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secretary

From: Kruse, Charlie [ckruse@mofb.com]
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MISSOURI FARM BUREAU FEDERATION

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August 21, 2006

Eileen Donovan, Acting Secretary

Commodity Futures Trading Commission

Three Lafayette Center

1155 21st Street, NW

Washington, DC 20581

Dear Ms. Donovan:

Missouri Farm Bureau (MFB), the state's largest general farm organization, represents the interests of producers of nearly all commodities in Missouri. We appreciate the opportunity to comment on the Commodity Futures Trading Commission's (CFTC) "Comprehensive Review of the Commitments of Traders Reporting Program" as outlined in the June 21, 2006 Federal Register.

Our members feel that the Commitments of Traders (COT) reports increase market transparency and provide necessary information to all market participants, including farmers. We also believe the report helps to lessen volatility when the market is experiencing high levels of speculation. MFB is pleased with CFTC's efforts in making the reports available more frequently and at no cost to the general public.

The emergence of index funds as a new class of market participant and their use of "swaps" has created serious challenges for traditional hedgers, producers, and other market participants in gauging market fundamentals. While we are not opposed to index funds trading in agricultural markets, we do have serious concerns with their classification and treatment within the COT reports. We understand how index funds engage a "swaps manager" or "swaps dealer" to invest in an index based on the returns in exchange-traded futures contracts and that this "swaps dealer" in turn hedges their risk by establishing a portfolio of long futures positions. We strongly feel this does not constitute a traditional hedge and that index funds should not be granted hedge exemptions in agriculture commodity futures contracts. We

agree with the traditional definition of a hedge as a “futures or option transaction or position that normally represents a substitute for transactions to be made or positions to be taken at a later time in a physical marketing channel.” Given the fact that index funds have no involvement in the physical commodity or marketing channel, we feel it is inappropriate for them to be granted a hedge exemption.

Another concern with index funds having hedge exemption status is they are not required to adhere to speculative trading limits. We believe the magnitude of the trading volume generated by index funds is responsible for significantly altering the accuracy of the reporting information in the COT reports.

Furthermore, we feel it inappropriate to classify them as a “commercial” account in the COT reports. Classifying index fund activity as “commercial” in the COT report significantly reduces the accuracy of the report in providing much needed transparency to all market participants. This does not allow market participants, including farmers, from being able to distinguish between the futures market activity of traditional hedgers versus the new investment activity generated by the index funds.

We request that the reporting activity of index funds be separated from the trading activity of traditional “commercial” accounts, historically a category reserved for grain companies and processors hedging price and inventory risk, in future COT reports. Without this separation in reporting, it is difficult for producers and market professionals advising producers, to truly understand the underlying structure of the current marketplace. It restricts their ability to accurately assess market conditions and act accordingly.

Thank you for the opportunity to provide comments to the CFTC on this important matter. We strongly feel that by eliminating the index funds’ hedge exemption and by reclassifying them as “non-traditional” commercial accounts in the COT reports, will greatly enhance the integrity of the reports and assist all market participants by providing necessary transparency of market participants and their aggregate positions.

Sincerely,

Charles E. Kruse

President