National Grain and Feed Association

1250 Eye St., N.W., Suite 1003, Washington, D.C. 20005-3922, Phone: (202) 289-0873, FAX: (202) 289-5388, Web Site: www.ngfa.org

June 7, 2011

By Electronic Submission

Mr. David A. Stawick
Secretary
Commodity Futures Trading Commission
1155 21st Street, N.W.
Washington, DC 20581

Re: Status of Options on Agricultural Commodities Entered Into After July 16, 2011

Dear Mr. Secretary:

In the current environment of relatively high commodity values and greater volatility, purchasers and merchandisers in the grain, feed and processing industry need access to the broadest possible range of risk management products. However, a situation is developing that could deprive these agribusiness firms of important tools they currently utilize to control costs and manage risk on behalf of themselves and their producer-customers. The National Grain and Feed Association (NGFA) respectfully urges the Commodity Futures Trading Commission (CFTC) to take quick and appropriate action to stave off unintended but potentially damaging impacts of the Dodd-Frank financial reform law.

As the Commission is aware, the problem arises if the CFTC does not take action prior to July 16, 2011, to permit market participants to continue entering into options on agricultural commodities. The NGFA urges the Commission to resolve this problem in one of two ways. First, the Commission could publish final rules establishing the definition of an "agricultural commodity" and the regulatory structure for commodity options and swaps. It has been our impression that these two proposed rules are fairly non-controversial and might be finalized quickly. Alternatively, the Commission could issue an interim final rule that specifically allows market participants to continue to transact in options on enumerated agricultural commodities, as requested by the Commodity Options and Agricultural Swaps Working Group. It is very important that the Commission act as soon as possible to protect the ability of market participants to continue entering into important merchandising and risk management transactions.

Since the run-up in commodity values in 2008, the NGFA has brought to the Commission's attention on several occasions the extreme financing challenges faced by the grain, feed and processing industry and the importance of new risk management and financing tools. Due to higher commodity values and increased margining requirements, many firms today face borrowing needs at several multiples of normal levels. For these firms and for their lenders, having alternatives to traditional bank borrowing is critically important to managing their risk and enabling them to perform marketing and risk management functions on behalf of producers from whom they purchase grains and oilseeds.

However, these tools now may be threatened, at least for some interim period of time until portions of Dodd-Frank implementation by the CFTC are accomplished. Two important examples are:

1) Grain "re-po" agreements and other similar transactions – Typically, grain merchandising firms purchase grain from producers and then hedge their positions using exchange-traded futures. The grain merchandiser may elect to transfer title of grain to a lender or some other market participant with an option to repurchase the grain at a later date. The lender or other market participant assumes the futures position of the merchandising firm, thereby relieving the merchandiser of responsibility for potential margin calls and providing an important source of working capital for the merchandiser. If the Commission does not act as requested above to supply at least an interim solution, this type of option for the grain merchandiser to repurchase the grains or oilseeds will no longer be authorized and, therefore, an important source of financing will not be offered by the merchandisers' counterparty. The result will be the drying up of an important source of capital for the industry and, most likely, fewer marketing alternatives for producers.

2) OTC options – In some cases, the grain merchandising firm as described above may not wish or be able to assume additional margining exposure by purchasing additional futures contracts following purchases from producers. In that instance, the merchandising firm may elect to purchase either exchange-traded or over-the-counter options, depending on the firm's risk management strategy. If the Commission does not resolve the status of options on agricultural commodities by July 15, the alternative of utilizing OTC options will no longer be viable.

It is important to note that these are not risky strategies that introduce the systemic risk Dodd-Frank was designed to address. They are commonly used tools in today's marketplace. The NGFA strongly urges the Commission to take steps to prevent important risk management tools from passing into regulatory limbo, with the result of creating additional financial challenges for the industry and for U.S. agricultural producers.

Sincerely,

Matt Bruns

Matt Bruns, Chair
Risk Management Committee

cc: The Honorable Gary Gensler
The Honorable Michael Dunn
The Honorable Jill Sommers
The Honorable Bart Chilton
The Honorable Scott O'Malia
Daniel Berkovitz, General Counsel
Donald Heitman, Senior Special Counsel
Ryne Miller, Attorney Advisor