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FRANMAC
TACO BELL
FRANCHISE MANAGEMENT ADVISORY COUNCIL

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

COMMENT

March 22, 2011

Dear Mr. Stawick,

I am writing on behalf of the Taco Bell Franchise Management Advisory Council (FRANMAC) in support of the Commission's proposed rule on speculative position limits published in the *Federal Register* on January 26, 2011 (RIN 3038–AD15 and 3038–AD16 Position Limits for Derivatives).

FRANMAC is comprised of over 400 independent owners and operators of Taco Bell-franchised restaurants in the United States. Collectively, FRANMAC members operate over 4,100 restaurants and employ more than 126,000 employees.

Franchise restaurants, in particular, are significantly impacted by commodity price volatility because the cost of ingredients in the menu items we serve is a major factor contributing to the strength of our businesses. Moreover, we cannot account for major fluctuation in commodity costs as easily as other industries can. We have to rely therefore on well-functioning, efficient futures markets to manage price risk.

One way that we manage price risk on our ingredients is through our purchasing cooperative and their suppliers in order to limit commodity cost volatility. Until recently, the agricultural commodity futures markets provided an effective means to provide predictable costing.

We recognize that price volatility can be caused by many factors, however, over the past few years, the explosive growth in passive, "long-only" speculative positions has interfered with our ability to effectively hedge risk as positions have increasingly been held by parties that are disconnected from the supply chain and have no actual demand for the underlying commodities. There is no better example of this fact than the lack of convergence between commodity and futures prices for wheat traded on the exchanges in Chicago and Kansas City.

Excessive speculation makes it difficult to hedge commodity price risk. Title VII of the *Wall Street Reform Act and Consumer Protection Act of 2010* acknowledges this potential harm and calls for appropriate speculation limits. The Commission's proposed rule to implement

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these limits is an important first step in controlling excessive speculation. The proposed rule could not come at a better time either as extraordinary volatility in many commodity futures markets continues to push prices for several commodities to historically high levels. This is the second sharp price spike in a mere three years for many of these commodities. Dozens of studies by industry experts, economists, academics, and Congressional committees have warned of the harmful effects of excessive speculation. These studies reinforce the need for meaningful position limits in the commodity markets and therefore adoption of the Commission's proposed rule.

As the Commission considers its final rule, we would like to associate ourselves with the specific recommendations made in other comments on ways to strengthen the Commission's proposed rule, specifically to ensure that:

1. The definition of bona fide hedges, as applied to both individual and aggregate position limits, properly includes commercial end-users such as restaurant franchisees and their purchasing coop that use physical commodities and excludes speculators whose sole role in the futures market is to manage non-price risk factors such as "portfolio" risk or "financial" risk.
2. Position limits, either individual or aggregate, be set at levels that are effective in limiting speculative influences, including long-only index fund positions.
3. Any increased margin requirements are strictly limited to non-commercial users and not applied to farmers, manufacturers and end users of physical goods such as restaurant franchisees.
4. All swap dealers fully disclose the category of their customer (end user, farmer, traditional speculator, index fund) and ensure that multiple entities cannot be used by speculative long-only index funds to circumvent speculative limits.

The position limits proposed by the Commission will play a crucial role in reestablishing the true purpose of the futures markets and help return stability and confidence to those markets. They will also go a long way in helping our members to more effectively manage the commodity price volatility that impacts their quick-serve restaurant businesses.

We appreciate the opportunity to present these comments, and again urge adoption of the Commission's rule as soon as possible. Thank you for your consideration.

Sincerely,

Tom Cook
President
FRANMAC

Rich Lepping
Chairman
FRANMAC Government Affairs Committee