10-002
COMMENT
CL-02673

AMERICAN FEED INDUSTRY ASSOCIATION

March 23, 2010

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

Re: *Proposed Federal Speculative Position Limits for Referenced Energy Contracts and Associated Regulations; Proposed Rule (17 CFR Parts 1, 20 and 151)*

Dear Secretary Stawick:

AFIA, based in Arlington, Va., is the world's largest organization devoted exclusively to representing the business, legislative and regulatory interests of the U.S. animal feed industry and its suppliers. Founded in 1909, AFIA also is the recognized leader on international industry developments. Members include more than 500 domestic and international companies and state, regional and national associations. Member-companies are livestock feed and pet food manufacturers, integrators, pharmaceutical companies, ingredient suppliers, equipment manufacturers and companies which supply other products, services and supplies to feed manufacturers.

The feed industry makes a major contribution to food safety, nutrition and the environment, and it plays a critical role in the production of healthy, wholesome meat, milk, fish and eggs. More than 75% of the animal feed in the United States is manufactured by AFIA members.

Thank you for the invitation to provide comments on behalf of the AFIA regarding the Commodity Futures Trading Commission (CFTC) referenced Notice of Proposed Rulemaking (NPR) published in the *Federal Register* on January 26, 2010.

Feed represents approximately 70% of the on-farm cost of raising livestock and poultry. With the majority of our industry's input supplies priced directly on or in reference to regulated commodities markets, we depend significantly on an efficient and well-functioning futures market for both price discovery and risk management.

AFIA applauds your proposal to implement an integrated speculation position limit framework that would include federal position limits on certain energy commodities, as well as aggregate and exchange specific position limits. This is a solid first step toward our mutual goal of ensuring these commodity markets and products effectively serve their primary role of providing commercial true hedgers reliable tools to manage their economic risks.

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In response to your specific request for comments, AFIA provides the following responses:

1. Are federal speculative position limits for energy contracts traded on reporting markets necessary to "diminish, eliminate, or prevent" the burdens of interstate commerce that may result from position concentrations in such contracts?

   Yes, they're necessary to ensure large concentrations of speculative monies do not create an artificial increase or decline in demand with the subsequent result of creating extreme volatility in the contract market price, as experienced in 2008. These position limits should be accompanied by stringent transparency rules to ensure the Commission is able to more quickly identify schemes and devices that seek to evade such limits.

10. Should any of the distinctive features of the proposed position limit framework, such as aggregate position limits or the swap dealer limited risk management exemption, be applied to other agricultural commodities?

    Yes. Grains and other agricultural commodities have a finite supply and these markets require speculative limit provisions to provide end users with effective and efficient risk management tools. In addition, energy contracts and corn contracts are directly linked by the evolution of the ethanol industry, and this type of direct link is sure to expand as the biofuels industry expands its feedstock base, i.e., soybean and other oilseeds utilized in biodiesel production. Also, there are other agricultural commodities with direct or very close links. For example, volatility in corn or soybeans can quickly inject uncertainty into livestock prices and the various beef, pork and dairy risk management tools.

    The aggregate position limits and the swap dealer limited risk management exemption provisions of the position limit framework proposed for energy contracts would also be very applicable to agricultural commodities, particularly when applied to the Commodity Index Funds segment of speculative investors. These funds utilize a predetermined proportional portfolio mix, including energy, grain, livestock, softs and metals. So as their investment grows or decreases, it proportionally affects each of these commodity groups together. (Illustration 1)

15. Should the Commission propose regulations to limit the positions of passive long traders?

    The proposed position limit framework will be effective only if it is applied and enforced for all speculative participants in these commodity markets. If the stated objective of this rule is to "diminish, eliminate, or prevent" the burdens on interstate commerce that may result from position concentrations in energy and other commodity contracts, the Commission will have overlooked three of the largest position concentrations active in these commodity contracts on an ongoing basis by not including passive long traders in this rule.

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S&P Goldman Sachs, Dow Jones UBS and Rogers International Commodity Funds represent 88% of total dollars invested in Commodity Index Funds. S&P Goldman Sachs alone represents 66% of total Commodity Index Funds investment dollars. This definitely represents a concentration of this market segment. (Illustration 2)

Not only are these funds concentrated within a few major funds, but total Commodity Index Fund investment dollars -- compared to traditional managed futures -- have grown since 2003. Total Commodity Index Funds peaked in June 2008, and have grown to an estimated $180 billion, compared to $211 billion for traditional managed futures. (Illustration 3)

In summary, the proposed integrated speculation position limit framework represented by the Proposed Rule is a very positive step forward for the specified energy contracts.

AFIA strongly recommends the CFTC take three additional steps I in addition to the measures proposed in this rule, as follow:

1. The CFTC should propose rulemaking to consistently apply this same framework to grains and other agricultural commodities
2. The Commission should seek additional congressional authority to apply this framework to Commodity Index Funds
3. The CFTC should seek congressional authority to also regulate the over-the-counter (OTC) commodity markets trading in U.S. commodity markets, thus installing regulatory oversight, reporting and transparency for all U.S. commodity market trading and positions.

These additional steps would provide bona fide hedgers with a clear, comprehensive road map and ensure commercial hedgers will have an effective and efficient tool they can depend on for both price discovery and risk management today and in the future.

Thank you for the opportunity to comment on this Proposed Rule. We look forward to the CFTC's quick action to finalize this rule. We also look forward to the Commission moving quickly to provide protections for all agricultural commodity exchanges and contracts.

Sincerely,

Joel S. Newman

Joel Newman
President & CEO
American Feed Industry Association

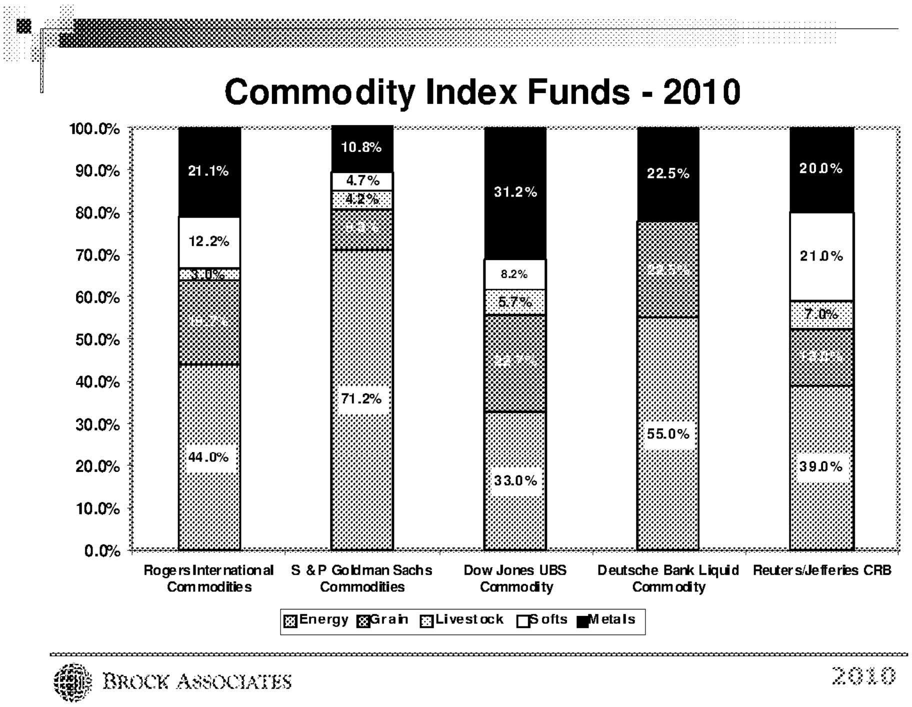

Illustration 1

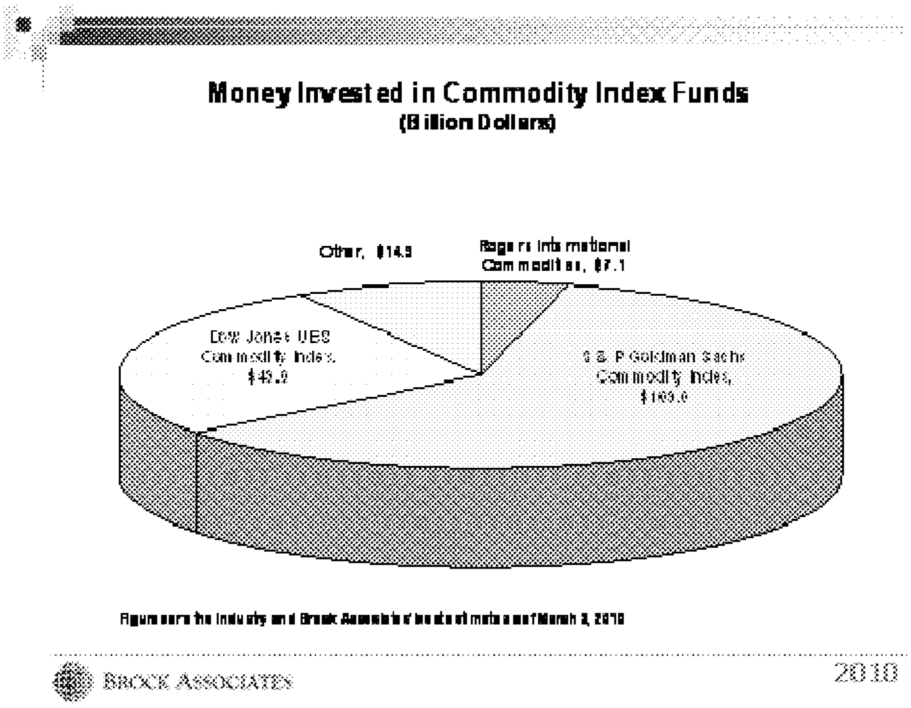

Illustration 2

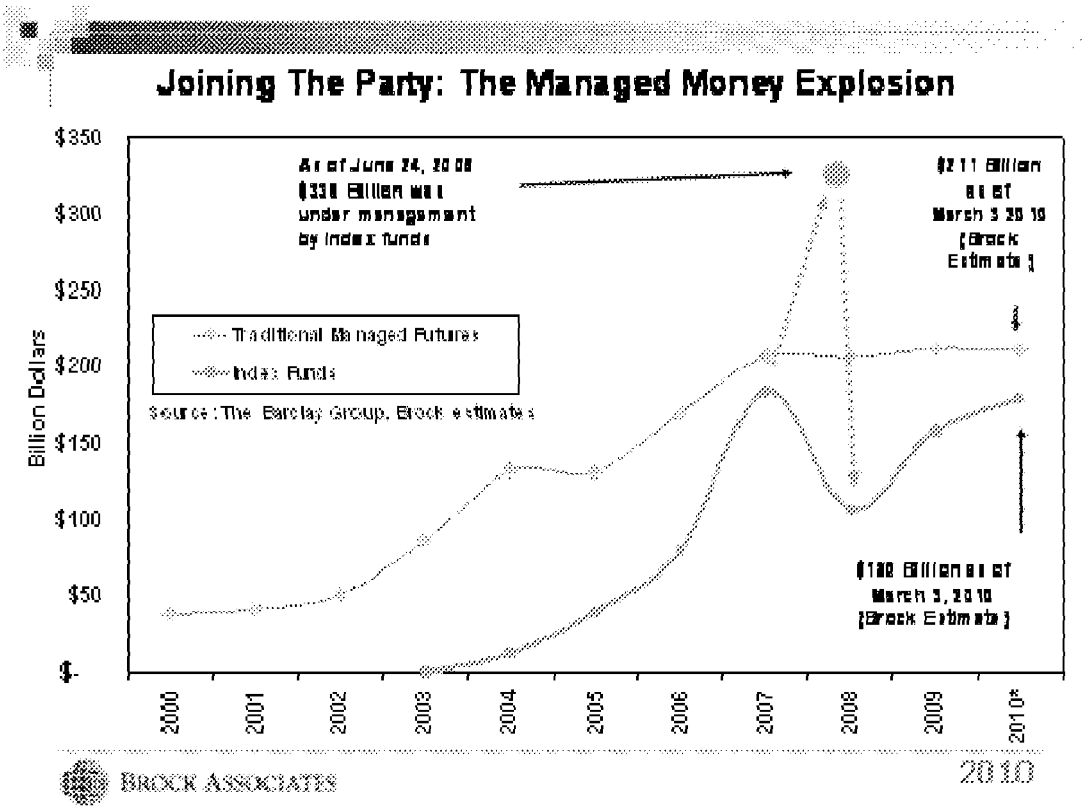

Illustration 3