January 13, 2015

Mr. Christopher J. Kirkpatrick

Secretary

Commodity Futures Trading Commission

1155 21st Street, N.W.

Washington, DC 20581

Re: Residual Interest Deadline for Futures Commission Merchants

 RIN 3038-AE22, 79 Federal Register 68148, November 14, 2014

Dear Mr. Kirkpatrick:

The National Grain and Feed Association (NGFA) appreciates the opportunity to provide input to the Commission on this extremely important matter. The NGFA strongly supports the proposed change to residual interest rules and urges its expeditious adoption.

The NGFA is a strong proponent of customer protections that have been implemented by the Commission, exchanges and other regulators to enhance futures customer protection. Many NGFA-member firms were embroiled in the MF Global insolvency and were without a portion of their segregated customer funds for over two years, so we certainly favor strong customer protections. However, there are sometimes two sides to the coin of moves to “protect” futures customers. Care must be taken to not place undue operational and financial burdens on those same customers.

We believe the Commission’s action in November 2013 to eventually move the time of FCMs’ residual interest calculation to morning of the day following a futures trade (i.e., morning of T+1) was overly restrictive and has the potential to force out some futures market participants. Our concerns are two-fold:

* First, a morning of T+1 calculation threatens to compel FCMs serving the agricultural sector to require customers to pre-margin their hedge accounts against market moves that may never occur. Such a result would unnecessarily tie up customers’ capital that otherwise could be utilized for capital improvements, additional hiring and other purposes – or may even need to be borrowed.

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* Second, in the event of another FCM insolvency along lines of MF Global, a much larger sum of customer funds – perhaps twice as much – would be vulnerable to loss.

We support very strongly the Commission’s current proposal to maintain the time of the residual interest calculation at 6:00 p.m. on T+1. This proposed change strikes an appropriate balance between customer protection and recognizing the burdens that the earlier calculation time would place on customers. Further, we support keeping the calculation time at 6:00 p.m. on T+1 unless additional Commission action is taken in the future to change that time through formal rulemaking that includes input from the agricultural and agribusiness sector.

As noted at the recent meeting of the CFTC Agricultural Advisory Committee, the threat of pre-margining likely would force some participants out of futures markets, especially among farmers and ranchers who use futures directly and among other smaller hedgers who may still send margin payments by check. At a time when U.S. agriculture needs to maintain every viable risk management alternative, that result would be completely contrary to the goals of the industry and the Commission.

The NGFA deeply appreciates the Commission’s willingness to re-examine the residual interest rules and to take action in the best interests of agricultural hedgers. We are ready at any time to answer questions or provide additional information that might be useful to the Commission relative to this very important matter.

Sincerely,

 

MJ Anderson

Chairman, Risk Management Committee