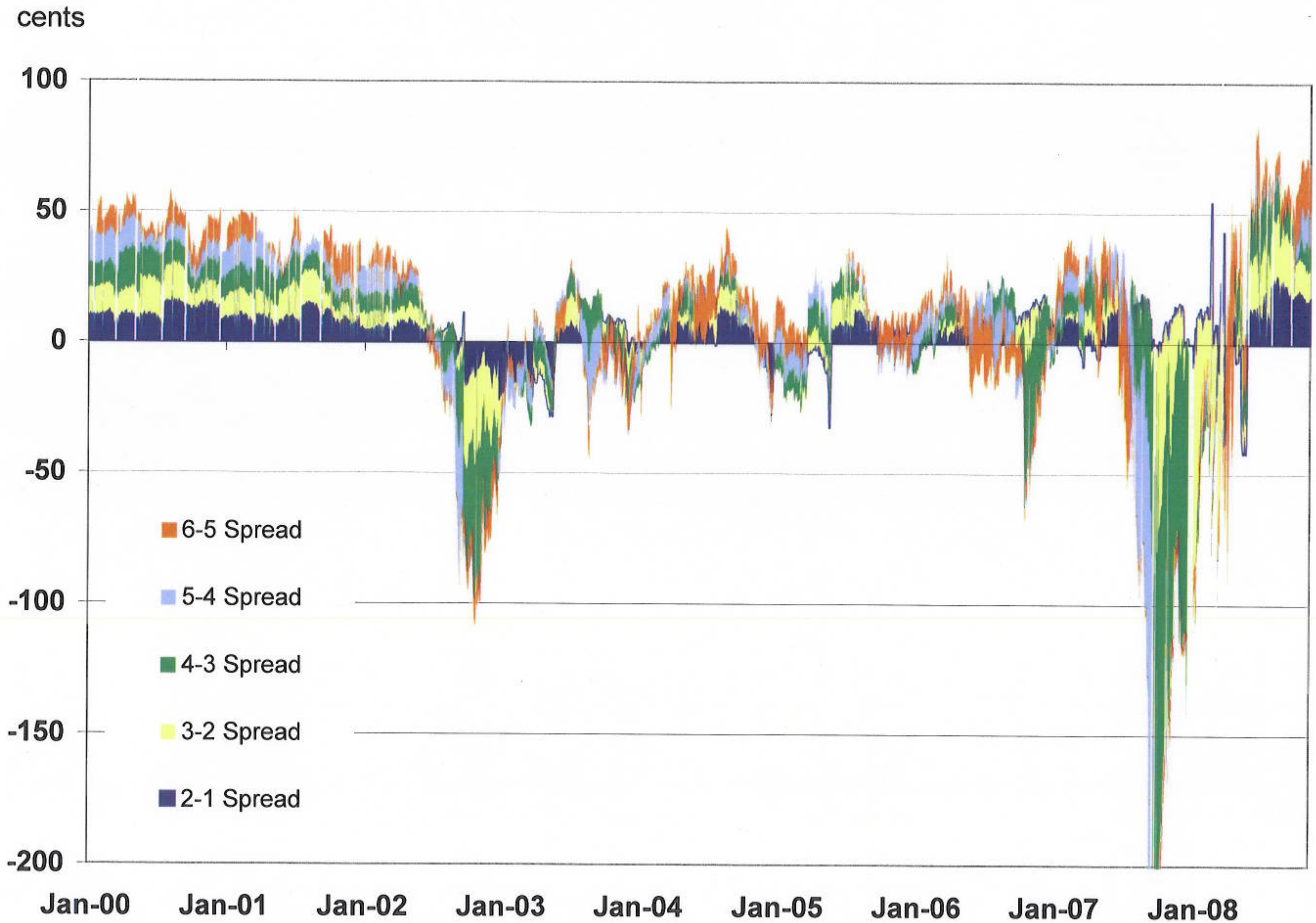


Minneapolis Wheat Contracts
Basis and Spreads
March 2000 - September 2001
1.25
1.00
0.75
0.50
0.25
0.00
-0.25
Mar-00
Jun-00
Sep-00
Dec-00
Mar-01
Jun-01
Sep-01
1st Month Basis
2-1 Spread
3-2 Spread
4-3 Spread
5-4 Spread
6-5 Spread

Chicago Wheat Futures Contracts
Intermonth Spreads



Kansas City Wheat Futures Contracts
Intermonth Spreads



Minneapolis Wheat Futures Contracts
Intermonth Spreads