

**MINUTES OF THE MEETING OF THE
U.S. COMMODITY FUTURES TRADING COMMISSION’S
AGRICULTURAL ADVISORY COMMITTEE (AAC)**

June 9, 2021

The Agricultural Advisory Committee (“AAC”) of the U.S. Commodity Futures Trading Commission (“CFTC” or “Commission”) convened for a public meeting on Wednesday, June 9, 2021, at 10:00 a.m., via teleconference. The meeting started with a review of, and vote on, the report of Agricultural Futures Contracts with Open Interest Subcommittee (“Ag-OI Subcommittee”). The meeting then proceeded with two panels. Panel I addressed international agricultural derivatives, including US-listed products, as well as overseas volume and open interest trends. Panel II discussed end-user perspectives on the pandemic and recovery, and highlighted the importance of agricultural risk management.

AAC Members in Attendance

Buddy Allen, American Cotton Shippers Association
Joe Barker, National Council of Farmer Cooperatives
Chris Betz, Michigan Agri-Businesses Association
Robbie Boone, Farm Credit Council
Patrick Coyle, National Grain and Feed Association
Rob Creamer, Futures Industry Association/Principal Traders Group
Robert Crosby, Managed Funds Association
Ed Elfmann, American Bankers Association
H. Thomas Hayden, Jr., Commodity Markets Council
Matt Hines, American Farm Bureau Federation
Tom Kadlec, Futures Industry Association
Chris Klenklen, National Association of State Departments of Agriculture
Erin Morris, US Department of Agriculture/Agricultural Marketing Service
Cynthia Nickerson, US Department of Agriculture/Office of the Chief Economist
John Owen, USARice Federation
Mark Scanlan, Independent Community Bankers of America
Stephen Strong, North American Export Grain Association
Justin Tupper, US Cattlemen’s Association
Hayden Wands, American Bakers Association
Ryan Weston, American Sugar Alliance
Brandon Wipf, American Soybean Association
Chris Young, International Swaps and Derivatives Association, Inc.

CFTC Commissioners and Staff in Attendance and Speakers

Dawn D. Stump, Commissioner and AAC Sponsor
Rostin Behnam, CFTC Chairman (Acting)
Dan Berkovitz, Commissioner
Brian D. Quintenz, Commissioner
Summer Mersinger, Chief of Staff to Commissioner Stump/AAC Designated Federal Officer (“DFO”)

Christa Lachenmayr, Senior Economist, Division of Market Oversight/AAC Alternate Designated Federal Officer

Invited Speakers in Attendance

Will Acworth, Senior Vice President, Publications, Data, and Research, Futures Industry Association

Christian Edmiston, Senior Director of Sourcing and Risk Management, Land O'Lakes
Dr. Joe Janzen Assistant Professor, University of Illinois, Chair, AG-OI Subcommittee (Special Government Employee)

Owain Johnson, Global Head of Research and Product Development, CME Group

David Rossen, Global Hedging Manager for Cotton, Louis Dreyfus Companies

Fred Seamon, Executive Director of Agricultural Commodity Research and Product Development, CME Group

Dhamu Thamodaran, Former Executives Vice President and Chief Commodity Hedging Officer, Smithfield Foods

I. Opening Remarks

Ms. Mersinger called the meeting to order.

Commissioner Stump provided opening remarks. She expressed her commitment to the AAC, given that her roots were in agriculture. She also discussed her involvement in the Global Markets Advisory Committee ("GMAC"), the synergies within the two committees, and how she hoped that the presentations would explain how global markets are connected to the domestic markets the AAC focuses on. She stated that the panels would discuss the uncertainty and significant supply chain disruptions during the pandemic. Finally, she stated that she was looking forward to the discussion on the final recommendations offered by the Ag-OI Subcommittee ("Subcommittee"). She concluded by thanking Ms. Mersinger and Ms. Lachenmayr for organizing the meeting and all for attending and participating.

Next, Commissioner Quintenz gave his opening remarks, acknowledging Commissioner Stump for taking on the responsibility of serving as the AAC and GMAC sponsor, and thanking all who organized and are participating or attending.

Finally, Commissioner Berkovitz gave his opening remarks. He thanked Commissioner Stump for her leadership of the AAC. He also emphasized the importance of the AAC's work and explained how it impacts every American in their daily lives when they go to supermarkets and restaurants.

II. Final Report of Ag-OI Subcommittee

Ms. Mersinger turned to Ms. Lachenmayr, who introduced Dr. Janzen who presented a summary of the subcommittee's work. He stated that the Subcommittee generally found that the current process for evaluating changes to agricultural futures contracts with open interest works well to support necessary changes that preserve the integrity of the markets. However, he

identified six recommendations grouped into two categories to improve or formalize current practices.

The first set of recommendations addressed how the Commission interacts with exchanges and market participants public to identify necessary changes and bring those changes to fruition and fosters transparency and openness in evaluating those changes to futures contracts. First, the subcommittee recommended that, to the extent possible, the Commission provide information on which markets are subject to certain approval processes and how these approval processes are carried out. Second, the subcommittee proposed that there should be a more systemic process of engagement with market participants and suggested that the process of engagement should be formalized. Third, the Subcommittee recommended that the Commission should develop guidance and policy related to its dialogue with exchanges and market participants prior to and following formal submission. Finally, in order to better mitigate risks, the Subcommittee recommended that risk disclosures to market participants should be updated to reflect changes to contracts that have open interest.

The second set of recommendations related to the Commission's actual evaluation process. First, the subcommittee recommended maintaining a principles-based approach, concentrating on changes that are more likely to be material. Second, the Subcommittee recommended that the Commission should continually improve its guidance to reflect current market conditions and, in defined cases, should use self-adjusting contract specifications.

Ms. Lachenmayr then opened the floor to questions or comments from the AAC membership. There were no comments. Ms. Mersinger then took a vote on the motion that the AAC adopt the Subcommittee's report and submit the report to the Commission for consideration. Ms. Lachenmayr took a roll call vote with nineteen votes in favor, zero votes against, and no abstentions.¹ The vote was unanimous and the motion was adopted.

III. Panel I: International Agricultural Derivatives; US-Listed Products and Overseas Volume/Open Interest Trends

Ms. Mersinger introduced Mr. Johnson of CME Group as the first panelist. Mr. Johnson discussed agricultural pricing concepts, and then cash settlement. He stated that CME Group had been listing more cash-settled contracts rather than physically-settled contracts in recent years. They decide which settlement mechanism to adopt for a new contract based on what they think will work best given the circumstances. For physical delivery, CME Group examines the delivery infrastructure and whether they have confidence in the structure. For cash settlement, they look at whether they are confident in the price reporting agency ("PRA"), the cash index, and its methodology. Mr. Johnson observed that there shouldn't be concern that the cash-settled contracts will replace major physical benchmarks. In fact, physical benchmarks enhance the liquidity of the underlying physical products because a lot of spreads trade, and when a lot of spreads trade there is increased liquidity on both sides.

¹ Written statements from Neil Dierks, Steve Strong and Hayden Wands indicated that they would have voted in support of the report and recommendations had they been present at the meeting.

Mr. Acworth introduced himself and stated that his presentation was organized into two parts. First, he discussed volume, open interest, and the number of contracts traded in edible oils and oil seeds, grains, and softs (sugar, coffee, cocoa futures). Second, he discussed these markets from a different perspective and measured the volume of interest by metric ton equivalents, which is closer to how end-users look at these markets. He noted that China has a very large agricultural futures market that covers a wide range of sectors. Moreover, the only market that comes close to the U.S. is China's market. He noted that, in Chinese markets, the contracts tend to be small and that more trading comes from speculation rather than hedging. Finally, agricultural futures-trading in the rest of the world is highly fragmented by geography and highly concentrated in terms of liquidity. Mr. Acworth stressed that cross-border access is critically important for end-users who need these tools for risk management, and that it is positive for markets leading to increased liquidity and better price discovery.

The panel then turned to a question and answer session. Generally, the concerns and questions raised included: a discussion regarding the size of the futures market for rice and cotton in China; the need for the CFTC to continue its cross-jurisdictional work; and the similarities and differences between the agricultural and energy markets.

IV. Panel II: End User Perspective on the Pandemic and Recovery-the Importance of Agricultural Risk Management

Ms. Lachenmayr began with a brief overview of the panel, stating that each panelist would introduce themselves and discuss the impact of the pandemic from their perspective. She would then discuss some of the key points raised by the panelists and open the floor for questions and comments.

Mr. Edmiston stated that in his role at Land O'Lakes, he is responsible for procurement of all of their commodities and input for products across their dairy foods and feed businesses, as well as risk management for their core businesses. He highlighted three areas of impact from the pandemic. First, there was market volatility. For instance, blocks of cheese reached all-time lows and all-time highs within 60 days. A key component in this volatility was the government programs that created demand. Second, the volume volatility was a huge challenge as customers adjusted their ordering and reordering pattern. This caused Land O'Lakes to take a deep look at their risk management program and consider whether it was cross-functional. Third, keeping its product moving, especially when big segments of the economy shut down and demand fell, was another challenge for the company, as its products are perishable.

Mr. Rossen, the Global Hedging manager for Cotton at Louis Dreyfus, discussed the impact of the pandemic. He noted the unprecedented change in demand and the wide range of fluctuations in demand for various commodities. With regards to cotton, the textile industry ground to an abrupt halt. Global futures and cash prices for cotton plummeted and the various participants in the value chain tried to get out of their obligations. He praised the Commission's recent work on position limits and the flexibility in these rules as an important tool in risk management in the pandemic environment. He emphasized the need for robust risk management framework that is also flexible.

Mr. Thamodaran discussed the impact of the pandemic as experienced by the largest pig and pork producer in the world. Mr. Thamodoran was retired from Smithfield at the time of this panel, but spoke about his experience while at the company. At Smithfield, he stated that their first goal was to keep their employees healthy. Their second goal was to keep their customers happy. Finally, they had to make arrangements with producers and restaurants that couldn't take their product by deferring or extending their agreements.

The panel then turned to a question and answer session. Generally, the concerns and discussions raised in this session included: the demand factor of the Phase 1 commitments, regulatory flexibility, and whether the government supports and roll outs were successful and coordinated well.

V. Closing Remarks

In closing, Commissioner Stump, the AAC sponsor, emphasized the importance of improving market access and how it is critical to those who have hedging needs. Additionally, the Chairman and Commissioners present all expressed enthusiasm for the excellent discussion and stated they were looking forward to future discussions.

Ms. Mersinger adjourned the meeting at 12:25 p.m.

Summer Mersinger

Summer Mersinger
AAC Acting Chair/Designated Federal Officer

08/30/2021

Date