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March 28, 2011

Mr. David A. Stawick
Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, D.C. 20581

Re: RIN 3038-AD15 and 3038-AD16 Position Limits for Derivatives Dear Mr. Stawick,

Dear Mr. Stawick:

I am writing on behalf of Teucrium, LLC, an issuer of single-commodity-focused Exchange Traded Products ("ETP"). Teucrium designs investment vehicles that offer liquidity, transparency and capacity in single-commodity investing to investors and hedgers. Teucrium currently manages three funds: the Teucrium Corn Fund (NYSE: CORN), the Teucrium Natural Gas Fund (NYSE: NAGS), and the Teucrium WTI Crude Oil Fund (NYSE: CRUD). The funds provide investors unleveraged, direct, transparent exposure to the underlying commodities without the need for a futures account. I am also writing as an active member of the global commodity markets with almost three decades of commodities industry trading experience. Immediately prior to Teucrium, I ran the commodities desk at a major global brokerage firm, where I was an active futures and swap derivatives trader/market maker in numerous commodities, specializing in energy and grains.

We at Teucrium are grateful to the Commodity Futures Trading Commission (the "Commission") for the opportunity to comment on the proposal to set hard position limits in derivative markets.

The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank") charges the Commission with the obligation of determining whether "excessive" speculation has or will cause damage to the markets that it regulates and provides the Commission with discretionary powers to prevent, mitigate and stop such excessive speculation. The Act neither makes a finding of excessive speculation nor does it prescribe specific remedies if the Commission finds excessive speculation.

While there have been numerous complaints to the Commission of excessive speculation in commodity markets for many years there has yet to be a credible study that indicates a causal relationship between the actions of speculators (e.g. "non-commercial market participants") and the price and/or volatility of North American commodity prices.

The lack of credible evidence indicating a causal relationship between speculative activity and commodity prices and volatility is not due to a lack of published research. To the contrary, there have been numerous studies by government (including the CFTC), academic and commercial institutions, none of which found conclusive empirical evidence suggesting anything other than

efficiently operating markets with speculators reacting to - rather than causing - dramatic price changes in various commodities.

Unintended Effects of Position Limits & Commodity ETFs—The "Massive Passives"

In seeking to prohibit excessive speculation the Commission is choosing to deal with all non-commercial traders as a single class. While it is my experience that there are many types of speculators — in fact even most hedgers engage in some degree of speculation — I will address commodity ETFs directly.

Commodity ETFs operate exchange traded funds designed to track the movements in the prices of different commodity futures. They have been referred to as "massive passives." "Massive" because of their size, and "passive" because they do not attempt to outperform their designated benchmark commodity, but instead, these unleveraged commodity ETFs seek only to replicate the market for their shareholders. Critics complain that their presence distorts prices because they take and hold long positions for long periods of time. Critics describe them as single large monoliths ("massive") whose presence must be restrained in order to make markets safe for their originally intended beneficiary - the commercial hedger. In fact, these ETFs allow large numbers of individual investors the opportunity to gain price exposure to commodities via a low cost, transparent, highly regulated securities trading vehicle. Without speculators involved in the markets, there is no one against whom the commercial hedgers can efficiently lay off their risk, and Teucrium believes the enactment of speculative position limits and/or restrictions on speculative trading in the non-spot, or forward futures pricing curve, could significantly harm market liquidity. Restrictions on market liquidity have often led to higher volatility, greater extremes in pricing, and even supply imbalances as artificial restraints on capital flows force market participants to deploy capital away from where it is most needed.

Physical Delivery Commodity Contracts are Fundamentally Different Instruments From Non-Deliverable, Financially-Settled Contracts

Financially-settled swap contracts never end in anyone making or taking delivery of a commodity. If carried to expiration, a financially-settled contract does not create additional demand or additional supply. At expiration, a financially-settled swap contract always ends with one party paying the other party cash. This is why they are called "financially-settled contracts." On the other hand, physically deliverable futures contracts only result in the actual physical delivery of the commodity when they are held to expiration. Commodity exchanges and Futures Commission Merchants have established over the years certain standard criteria and steps that lead to physical delivery of a futures contract. This orderly, well proven, highly efficient system allows all parties, including regulators, to know at all times the details of all commodities deliveries stemming from the expiration of a futures contract. It is the convergence of the actual price of a physical commodity with the price of an expiring futures contract that makes the US futures markets operate efficiently and smoothly. Such convergence allows industry hedgers the ability to mitigate their physical commodity exposures with futures contracts. In addition, these same industry hedgers can arbitrage away inefficiencies created by speculators, or non-professional commodity participants who occasionally carry a physically deliverable futures contract to expiration. All of these activities are tightly governed by existing rules regarding the spot month, or first-nearby futures contract. It is not Teucrium's intent to comment specifically about spot month futures regulations. Teucrium's present concern is the potential regulation of the forward curve, the non-spot futures curve.

Unrestricted Flow of Capital into the Forward Curve Promotes Market and Economic Stability

Futures contracts traded out the forward curve, since they do not become physically deliverable until carried to expiration, are essentially traded by all market participants as financially-settled instruments. These positions are settled daily according to established rules, regulations, and criteria that have kept these markets operating in a liquid and orderly fashion for decades. By limiting the size of positions that a non-commercial market participant can hold in forward (non-spot) futures contracts and/or financially-settled swaps, the Commission will restrict the flow of capital into an area where it is needed most – the longer term price curve. It is this forward price curve that allows professional participants to plan and hedge their needs for long-term production and consumption of commodities. Perhaps most importantly, the visibility and liquidity of the forward curve enables industry participants to plan and execute the financing and build-out of facilities and infrastructure that enable them to continue operating efficiently to meet the increasing demands of an expanding population and economy. It is absolutely imperative for the health and efficiency of the commodities industry, and indeed the entire economy from producer to consumer, that an unrestricted flow of capital, including speculative interests, is allowed into the forward commodities curve. So long as participants like Teucrium, who develop and professionally sponsor unleveraged, transparent commodity ETFs with no spot month holdings (therefore never influencing the actual price of a commodity at the point of use) have unfettered access to the forward futures curve and financially settled swaps markets, then producers and end users will be able to plan and build facilities that promote stable supplies of commodities for future needs.

In addition, any restrictions on the activities of speculative market participants will, to some degree reduce the influence of the large trader and increase the influence of the small trader. We understand the desire to do this and have no doubt that it is entirely well intended. However, we do have some concerns and observations that we would like to share in connection with this policy that we believe merit consideration.

ETF Shareholders Pay Full Price

While all leverage is not equal (e.g. 20:1 leverage applied to short duration U.S. Government Bonds is very different than 20:1 leverage applied to natural gas futures) there can be little disagreement that one of the largest causes of the near collapse of the global financial markets in 2008 was the extreme level of aggregate leverage present in these markets. If leverage generally had been lower the danger of a financial collapse would have been less. In contrast to levered commodity futures and swaps market participants (which is just about everybody), ETF shareholders pay the full notional value of the commodity represented by their shares in the ETF. We cannot think of another participant in the futures or swaps markets that pays the full price. As such, it is a mathematical certainty that the presence of the unleveraged commodity ETFs reduces the average leverage employed in the futures markets thereby rendering these markets less volatile and less likely to be a source of systemic risk to the global financial system. We respectfully stress to the Commission the fact that unleveraged commodity ETFs like the Teucrium funds add stability to otherwise highly leveraged futures markets.

Futures Trading is for Professionals and Very Sophisticated Speculators

Futures trading is a complex and risky endeavor. Commodities are becoming an asset class of choice as well as an investment portfolio necessity for investors of all types. Investing in commodities, formerly the realm of professional traders and money managers only, is now considered a necessity by most financial planners, and mainstream investors are becoming more involved with commodities

trading each day. Teucrium believes this trend will continue and will become stronger over time – commodities as a mainstream investment are here to stay. We believe that the vast majority of investors will always be more suited to securities trading rather than to futures trading. Therefore we believe it is in the best interests of the investment community and of regulators to allow investors access to commodities through well regulated, unleveraged securities vehicles such as ETFs rather than through futures accounts requiring a level of expertise and sophistication not achievable by most investors. We believe that passively managed, unlevered, fully transparent ETFs will be embraced by investors who need exposure to commodities but who know they will never have the expertise to manage a futures account. Passive ETFs allow the orderly participation of multitudes of small investors in commodities; this in turn, allows unleveraged money to flow into otherwise highly leveraged markets, which, as cited above, will have the effect of reducing overall volatility in markets where unleveraged ETFs participate.

ETFs Are a Vehicle for Small Traders

While they have been described as "massive passives" we believe that they are better described as "mass transit." Exchange traded funds are equity vehicles that enable small investors to gain exposure to commodity prices. A family of exchange traded funds with many thousands of shareholders is the opposite of a large trader with a tightly concentrated locus of decision making. Such a fund is more analogous to an omnibus account. Limiting the size of ETF positions at the entity level contradicts the Commission's intention of encouraging a greater plurality of market participants. Placing an entity level position limit on exchange traded funds would be like the Department of Transportation banning busses and trains because they are too big. Indeed, like busses and trains, ETFs provide large numbers of people access to places they need to go via large, efficient, professionally driven vehicles.

Those Who Exclusively Trade Cash-Settled Futures and Swaps Never Make or Take Delivery of the Underlying Commodity

It is worth stating again the fact that financially-settled instruments, including physically deliverable futures positions liquidated before commencement of the delivery process, do not affect the price of commodities at the point-of-use. Comparing the activities of any trader of exclusively financially-settled swaps and/or futures contracts along the forward curve, especially futures based commodity ETFs, to the activities of the Hunt Brothers in the 1970s (who hoarded huge amounts of physical silver) is misleading. Futures based ETFs are never present at the point of price formation (i.e. futures delivery into the spot market). A long ETF can influence the shape of the forward curve, which, as stated above, promotes the build-out of much needed infrastructure thereby assuring stable supplies of commodities long into the future. We would like to explain this concept in more detail because it is of tremendous importance to the deliberations of the Commission.

Domestic Long Commodity ETFs Further a Critical Strategic Objective of the United States Government

When someone buys a share of an ETF the ETF manager will in turn buy a proportionate share of a futures or swap position. Who sells that futures or swap to the ETF? It could be another speculator. It could be a producer. It could be virtually any type of market participant. In a market with a sufficiently steep contango and availability of storage capacity, those with access to physical supply and the means of storage could buy the cash commodity, store it and lock in a riskless back-to-back profit by selling the forward futures or swap contract to the ETF buyer. This results in the distant month purchases of the ETF inducing those with the ability to build commercial storage to do so. Indeed, it is our opinion that the wheat crisis of 2008 precipitated

by back-to-back droughts in Australia caused a massive influx of speculative monies to flow into the forward wheat curve. At the height of the crisis physically deliverable wheat prices were significantly below the final price of the spot month futures contract at delivery. Regulators were adroit enough to realize that this temporary breakdown of price convergence of physical wheat to spot month futures settlement prices was caused by a lack of available infrastructure to support the delivery process. The considerable amount of time and investment required to build out enough additional infrastructure to alleviate the problem was only surmountable because huge amounts of speculative monies were allowed to flow unfettered into the forward futures markets through normal market channels and the futures forward curve. These monies acted as incentive for industry professionals to take action and commit resources to infrastructure improvements. The resulting build-out of infrastructure and the corresponding reestablishment of efficient price convergence to the marketplace significantly mitigated the impact of the Russian wheat crisis in 2010, with market efficiencies and adequate wheat supplies preventing a repeat of the dramatic 2008 price spike. Similarly, in the energy markets, such a building of stocks has been a strategic objective of the United States Government for over 35 years. The U.S. Strategic Petroleum Reserve currently holds approximately 700 million barrels of crude oil in salt domes in the Continental United States. It has also been argued that the presence of the commercial energy stocks accumulated in meaningful measure as a response to the forward long positions held by energy ETFs significantly mitigated a price spike in heating oil in December 2009 and January 2010. It has also been pointed out that cash and carry stocks of all commodities accumulate near delivery points. The implication of this is that by forcing futures-based, commodity ETFs out of the United States the commercial stocks of the commodities that they indirectly stimulate will follow them — to the benefit of the new host country and possible detriment to our own.

In conclusion, as it stands, the proposed rule as written could add to the very risks the Commission is tasked with investigating. Therefore, the Commission should reject the proposed rule.

Thank your efforts at the Commission and your interest in this matter.

Sincerely,

Sal Gilbertie
Teucrium, LLC
Founder and President