CFIndustries

CF Industries, Inc.
4 Parkway North, Suite 400
Deerfield, Illinois 60015-2590

847-405-2400
www.cfindustries.com

February 22, 2011

VIA ELECTRONIC DELIVERY

COMMENT

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2011 FEB 22 PM 2:30

OFFICE OF THE
SECRETARIAT

RIN #: 3088-AD10
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW.,
Washington, DC 20581

Re: CF Industries' Comments on RIN #: 3038-AD10

Gentlemen:

CF Industries Inc. (or the company) is submitting the following comments in response to the Commodity Futures Trading Commission's (CFTC) request for comments published in the *Federal Register* on December 23, 2010, and appearing at 75 Fed. Reg. 80747. This notice requested comments on specific questions regarding CFTC's end-user exception to mandatory clearing of swaps.

Statement of Interest

CF Industries is a global leader in fertilizer manufacturing and distribution, the second largest nitrogen fertilizer producer in the world and the third largest phosphate fertilizer producer among public companies. The company owns and operates world-scale nitrogen and phosphate plants and serves agricultural and industrial customers through its best-in-class distribution system. The company operates seven nitrogen fertilizer manufacturing complexes in the central U.S. region and Canada; phosphate mining and production operations in Central Florida; and a network of fertilizer distribution terminals and warehouses, located primarily in major grain-producing states in the U.S. Midwest.

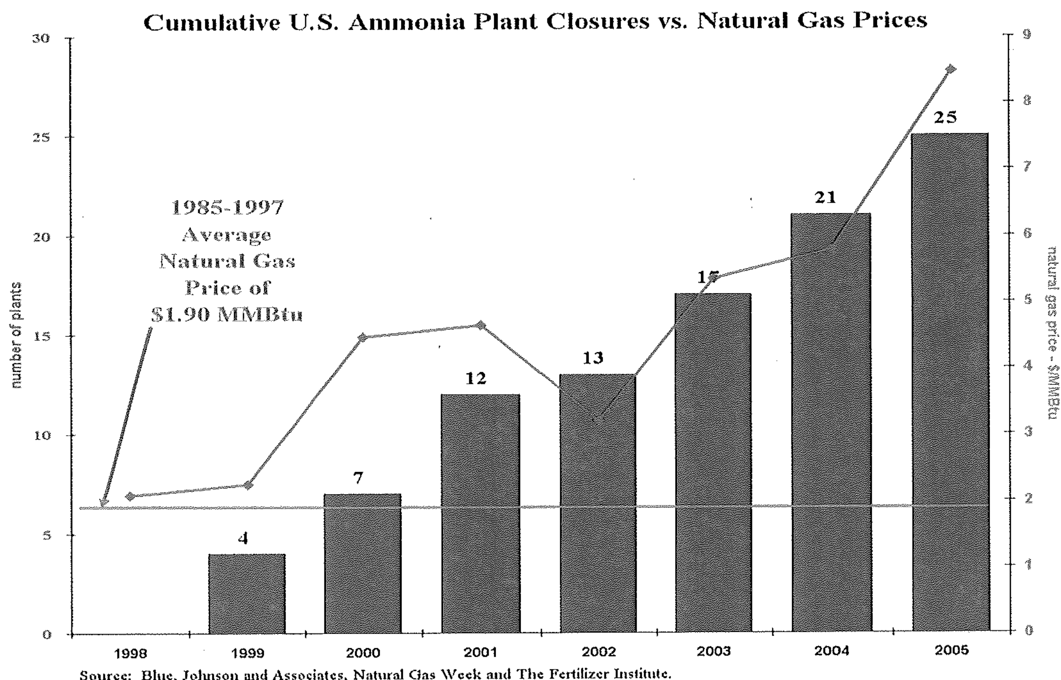
CF Industries uses natural gas derivative instruments to hedge against price changes for natural gas that will be purchased in the future. Natural gas is the largest and most volatile cost component of nitrogen-based fertilizer manufacturing. As such, the company has a substantial interest in this rulemaking.

CF Industries appreciates the opportunity to submit information on the CFTC's proposal.

Importance of Natural Gas in Fertilizer Manufacturing

Natural gas plays a critical role in the production of fertilizers that serve as the soil 'food' that plants need to produce a healthy and bountiful crop. Most specifically, natural gas is used to produce ammonia which is itself a fertilizer, serves as the primary ingredient in other nitrogen fertilizers and is an essential

ingredient in many finished phosphate fertilizers. Ammonia (chemical formula NH_3) is produced using a complex chemical reaction in which hydrogen is extracted from natural gas and combined with nitrogen captured from the air. It takes approximately 32 MMBtu of natural gas to produce 1 ton of ammonia. Most of the natural gas is used as the feedstock for production and ends up in the ammonia. However, some of the natural gas is burned to generate the heat necessary to liberate the hydrogen from the natural gas feedstock. The cost of natural gas represents between 70 and 90 percent of the cost of producing ammonia, the building block for most nitrogen fertilizers. The following chart highlights the importance of natural gas costs to the nitrogen fertilizer industry. Between 1999 and 2006, 25 U.S. fertilizer plants closed as a direct result of increased natural gas costs, representing over 40% of previous U.S. capacity. The global commodity nature of fertilizer pricing often makes it impossible to pass high production costs through to customers.



CF Industries' Hedging Activities

As discussed above, CF Industries uses natural gas in the manufacture of nitrogen fertilizer products. The company manages the risk of changes in natural gas prices through the use of derivative financial instruments. The derivative instruments that CF Industries currently uses are over-the-counter (OTC) natural gas swaps and options. These contracts settle using primarily NYMEX futures price indexes, which represent fair value at any given time. The contracts are entered into with respect to natural gas to be consumed in the future and settlements are scheduled to coincide with anticipated physical purchases of the natural gas used to manufacture nitrogen products during those future periods.

CF Industries is one of the largest industrial users of natural gas in the United States. In 2010, the company's natural gas expenditures totaled close to $1 billion. CF Industries uses natural gas

derivatives primarily as an economic hedge of natural gas price risk. In 2010, approximately 60% of CF Industries' natural gas consumption was hedged through hundreds of individual OTC swaps and options transactions. The company's hedging activity principally is undertaken to fix margin on forward nitrogen fertilizer sales. As customers commit to buy future nitrogen production at fixed prices, the company executes derivative instruments to fix the price of the natural gas that will be required to manufacture the product, thereby locking the margin associated with the sales. Outside of margin-fixing opportunities, CF Industries occasionally uses derivative instruments to protect against natural gas price increases during periods when prices are perceived to be vulnerable to upside risks. Although domestic natural gas prices have moderated over the past two years, natural gas prices remain sensitive to weather conditions due to the critical role natural gas plays serving both heating and power demand. Additionally, a significant share of natural gas production occurs offshore in the Gulf of Mexico or in Gulf Coast states, which makes it susceptible to tropical storm risks. Some of the most severe natural gas price spikes that occurred in the past decade were precipitated by weather events.

CF Industries currently executes its derivatives over the counter with highly creditworthy derivative providers consisting of large energy companies and banks who provide competitive pricing, flexible credit terms and product customization. The company prefers to transact over the counter rather than through exchanges to reduce collateral obligations which enables it to deploy cash more productively such as by investing in its business or reducing debt. To the extent that OTC derivatives providers are required to clear transactions through exchanges, the added costs of clearing could be passed to end users such as CF Industries through less attractive pricing and more stringent credit terms. Additionally, the burden of mandated clearing could drive some derivative providers from the market, thereby reducing competition and liquidity. Increases in hedging costs would be detrimental to active hedgers like CF Industries and could compel the company to reduce its hedging activity and accept more commodity price risk.

The elective exception should help to mitigate the impact of the proposed regulation on end users provided administrative requirements are not overly cumbersome. CF Industries favors regulatory requirements that would require swap dealers to report transactions on behalf of end users since large swap dealers have the resources and expertise to facilitate efficient reporting. The company also favors regulatory requirements that would minimize the costs of complying with other aspects of the end user exemption such as the requirement for end users to demonstrate their risk mitigation practices.

Hedging or Mitigating Commercial Risk

CF Industries currently deals actively with approximately six counterparties who execute OTC swaps to hedge its natural gas exposure, and the company uses the International Swaps and Derivatives Association (ISDAs) and Credit Support Agreements (CSA) to provide terms and credit support with each of these counterparties. These six counterparties are split evenly between natural gas suppliers and commercial banks. Pursuant to CF Industries' policy, the company requires each counterparty to maintain at least an A rating to be able to execute swaps with it, and routinely monitors the ratings and general financial condition of each counterparty.

The type of support provided by these ISDAs and/or CSAs primarily falls within the category "Credit Support," as defined in the CFTC proposed rule dated December 23, 2010. There is one instance of "Sole Reliance on Available Financial Resources" and one instance of a "Guarantee." The CSAs provide threshold levels for each counterparty beyond which collateral must be deposited. These threshold levels are either ratings based or based on specific financial metrics, and have been negotiated individually with each counterparty.

Under the proposed "Notification to the Commission" requirements, CF Industries could provide the CFTC with summaries of key elements of each of these ISDA and CSA agreements, or perhaps the Agreements in full. Considering that the terms of the ISDA and CSA are in effect for multiple years, the company would propose sending the Agreements only when they change, as opposed to sending documents whenever a swap is executed.

Considering that the CFTC is proposing to gather detailed information on all swap transactions and related credit support from every counterparty, this data will be a useful source of real time information as to the financial condition of a particular counterparty. The company recommends that this real time information be shared among all interested parties, including counterparties with end user exemptions and ratings agencies.

CF Industries prefers to utilize OTC swaps because of the unique customization of each swap (amounts and contract dates), and the lack of collateral and margin calls. There have been times in the past, particularly during the 2008 financial crisis, when CF Industries was very concerned about counterparty risk, and considered executing swaps on an exchange/clearinghouse. However, doing so ties up capital that could otherwise be used to invest in the company's business to create jobs and expand the business.

Conclusion

CF Industries appreciates the opportunity to comment on the proposed rule governing the elective exception to mandatory clearing of swaps under the Commodity Exchange Act as amended by the Dodd-Frank Wall Street Reform and Consumer Protection Act. CF Industries believes that this exception does apply to our hedging transactions, and the company intends to elect this option as part of the hedging activities described in these comments. The company also expects, that in electing to use the end-user exception, it will not be required to tie up capital in an inefficient manner nor be subjected to burdensome reporting requirements.

Very truly yours,

Rosemary L. O'Brien
Vice President, Public Affairs