NATIONAL MILK PRODUCERS FEDERATION

James Mulhern, *President & Chief Executive Officer* | **Randy Mooney,** *Chairman*

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August 4, 2014

Melissa Jurgens, Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street NW.
Washington, DC 20581

Re: RIN number 3038–AD99: 17 CFR Parts 1, 15, 17, 19, 32, 37, 38, 140, and 150, Position Limits for Derivatives; Proposed Rule, **Federal Register** / Vol. 78, No. 239 / December 12, 2013.

Dear Ms. Jurgens:

This letter contains comments by the National Milk Producers Federation in response to the Federal Register notice of May 29, 2014, which reopened the comment period on the Proposed Rule for Position Limits for Derivatives, cited above, in connection with the public roundtable the Commission held on June 19, 2014 to consider certain issues regarding position limits for physical commodity derivatives. The National Milk Producers Federation, based in Arlington, VA, develops and carries out policies that advance the well-being of dairy producers and the cooperatives they own throughout the United States. The members of NMPF's cooperatives produce the majority of the U.S. milk supply, making NMPF the voice of more than 32,000 dairy producers on Capitol Hill and with government agencies.

NMPF considers the decision to reopen the comment period and to hold the public roundtable on the issue of position limits to be a strong indicator of the importance the Commission attaches to the issue of position limits, a view which NMPF shares. In its comments on the Proposed Rule on Position Limits for Derivatives (See: **http://comments.cftc.gov/PublicComments/ViewComment.aspx?id=59652&SearchText=national%20milk**), NMPF highlighted the importance of the CME Group futures and options contracts for Class III milk, one of the 28 Core Referenced Futures Contracts specifically included in this rulemaking, as critically important risk management tools developed to address growing price volatility in the U.S. dairy industry. These risk management tools, together with corresponding ones for Class IV milk, cheese, butter, nonfat dry milk and dry whey, are still at a relatively early stage of development and in need of increased liquidity and greater speculative participation to increase their value and effectiveness as risk management tools for dairy industry stakeholders. This need, together with features that are unique to dairy futures and options contracts, make it critical that position limits imposed on them not be overly restrictive.

Dairy futures and options contracts, and the Class III milk contracts in particular, are all cash-settled to fully-transparent prices calculated and announced monthly by USDA's Agricultural Marketing Service using various product price formulas. The prices used to determine the announced Class III price and other dairy contract cash settlement prices are all collected through reports under the Dairy Product Mandatory Reporting Program. This makes it extremely difficult for any trader to distort the underlying dairy product price series that serve as the basis of cash settlement for Class III milk futures and options contracts, especially through the action of taking large open interest positions in the Class III milk contracts themselves.

NMPF supports the alternative spot month limit proposed by the Commission based on 25 percent of deliverable supply, with a minimum of 3,000 Class III milk contracts. NMPF opposes establishing single, non-spot month and all-months-combined position limits using the 10/2.5 percent of total open interest formula and supports establishing the all-months-combined limit equal to 4 times the spot month limit based on 25 percent of deliverable supply for the 24 monthly Class III milk contracts that are traded at any given time.

The National Milk Producers Federation appreciates this opportunity to make its views known to the Commission on these important issues.

Sincerely,

James Mulhern
President and CEO