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

RE: Margin Requirements for Uncleared Swaps for Swap Dealers and Major Swap Participants; Proposed Rule (Federal Register/Vol. 76, No. 82), and Capital Requirements of Swap Dealers and Major Swap Participants; Proposed Rule (Federal Register/Vol. 76, No. 92)

Dear Mr. Stawick:

On behalf of the more than two million farmers and ranchers who belong to farmer cooperatives, the National Council of Farmer Cooperatives (NCFC) submits the following comments in response to the Commodity Futures Trading Commission's (CFTC) request for comments: *Margin Requirements for Uncleared Swaps for Swap Dealers and Major Swap Participants; Proposed Rule and Capital Requirements of Swap Dealers and Major Swap Participants; Proposed Rule,* contained in Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Since 1929, NCFC has been the voice of America's farmer cooperatives. Our members are regional and national farmer cooperatives, which are in turn composed of over 2,500 local farmer cooperatives across the country. NCFC members also include 21 state and regional councils of cooperatives.

As processors/handlers of commodities and suppliers of farm inputs, farmer cooperatives are commercial end-users of over-the-counter (OTC) derivatives. Due to market volatility, cooperatives use swaps to better manage their exposure by customizing their hedges. This practice increases the effectiveness of risk mitigation and reduces the costs of those activities.

In addition, swaps give cooperatives the ability to offer customized tools to producers to help them better manage their risk and returns. A cooperative can aggregate its owner-members' small volume swaps or forward contracts and transfer that risk to a swap partner. Increasingly, those producers are depending on their cooperatives to provide them with these tools to manage price risk and lock in margins as volatility in commodity markets has increased in recent years.

For reasons outlined in our submission on the entities definitions, we do not believe farmer-owned cooperatives should be classified as swap dealers. Rather, they should be treated as "end-users" when electing exemption to the mandatory clearing of swaps – whether it is to hedge commercial risk in the operation of the cooperatives primary businesses, or as it relates to risk management products it offers producers and customers. If the proposed capital and margin rules were to apply to cooperatives, many risk management opportunities they offer to farmers would be put in jeopardy. In that regard, our comments focus on farmer cooperatives as “end-users” when entering into transactions with swap dealers and major swap participants.

Proposed Margin Requirements

Consistent with congressional intent, NCFC supports the proposed rule’s clarification that it “would not impose margin requirements on non-financial entities,” and that “parties would be free to set initial and variation margin requirements in their discretion and any thresholds agreed upon by the parties would be permitted.”

In addition to providing the ability for cooperatives to offer customized risk management opportunities to farmers and ranchers, swaps play a critical role in their ability to offset the price risk of providing forward contracts, especially in times of volatile markets. Because commodity swaps are not currently subject to the same margin requirements as the exchanges, cooperatives can use them to free up working capital.

For example, recent movements in grain and oilseed markets have caused a considerable amount of working capital to be used to cover daily margin calls. For farmers to continue to take advantage of selling grain forward during price rallies, cooperatives have to either increase their borrowing limits from their lenders at a considerable expense or look for alternative ways to manage such risk. Using the OTC market has become such an alternative. As was the case during the volatile markets in 2008, today swaps allow cooperatives to free up working capital and continue to forward contract with farmers. If initial and/or variation margin requirements were mandated for such transactions, it would likely render those tools meaningless.

Proposed Capital Requirements

Given that the proposed regulations are specific to Swap Dealers and Major Swap Participants, it is implied that there will not be capital requirements for commercial end-users. NCFC supports end-users’ exemption from mandatory capital requirements. Similar to what was outlined above, if such requirements were placed on farmer owned cooperatives, their ability to provide risk management services and products to their affiliates and their farmer owners would be significantly reduced.

Thank you taking our views into account as the Commission finalizes rules in the coming months. We appreciate the opportunity to provide input throughout the process of implementation of Title VII of the Dodd-Frank Act.

Sincerely,

Charles F. Conner
President & CEO