

Report of the Ag-OI Subcommittee:

**Efficient and Effective Oversight of Changes to
Agricultural Futures Contracts with Open Interest**

**Joseph Janzen, Subcommittee Chair,
University of Illinois**

Presentation to Meeting of the CFTC
Agricultural Advisory Committee

June 9, 2021



Weighing Tradeoffs in Market Oversight

Exchanges, market participants, and the Commission seek:

- Timely implementation of changes to generate and achieve regulatory compliance
- Avoidance of material impact on existing position holders



What types of contract changes?

- Exchanges and market participants typically identify need for change
- Exchanges submit contract amendments to CFTC for approval except in limited cases

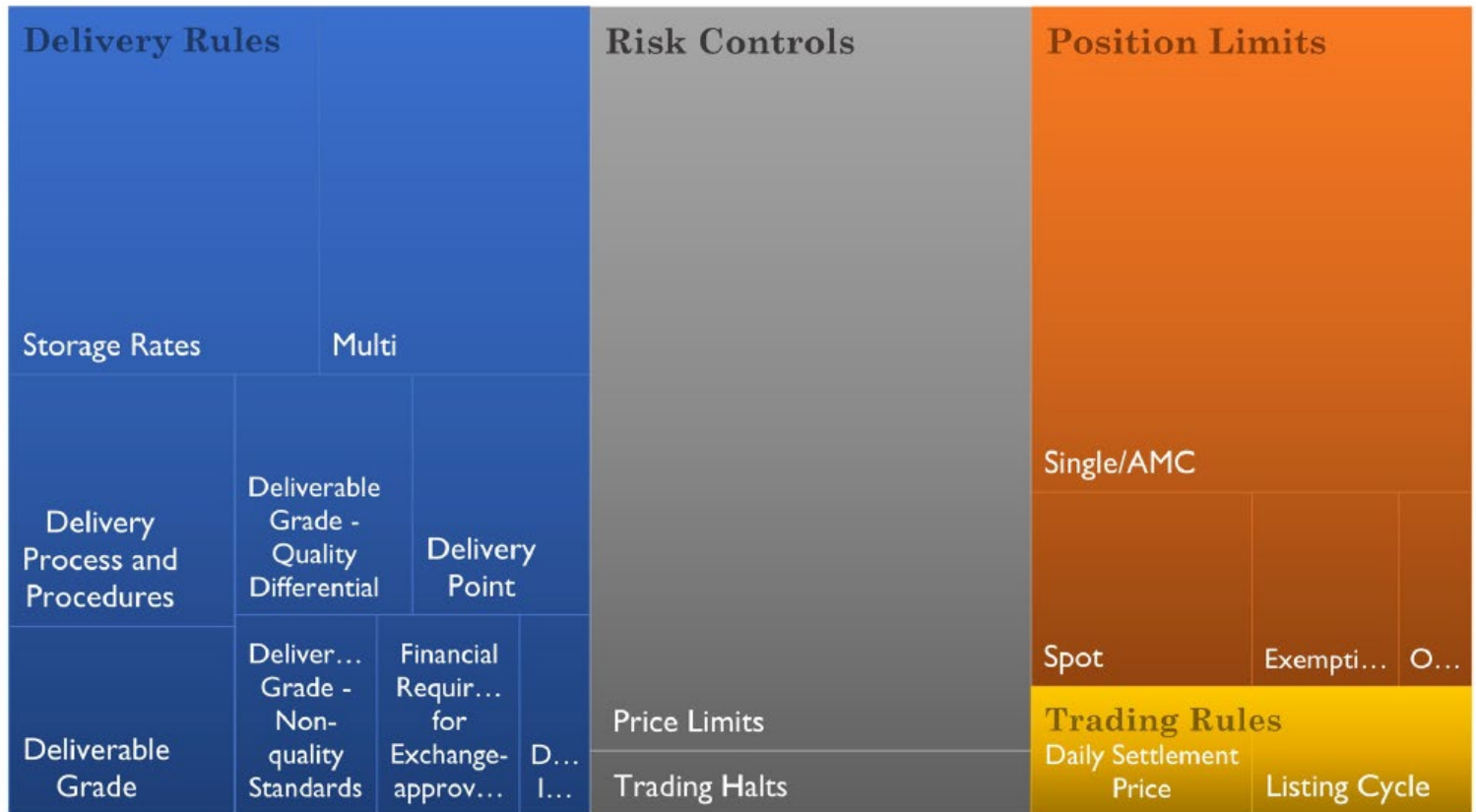


Figure 3. Contract amendments by type and sub-type, 2007-2020. Source: CFTC Filings and Actions Database

Challenge: Significant open interest in deferred months

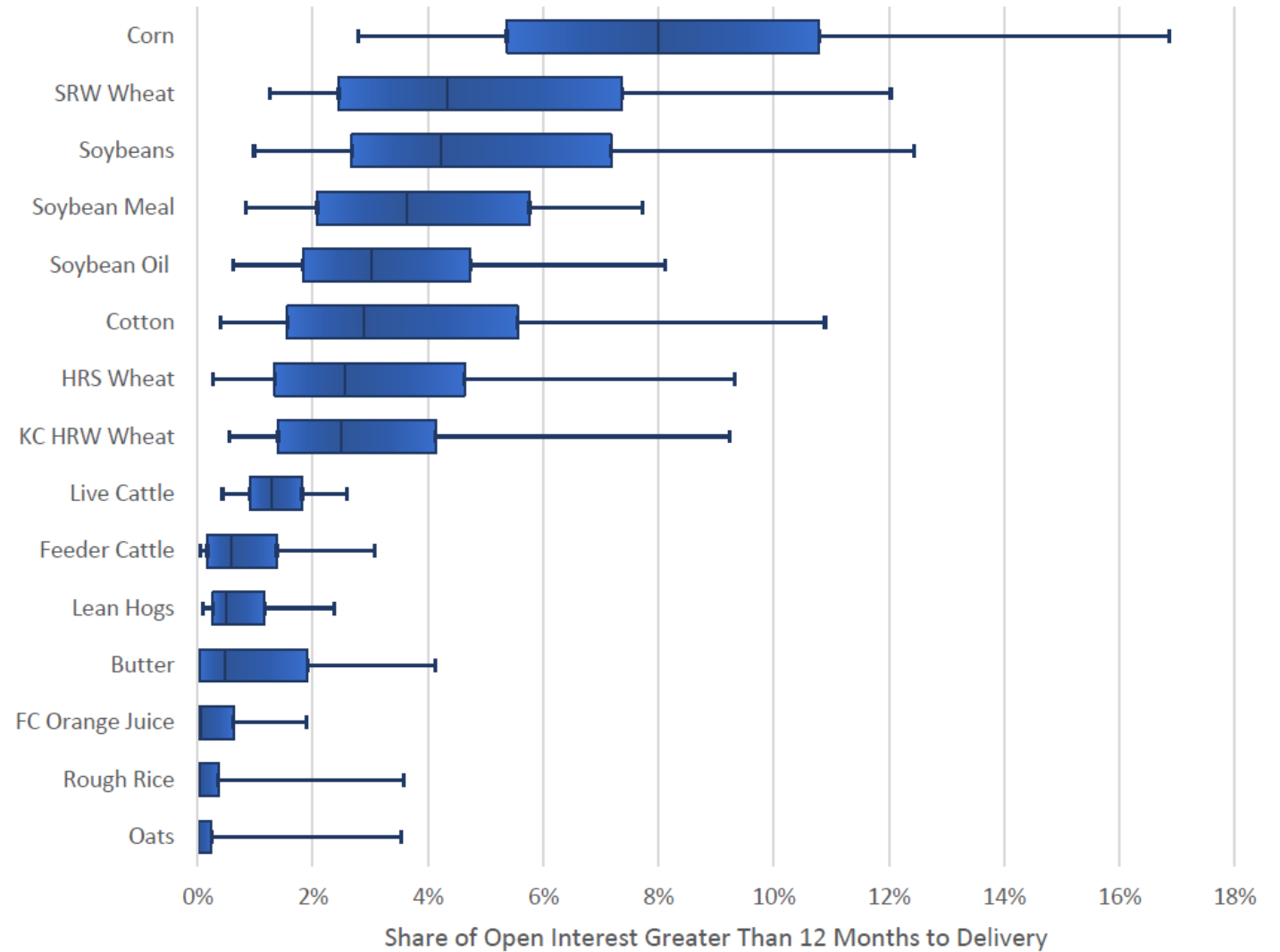


Figure 1. Boxplots describing the distribution of the share of open interest in contract-months more than 12 months from delivery by contract market, 2007-2020.

Subcommittee Objectives

Maintain focus on Commission policy and procedure

Make consensus-based recommendations

Be forward-looking, but guided by past experience

Improve market quality and mitigate risk to all parties

Subcommittee Activities

- Convened representative group of agricultural futures market participants
 - Emphasis on commodity representation and commercial participants active in the delivery process
- Seven meetings via teleconference
- Input solicited via group discussion, surveys, and informal votes
- Report adopted by formal 20-0 vote on April 21, 2021



Highlights of Findings

Subcommittee finds that:

- Current process for amending contracts works well
- Commission engagement before and after submission is beneficial
- Defining materiality would be overly prescriptive, incompatible with principles-based regulation
- Existing guidance useful but requires updating to remain relevant



Recommendations 1-4

Transparency and Public Engagement



Provide information on enumerated contracts and past determinations



Systematically engage with market participants, define conditions for soliciting formal public comment



Develop guidance/policy for Commission **dialogue prior to and following** formal submission



Update risk disclosures to build awareness of potential changes

Recommendations 5-6

Effective Evaluation of Proposed Changes



Maintain principles-based approach, **concentrate attention on changes more likely to be material**



Continually **improve guidance** to reflect current market conditions and contract specifications, such as the **use of self-adjusting contract terms**

Summary Findings & Recommendations

“The Subcommittee finds that the current process for amending agricultural futures contracts works well to foster compliance with core principles, align contract terms to common commercial trading practices, and weigh interests of exchanges and market participants.”

I. Increase Transparency in Market Oversight

- Enumerated Contract List
- Past Materiality Determinations

II. Public Engagement

- More Consistent and Systematic Engagement
- Defined Conditions for Soliciting Public Comment
- Develop Guidance/Staff Policy on Dialogue Leading to Contract Changes
- Update Risk Disclosures; Increase Awareness about Potential for Contract Amendments

III. Effective Evaluation of Proposed Changes

- Find Some Changes are More Relevant to Price Determination
- Concentrate Staff Attention on Material Changes
- Continuously Improve Staff Policy and Guidance