February 25, 2011

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

PROPOSED POSITION LIMITS FOR OPTIONS AND AGRICULTURAL SWAPS

The Independent Bakers Association, headquartered in Washington DC, is an association of over 200 small to medium sized, mostly family owned wholesale bakeries and allied industry trades. These wholesale bakeries are small to medium sized businesses and most are family owned.

We are pleased to offer these comments regarding position limits which are designed to prevent price distortion from "excessive speculation" in commodity derivatives. IBA applauds the Commodity Futures Trading Commission (CFTC) proposal to implement an integrated position limit framework. This is a solid first step toward ensuring commodity derivatives effectively serve their primary role of providing bona fide commercial hedgers reliable tools to manage their economic risks.

IBA urges CFTC to adopt stringent limits and enforcement mechanisms. Speculative manipulation is practiced all too often in wheat markets and this fact was clearly evidenced by indictments issued in 2010. Specifically IBA refers to an 18-count indictment issued from the Department of Justice against the wheat trading activities Evan Brent Dooley. The indictment concerned trading by Mr. Dooley on the Chicago Board of Trade during the period from September 2006 through February 2008. At one point during the height of the 2008 wheat price run-up Mr. Dooley allegedly held 31,964 wheat futures contracts. Mr.

Dooley may have been a rogue trader who was manipulating electronic trading for personal gain, but the case does serve to illustrate why the current system cannot effectively police such activities or prevent the resulting adverse consequences. Thirty-one thousand nine hundred sixty-four (31,964) contracts is enough wheat for nearly 7 billion pounds of flour, enough to supply the commercial bread in the U.S. for three years.

As bakers, we do not pretend to know the complex and sophisticated rules and practices of the commodity markets but here is what we do know:

1. The agricultural commodity markets were designed to allow the farmers and buyers of their crops to establish a central marketing mechanism which:

    a. permitted farmers to obtain more stable prices either ahead or after harvest, and

    b. permitted buyers to purchase in advance and manage their risks.

2. The markets have now become instruments for investors and speculators – resulting in extreme volatility. According to the CFTC, in February of 2010 these speculative interests held 44% of the positions in the Chicago Board of Trade. These funds have grown from literally nothing in 1980 to nearly $200 billion today. In 2008, Commodity Index Funds held contracts for about one billion bushels of soft red wheat; twice the annual U.S. production. When billions of dollars come into the market it creates the impression of rising demand. Mr. Rich Nelson, Director of Research for Allendale, Inc., one of the largest commodity research firms in the U.S., estimates that speculation accounts for;

    a. about $1.50 of the $6.50 corn,

    b. $3 of the $8.50 wheat and

    c. $3 of the $14 per bushel of soy beans.

3. This excessive churning and amplification of commodity prices is harmful to the economic health of our nation and results in higher food costs. Such activity is especially damaging to the third-world countries who struggle to feed their populations. The excessive speculative trading also places an unnecessary burden on all food producers and makes it difficult to operate profitably.

We recommend the following steps

1. We encourage the CFTC to establish strict position limits to bring commodity prices in line with real fundamentals.

2. We would like to see position limits more consistent with the limits that applied in the 1960's, when agricultural markets were not subject to excessive speculative trading. During that period, one entity could hold no more than 400 wheat contracts for all months – compared to the 6,500 contract limit that now applies for wheat. Wheat production in the U.S. has roughly doubled since the 1960's, so perhaps 800 contracts should be the limit for all months. This limit would apply to all exchanges so the aggregate limit would be 800 total contracts, approximately 4 million bushels.

3. When wheat prices increase 100% in 6 months' time as we have seen recently, we would like the CFTC to require market participants to **prove their need** for the commodity before they purchase large amounts over a certain predetermined level. This approach is currently being used by the International Commodity Exchange (ICE) with cotton to try and stabilize that extremely volatile market.

4. We would like the law of supply and demand in the free market to function without the injection of billions of dollars by persons that have no need or reason to buy an agricultural commodity. Perhaps non-commercial transactions should be limited to no more than 10% of the market.

5. Commodity Index Funds as well as over-the-counter (OTC) commodity markets should be covered by similar CFTC regulations. 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. Clearly, this market segment is highly concentrated. Also, total Commodity Index Fund, compared to $211 billion for traditional managed futures.

We urge you to give serious consideration to our recommendations to provide bakers and allied trades with a clear, comprehensive road map and ensure bona fide commercial hedgers will have effective and efficient tools they can depend on for price discovery and risk management today and in the future.

Thank you for the opportunity to comment on this Proposed Rule.

Sincerely,

Nicholas A. Pyle, President