1 COMMODITY FUTURES TRADING COMMISSION
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6 AGRICULTURAL ADVISORY COMMITTEE
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10 2:00 p.m.
11 Thursday, September 24, 2020
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19 Teleconference
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1 A P P E A R A N C E S

2 COMMODITY FUTURES TRADING COMMISSION MEMBERS

3

4 Chairman Heath P. Tarbert

5 Commissioner Brian D. Quintenz

6 Commissioner Rostin Behnam

7 Commissioner Dawn DeBerry Stump

8 Commissioner Dan M. Berkovitz

9

10 AGRICULTURAL ADVISORY COMMITTEE

11

12 BUDDY ALLEN

13 AMERICAN COTTON SHIPPERS ASSOCIATION

14

15 JOE BARKER

16 NATIONAL COUNCIL OF FARMER COOPERATIVES

17

18 CHRIS BETZ

19 MICHIGAN AGRI-BUSINESS ASSOCIATION

20

21 LARRY BIRGEN

22 NATIONAL FARMERS UNION

1 A P P E A R A N C E S

2 AGRICULTURAL ADVISORY COMMITTEE [CONTINUED]

3

4 ROBBIE BOONE

5 FARM CREDIT COUNCIL

6

7 PATRICK COYLE

8 NATIONAL GRAIN AND FEED ASSOCIATION

9

10 ROB CREAMER

11 FUTURES INDUSTRY ASSOCIATION/PRINCIPAL TRADERS GROUP

12

13 ROBERT CROSBY

14 MANAGED FUNDS ASSOCIATION

15

16 NEIL DIERKS

17 NATIONAL PORK PRODUCERS COUNCIL

18

19 ED ELFMANN

20 AMERICAN BANKERS ASSOCIATION

21

22

1 A P P E A R A N C E S

2 AGRICULTURAL ADVISORY COMMITTEE [CONTINUED]

3

4 JIM FRYER

5 NATIONAL CATTLEMEN'S BEEF ASSOCIATION

6

7 EDWARD GALLAGHER

8 NATIONAL MILK PRODUCERS FEDERATION

9

10 H. THOMAS HAYDEN, JR.

11 COMMODITY MARKETS COUNCIL

12

13 MATT HINES

14 AMERICAN FARM BUREAU FEDERATION

15

16 THOMAS HOGAN

17 COCOA MERCHANTS ASSOCIATION OF AMERICA

18

19 ASHLEY HUNGERFORD

20 USDA OFFICE OF THE CHIEF ECONOMIST

21

22

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3
4 TOM KADLEC
5 FUTURES INDUSTRY ASSOCIATION
6
7 CHRIS KLENKLEN
8 NATIONAL ASSOCIATION OF STATE DEPARTMENTS OF
9 AGRICULTURE
10
11 RON LEE
12 NATIONAL COTTON COUNCIL OF AMERICA
13
14 ERIN MORRIS
15 USDA AGRICULTURAL MARKETING SERVICE
16
17 JOHN OWEN
18 USARICE FEDERATION
19
20 MARK SCANLAN
21 INDEPENDENT COMMUNITY BANKERS OF AMERICA
22

1 A P P E A R A N C E S

2 AGRICULTURAL ADVISORY COMMITTEE [CONTINUED]

3

4 STEPHEN STRONG

5 NORTH AMERICAN EXPORT GRAIN ASSOCIATION

6

7 JUSTIN TUPPER

8 US CATTLEMENS ASSOCIATION

9

10 HAYDEN WANDS

11 AMERICAN BAKERS ASSOCIATION

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1 P R O C E E D I N G S

2 (2:03 p.m.)

3 MS. MERSINGER: Good afternoon. As the

4 Designated Federal Officer and Acting Chair of the

5 Agricultural Advisory Committee, it is my pleasure

6 to call this meeting to order.

7 I'd like to welcome everyone to today's

8 virtual meeting. Before we get started, there are

9 a few logistical items that I'd like to mention to

10 the Committee members and invited speakers.

11 Because of scheduling issues we're going to begin

12 with brief remarks by Chairman Tarbert, followed by

13 a presentation from Nate Kauffman of the Federal

14 Reserve Bank of Kansas City, after which we will

15 resume the meeting with the roll call and

16 traditional --

17 (Audio disruption.)

18 MS. MERSINGER: Sorry about that, we have a

19 few technical difficulties here.

20 Back on the agenda we'll kick it off with

21 Chairman Tarbert, a presentation by Nate Kauffman

22 of the Federal Reserve Bank of Kansas City, and

1 then resume roll call and traditional opening
2 remarks from the Commissioners.
3 A couple of housekeeping items - since this
4 meeting is virtual it's being broadcast, please
5 make sure to identify yourself before you begin
6 speaking. Also, please signal when you have
7 completed your comments so that we can continue
8 with the next speaker or question. Please ensure
9 your phone is unmuted before you start to speak,
10 and that you are speaking clearly into your device.
11 For the Committee members, please send a
12 message with your question to the Panelists Group,
13 through the WebEx chat function. At the
14 appropriate time, I will recognize you to unmute
15 your line and ask your question. We will get to
16 many, as many, questions as possible during the
17 meeting. If we do not get to your question, please
18 feel free to chat or email me during or after the
19 meeting.
20 And just a reminder: federal advisory
21 committees are required to deliberate publicly. So
22 please do not use the WebEx chat function to

1 interact with other members.
2 Finally, please keep your telephone line muted
3 when you are not speaking. If you do not mute
4 yourself, the conference operator may put your line
5 on mute if they detect an interference.
6 Now that we have the housekeeping issues,
7 taken care of, I'd like to turn this over to the
8 committee sponsor, Chairman Tarbert, for his
9 opening remarks.
10 CHAIRMAN TARBERT: Well, good afternoon
11 everyone and thank you Summer so much for putting
12 this together today. It is, of course, is an honor
13 to be the sponsor of the Agricultural Advisory
14 Committee, and I'm excited that we can convene
15 another meeting this year.
16 We at the Commission sincerely appreciate that
17 Committee members and members of the public made
18 the time to be here today, particularly those who
19 are in the middle of harvesting your crops. That
20 dedication that is proof positive that America's
21 farmers and ranchers have continued to do what is
22 necessary to put food on the table for America

1 during this pandemic, significant weather events,
2 and these uncertain economic times.
3 The ag industry is essential to the
4 fundamental needs of everyone around the world, and
5 we're reminded of that now more than ever.
6 I often say that if the derivatives markets
7 aren't working for the American agricultural sector
8 then, in my view, they're simply not working.
9 I'm also honored and humbled to serve at the
10 helm of an agency where we try to emulate the work
11 ethic in the agriculture sector. Even though we're
12 physically separated, the agency's commitment to
13 our critical mission is stronger than ever, and
14 staff has been extraordinarily productive during
15 the pandemic.
16 Since the pandemic began, at least here in the
17 United States in March, we've held seven public
18 meetings, issued 16 final rules, proposed nine new
19 rules, and our advisory committees have held five
20 public meetings, and of course, we're going to hold
21 the sixth today, right now.
22 So given the continued pressures we're all

1 facing because of COVID, it's important to me that
2 we meet again to discuss what we're seeing, to hear
3 from you, and to answer your questions.
4 Back in April, when I established the
5 Livestock Task Force, I said our job at the CFTC is
6 to ensure that the derivatives markets are doing
7 their job of providing opportunities for end-users
8 to manage and mitigate risk. And we've been doing
9 just that. The Livestock Task Force has conducted
10 enhanced, real-time monitoring the of markets, such
11 as Live Cattle, Feeder Cattle, and Lean Hog
12 markets, commensurate with the increased volatility
13 in the cash markets for those commodities. They've
14 been engaging with stakeholders and working
15 continuously, watching for any indication that
16 prices are moving in a manner that isn’t economic
17 relative to the underlying commodities cash prices.
18 I want to thank the taskforce for their hard
19 work and diligence, their work to protect the
20 integrity of our livestock markets, and to ensure
21 those markets continue to perform as intended under
22 unprecedented circumstances, has been nothing but

1 tremendous.
2 For example, because of their focus and
3 commitment, the Division of Enforcement recently
4 settled a case with a Mexican meat processing
5 company for violating position limits in the Live
6 Cattle futures contracts. In times of volatility,
7 it's essential that all market participants adhere
8 to the rules of the road, and we will do our utmost
9 to make sure that those rules are followed.
10 The events of 2020 demonstrate just how
11 important it is for all of us to work together as
12 partners, so that our ag markets continue to serve
13 their role in price discovery and risk management.
14 I'm grateful to the many presenters on this call
15 today, who will spend time explaining how they work
16 to prevent fraud and manipulation, as well as
17 highlight ways that you can help, too. I hope this
18 meeting offers valuable insight into how the
19 futures markets function, and how important
20 transparency is to maintaining market integrity.
21 I also want to give a special thanks to our
22 friends at the National Futures Association, CME

1 Group, and the Kansas City Federal Reserve for
2 taking time out of their busy schedules to present
3 to us today.
4 I also need to say thank you to all of the
5 Commission staff whose hard work brought this
6 meeting together, especially Dave Amato from our
7 Market Intelligence Branch of DMO, who has been
8 working, literally, day and night on our Livestock
9 Taskforce. Christa Lachenmayr from our Product
10 Review Team, also from DMO, the Division of Market
11 Oversight, and also a consultant to our Livestock
12 Task Force and our first ever CFTC liaison to the
13 US Department of Agriculture. I'd also like to
14 thank Vince McGonagle, who is the Principal Deputy
15 Director in our Division of Enforcement. Dan
16 Rutherford, who is the Associate Director of our
17 Office of Customer Education and Outreach.
18 I'd also like to thank our team from the
19 Office of Legislative and Intergovernmental
20 Affairs, and of course, our team from the Office of
21 Data and Technology, and the Office of Executive
22 Director who arranged for the technology and attend

1 to all of the details, big and small, to make sure
2 we hold these meetings virtually.
3 I also want to thank my fellow Commissioners
4 for joining us today, and welcome our newest
5 members to the Committee.
6 I'm pleased that Neil Dierks of the National
7 Pork Producers Council has rejoined the committee.
8 Welcome back, Neil. And I'd also like to welcome
9 Jim Fryer who is representing the National
10 Cattlemen's Beef Association, because the former
11 member of the National Cattlemen's Beef
12 Association, I think, joined our staff, Darryl
13 Blakey. And finally, Robert Crosby, who is
14 representing the Managed Funds Association. All
15 three of them have joined this committee and we're
16 very grateful to your service.
17 I'd also like to extend a warm welcome to
18 Ashley Hungerford of the USDA Office of the Chief
19 Economist, and Erin Morris from the USDA
20 Agricultural Marketing Service. One of my goals as
21 chairman was to increase communication and
22 cooperation with USDA and adding Dr. Hungerford and

1 Ms. Morris, to the AAC is an important step in
2 building an institutional partnership. We
3 absolutely couldn't do our work to support vibrant
4 agricultural markets without the benefit of USDA's
5 vast data and research capability.
6 So with that, once again, thank you so much
7 for having me. Have a wonderful afternoon. I look
8 forward to hearing all the presentations and
9 conversing with you. I will turn it over now to
10 the presenters. And have a good day.
11 MS. MERSINGER: Thank you Chairman Tarbert.
12 Next we are pleased to welcome Nate Kauffman,
13 who is a Vice President and Economist for the Omaha
14 Branch of the Kansas City Federal Reserve. Nate,
15 the floor is yours.
16 MR. KAUFFMAN: Well, thank you and thanks to
17 the Chairman Tarbert and other Commissioners at the
18 CFTC for the invitation to join today, it's a
19 pleasure to be able to be with you and I also do
20 appreciate the flexibility in accommodating my
21 schedule this afternoon and I'm glad to be able to
22 be here and share some of the things that we've

1 been talking about at the Kansas City Fed as it
2 relates to agriculture.
3 Just by a very quick way of introduction, as
4 was mentioned in the introduction here a minute
5 ago, I am with the Omaha Branch of the Kansas City
6 Fed. We cover seven states in the middle of the
7 country, have had a historical concentration in
8 agriculture obviously in our region, and the Kansas
9 City Fed has had a focus in and Ag markets for
10 quite some time which motivates the reason I think
11 for from the discussion today, specific to
12 agriculture, as we track conditions more broadly
13 for the Federal Reserve System.
14 So Christa if you could go forward one slide.
15 I'll be sharing this afternoon and I'll try to
16 keep my comments relatively brief to make sure to
17 leave time for questions if there are some, but
18 want to be able to give a high-level overview on
19 conditions related to agricultural finance
20 specifically. There are a lot of banks that have
21 lending exposure to agriculture in our Tenth
22 Federal Reserve District, but as conditions have

1 evolved over the last several years this has been
2 an important focus for us in monitoring
3 developments and then especially connected to the
4 pandemic.
5 So just to give a little bit of an outlook in
6 terms of the themes that I want to present this
7 afternoon. I think it's important to start with a
8 little bit of context. First, recognizing that in
9 contrast to the broader US economy, the ag sector
10 had been in what I would characterize as a
11 prolonged downturn even before this year's
12 pandemic. As the as the weeks and months unfolded
13 with the pandemic, especially in April, conditions
14 deteriorated quite rapidly. Since April, however,
15 economic conditions in agriculture have improved
16 slightly but due in significant part to government
17 payments.
18 As we characterize the environment surrounding
19 agricultural credit conditions, I would still
20 describe those conditions as relatively weak.
21 Although, as I'll show a little bit later on farm
22 real estate markets have provided some support to

1 those conditions.
2 If we could go forward a slide please.
3 A little bit of context leading into 2020 and
4 in the pandemic that I'm sure most on the call are
5 very familiar with. The US Ag economy had been
6 weak prior to 2020, despite what we've been seeing
7 as modest increases in farm income. So this chart
8 shows US net farm income going back to 1970. This
9 is often looked at as a headline indicator for the
10 US farm economy.
11 We can of course see the peak year in 2013, in
12 recent years, before declining sharply to the low
13 point of 2016, and that had been a decline of about
14 50 percent in farm income. There had been a couple
15 of years of slight increases since 2016 in farm
16 income, and we often receive questions as we look
17 at this chart, which the last data point is 2019,
18 that if there's been these increases recently in
19 farm income, where is there concern? Why is there
20 risk? Why do we talk about the ongoing challenges
21 in agriculture?
22 And of course, this is again, all leading into

1 2020 prior to the pandemic.
2 Next slide, please.
3 One of the primary reasons that I would
4 continue to highlight the challenges in
5 agriculture, though, next to some of these modest
6 increases in income in recent years, is
7 specifically the challenges connected to
8 agricultural finance. And specifically, as this
9 slide shows, even before the pandemic, liquidity
10 was expected to deteriorate alongside fairly low
11 profit margins in the sector.
12 So, it's important to keep these trends in
13 mind before we came into 2020, despite some of the
14 increases in income because these reflect some of
15 the challenges that we had been observing at the
16 beginning of this year. A lot of questions that we
17 would receive connected back to the 1980s, for
18 example, which was a very difficult time in
19 agriculture. A crisis that began with a liquidity
20 shortage, a liquidity problem, that ultimately
21 turned into a problem of insolvency and then led to
22 a number of failures, bank failures and

1 bankruptcies of farms in the 1980s.
2 The chart on the left that I'm showing on this
3 slide, is a measure of working capital in the US
4 farm sector. These data come from USDA and show a
5 trend downward in working capital over the past,
6 really about 10 years. But importantly, on this
7 chart, and coming into 2020, it was expected that
8 working capital would decline by about 15 percent,
9 even before the onset of the pandemic.
10 So again, income had been declining slightly,
11 but it was still a concern that liquidity had been
12 tightening further.
13 The chart on the right of course supports some
14 of these concerns by recognizing that agricultural
15 prices, relative to input costs, had also been
16 declining. So in conversations with producers,
17 operations lenders, often the focus would be on low
18 commodity prices next to costs that had been rising
19 for a number of years following some of the peak
20 years of profitability from 2010 to 2013.
21 Next slide, please.
22 I'll spend just a few minutes now talking

1 about how these conditions have evolved during the
2 course of the pandemic and then leading into more
3 current conditions and then the an outlook going
4 forward.
5 The pandemic disrupted ag markets in what I
6 would characterize as several key ways, counting
7 several key areas. The first is recognizing that
8 as COVID cases began to mount in late-March and
9 early-April, we had a number of closures of meat
10 packing facilities across the country and meat
11 processing facilities. So we had tests that were
12 showing up positive in a number of these facilities
13 that led to some temporary closures.
14 The chart on the left shows the production of
15 - US meat production, specifically - looking at
16 cattle, hogs, and poultry. And this is monthly
17 data. So what this shows is that by the end of
18 April and into May, we were operating at really
19 about 60 percent capacity at the worst of this
20 crisis back in April and May. Again, the chart
21 here shows a monthly data - that shows at about 80
22 percent, but a bit worse in parts of April and May.

1 So that was the first disruption was that we
2 had COVID cases causing some of these temporary
3 closures. So for farmers and ranchers that were
4 looking to sell animals into these packing plants,
5 they were recognizing, obviously, limitations to
6 their ability to sell animals, which ultimately led
7 to a sharp decline in prices that they were
8 receiving from the farm.
9 The second major disruption though, was a
10 massive shift in the way consumers were buying food
11 products. Prior to the crisis, the amount of
12 dollars spent on food for consumption at-home
13 relative to food purchased for consumption away-
14 from-home was relatively similar with about equal
15 shares. The crisis ultimately led to a sharp
16 increase in purchases being for consumption at-home
17 and in grocery stores and supermarkets, in contrast
18 to food services and schools that were closing at
19 the time.
20 So this led to some significant supply chain
21 disruptions and this has all been obviously well-
22 documented during the time. The combination of the

1 temporary closures of meat packing plants, in
2 addition to the shift in how consumers were buying
3 food, led to some significant disruptions in the
4 supply chain and ultimately lower prices on the
5 farm.
6 The third factor that I would consider here
7 specifically connected to the pandemic is also the
8 developments in energy markets. As people began
9 traveling less associated with the pandemic in
10 April, we saw a sharp decline in production and use
11 of transportation fuel, but also specifically
12 ethanol as part of that.
13 At one point, during the worst of the crisis
14 in April and May, ethanol production had been about
15 50 percent less than what it had been pre-pandemic.
16 That production level has rebounded somewhat, but
17 still remains about 10-to-15 percent lower.
18 So these were some of the major market
19 disruptions that had taken place during the initial
20 months of the pandemic in April and May. And I'll
21 next talk about how this played out in terms of
22 commodity prices, if we can go to the next slide.

1 In April, prices of most major agricultural
2 commodities had dropped sharply relative to the
3 beginning of the year. And again, I will remind
4 people on the line that at the beginning of the
5 year, profit margins had already been relatively
6 low next to what had been the case from 2010 to
7 2013.
8 By April, cattle prices, for example, had
9 dropped by about 30 percent relative to January,
10 but other major commodities such as hogs, ethanol,
11 corn, cotton, even dairy markets had also fallen
12 further. Many of these prices have rebounded
13 somewhat since those lows in April. But as you can
14 see on this chart, most prices still remain lower
15 than what they were at the beginning of the year,
16 with the exception, of course, of soybeans due to
17 some recent export market strength.
18 Next slide, please.
19 The latest forecasts do show that farm income
20 is expected to be much higher now than a year ago
21 due to ad hoc government payments. The chart on
22 the left again shows a measure of net farm income

1 that was shown earlier in the presentation, but now
2 adding the forecast for 2020. As can be seen on
3 this chart a large share of income comes from
4 direct payments. The chart on the right, in fact,
5 showing that the share of net farm income that is
6 comprised of these direct government payments will
7 be on the order of about 40 percent.
8 This chart shows the history of those payments
9 as a share of farm income going back to the 1930s.
10 And it's clear from this chart that it is quite
11 high in historical context, and also does not
12 include the latest announcements of additional aid
13 through the CFAP 2 program.
14 Next slide please.
15 So we had talked a lot about the concerns at
16 the beginning of the year about the projections for
17 reduced liquidity and reduced working capital and
18 recognizing that this had been really the primary
19 area of risk in agricultural finance for the past
20 several years. And as each year has progressed, a
21 feeling that there could be more financial stress
22 that was evolving in the industry.

1 We have seen delinquency rates on farm loans
2 trend higher, but it's worth noting that these
3 increases have thus far been quite modest.
4 The chart on the left, for example, shows farm
5 loan delinquency rates at both commercial banks and
6 the Farm Credit System. And specifically for
7 commercial banks, we can see the trend higher in
8 delinquencies going back to 2015.
9 It is worth noting, as I said though on this
10 slide, that even those delinquency rates are
11 slightly less than what we would have observed
12 during the depths of the recession from 2007 to
13 2009 and the year that followed.
14 One of the primary concerns, though, despite
15 what I would say has been a modest increase in
16 delinquencies is what is shown by the chart on the
17 right. The Federal Reserve Bank of Kansas City
18 conducts a survey of agricultural credit conditions
19 in our seven-state region, where we asked bankers
20 to respond to conditions evolving pertaining to the
21 agricultural loan portfolio.
22 And in the second quarter with this survey

1 conducted at the end of June, we had asked our
2 respondents, our banker respondents, to indicate
3 how they expected farm-borrower liquidity to evolve
4 at that time relative to the previous year and what
5 they expected to see in the next three months. And
6 as you can see on this chart, almost all of our
7 respondents are or around 75 percent, in fact, said
8 that they expected liquidity to be even lower
9 relative to the previous year and again in the next
10 three months.
11 So again, extending some of the concerns that
12 had already emerged surrounding liquidity in the
13 past few years.
14 Next slide, please.
15 One of the primary sources of support to farm
16 finances, though, despite the increases in
17 delinquencies, and honestly, one component of the
18 farm sector that has prevented more significant
19 financial stress has been the strength of farmland
20 markets. Farmland as an asset class accounts for
21 more than 80 percent of the value of the farm
22 sector balance sheet. So anything that happens

1 connected to farm real estate values has an
2 outsized impact on farm finances more generally.
3 Since 2010, we saw a rapid increase in farm
4 real estate values going to 2013 and even into
5 2014. But despite some of the sharp declines in
6 agricultural commodity prices, and farm income, and
7 then farm income that had remained low, we've only
8 seen modest declines in farm real estate values
9 since those peak levels of 2013 and 2014.
10 So for agricultural lenders that have been
11 recognizing additional stress in their portfolios,
12 and have been concerned about the level of
13 liquidity or working capital among their farm
14 borrowers, they have had some opportunities in each
15 of the past few years to restructure debt, and take
16 maybe additional equity in the form of collateral
17 as farm real estate, to shore up some of that
18 working capital.
19 So this has been one of the primary factors
20 that have limited additional financial stress that
21 we might have expected to see alongside some of the
22 cash flow shortages in the last few years.

1 Next slide, please.
2 Just to wrap up, and then I'll be glad to take
3 questions if there are some.
4 In the initial months of the pandemic this
5 year, conditions were extremely challenging in
6 agriculture, this would have been in mid-April or
7 into May, as packing plants had been closing
8 temporarily, ethanol production was sharply lower,
9 consumers were not buying to the same extent that
10 they were and in the same manner. And these this
11 was all prior to some of the government support
12 programs that had been announced thereafter. The
13 conditions in agriculture and the outlook at that
14 time really was quite dire.
15 Since then, it does appear that the most
16 severe potential challenges in agriculture
17 connected with the pandemic have lessened, for now.
18 I would still highlight concerns as likely to re-
19 emerge in 2021, though, as agricultural commodity
20 prices are set to continue to weigh on producer
21 finances. And again, the concerns surrounding
22 liquidity have not necessarily gone away. But that

1 there have been opportunities to be able to shore
2 up some of that working capital with farm real
3 estate. And then also use some of the government
4 support programs not just this year, but market
5 facilitation programs in previous years, to be able
6 to address some of those cash flow shortages, but a
7 significant amount of uncertainty that would remain
8 in 2021 and into 2022.
9 With that, I'll stop, but I'll be glad to take
10 questions. And again, thanks for the invitation
11 and for the time today.
12 MS. MERSINGER: Thank you Nate. Are there any
13 questions? Please feel free to send a chat through
14 WebEx.
15 (No response.)
16 MS. MERSINGER: At this point, we don't have
17 any questions yet, but I think everyone's getting
18 used to the technology. But Nate we'll let you
19 continue on because I know you've got a busy day
20 ahead of you. Thank you again for taking time to
21 give us that overview. It was really insightful
22 and we appreciate that you were able to take some

time out of your busy calendar. So thank you very much.

MR. KAUFFMAN: My pleasure. Thanks for the invitation.

MS. MERSINGER: Yep, absolutely. We'll have you any time.

Before our next presentation, we will go through a roll call vote. And then we're going to turn to the Commissioners for their opening statements. Committee members when I call your name, please unmute your line and verbally indicate that you are present. If you have any technology issues, feel free to send us a chat or an email and we will update the record to reflect your presence.

I will start with Buddy Allen with the American Cotton Shippers Association

MR. ALLEN: I am present. Thank you.

MS. MERSINGER: Thank you, Buddy. Joe Barker with National Council of Farmer Cooperatives.

MR. BARKER: I am present.

MS. MERSINGER: Thank you. Chris Betz with Michigan Agri-Business Association.

1 MR. BETZ: Present.
2 MS. MERSINGER: Thank you. Larry Birgen with
3 National Farmers Union.
4 (No response.)
5 MS. MERSINGER: Next up, Robbie Boone with
6 Farm Credit Council.
7 MR. BOONE: Present, thank you.
8 MS. MERSINGER: Thank you. Amanda Breslin
9 with Coalition for Derivatives End Users.
10 Amanda?
11 (No response.)
12 MS. MERSINGER: Okay. Patrick Coyle with
13 National Grain and Feed Association.
14 MR. COYLE: Present.
15 MS. MERSINGER: Thank you. Rob Creamer with
16 Futures Industry Association and Principal Traders
17 Group.
18 MR. CREAMER: Present.
19 MS. MERSINGER: Thank you. Robert Crosby,
20 Managed Funds Association
21 MR. CROSBY: Present.
22 MS. MERSINGER: Neil Dierks, National Pork

1 Producers Council.
2 MR. DIERKS: Present.
3 MS. MERSINGER: Ed Elfmann, American Bankers
4 Association.
5 MR. ELFMANN: Present.
6 MS. MERSINGER: Jim Fryer, National
7 Cattlemen's Beef Association. Jim Fryer?
8 (No response. Mr. Fryer later indicated via
9 email that he was present.)
10 MS. MERSINGER: Okay. Edward Gallagher,
11 National Milk Producers Federation.
12 MR. GALLAGHER: Good afternoon, I'm present.
13 MS. MERSINGER: Thank you. Tommy Hayden,
14 Commodity Markets Council.
15 MR. HAYDEN: Present.
16 MS. MERSINGER: Matt Hines, American Farm
17 Bureau Federation.
18 MR. HINES: Present.
19 MS. MERSINGER: Thomas Hogan, Cocoa Merchants
20 Association of America.
21 MR. HOGAN: Present.
22 MS. MERSINGER: Ashley Hungerford, USDA

1 Office of Chief Economist.
2 DR. HUNGERFORD: Present. Thank you.
3 MS. MERSINGER: Tom Kadlec, Futures Industry
4 Association.
5 MR. KADLEC: Present. Thank you.
6 MS. MERSINGER: Chris Klenklen, National
7 Association of State Departments of Agriculture.
8 (No response. Mr. Klenklen later indicated
9 via email that he was present.)
10 MS. MERSINGER: Ron Lee, National Cotton
11 Council of America.
12 MR. LEE: Present.
13 MS. MERSINGER: Randy Melvin, National Corn
14 Growers Association.
15 (No response.)
16 MS. MERSINGER: Erin Morris, USDA Agricultural
17 Marketing Service.
18 MS. MORRIS: Present. Thank you.
19 MS. MERSINGER: John Owen, USARice Federation.
20 MR. OWEN: Present.
21 MS. MERSINGER: Monte Peterson, American
22 Soybean Association.

(No response.)

MS. MERSINGER: Paul Riniker, National Farmers Organization.

(No response.)

MS. MERSINGER: Mark Scanlan, Independent Community Bankers of America.

(No response. Mr. Scanlan later indicated he was present.)

MS. MERSINGER: Stephen Strong, North American Export Grain Association.

MR. STRONG: Present.

MS. MERSINGER: Justin Tupper, US Cattlemen's Association.

MR. TUPPER: Present, and good afternoon from South Dakota.

MS. MERSINGER: Ah, wonderful. Hayden Wands, American Bakers Association.

(No response.)

MS. MERSINGER: Ryan Weston, American Sugar Alliance.

(No response.)

MS. MERSINGER: Chris Young, International

1 Swaps and Derivatives Association.
2 (No response.)
3 MS. MERSINGER: As I mentioned before, if you
4 are unable to verbally indicate that you're
5 present, please just feel free to send me an email
6 and we'll make sure to update the record to reflect
7 your presence at today's meeting.
8 Now I'd like to turn it over to the
9 Commissioners for their opening remarks.
10 Commissioner Quintenz.
11 COMMISSIONER QUINTENZ: Thank you, Summer.
12 Thank you to the members of the Advisory Committee.
13 I don't have any official opening remarks this
14 afternoon Other than just to say it's great to
15 hear so many of your voices, and with the hope that
16 we may be able to see each other again in-person
17 soon. I've had the privilege and pleasure of
18 meeting so many of you, outside of Washington at
19 your places of business around the country, to
20 learn about how your businesses operate and how you
21 manage risk.
22 And today’s advisory committee is just one

1 more tool for us at the Commission to understand
2 that and to educate ourselves as to the challenges
3 that the Agricultural sector is facing. It started
4 with a great report and I'm interested to hear some
5 feedback on that, as well as the rest of the
6 presenters.
7 So thanks, everyone, for joining us today and
8 taking time. Appreciate that. Thank you, Summer.
9 MS. MERSINGER: Thank you, Commissioner
10 Quintenz.
11 Commissioner Behnam.
12 COMMISSIONER BEHNAM: Good afternoon. Thanks
13 Summer. Thanks to you Summer, specifically for all
14 your work as DFO and Acting Chair, I also want to
15 recognize and thank the Chairman for his leadership
16 on the committee as sponsor. And really, just want
17 to thank all the members for your time, your
18 service. I hope you're all doing well. It's good
19 to hear your voices as Commissioner Quintenz said,
20 and I look forward to today's discussion.
21 Obviously, we've been through a lot since we
22 last met and saw each other many, many months ago.

1 So I certainly hope everyone's doing well, staying
2 safe and I wish you all good health. And as we
3 sort of emerge from the pandemic slowly, I know
4 it's good to see sort of business as usual slightly
5 resume and as we work towards normalcy, and in the
6 months ahead, hopefully, look forward to seeing you
7 both here in Washington and at home in your places
8 of business.
9 So thanks again to everyone for participating
10 and thanks to Summer and Christa Lachenmayr, as
11 well for their leadership in organizing and I look
12 forward to today's discussion. Thanks.
13 MS. MERSINGER: Thank you, Commissioner
14 Behnam. Commissioner Stump?
15 COMMISSIONER STUMP: Hi, good afternoon. I
16 want to also extend thanks to Summer, I know
17 putting meetings together like this is sometimes
18 challenging and very time consuming, but
19 particularly in the environment we're operating in
20 today.
21 So thank you very much for the attention to
22 this very important advisory committee. And, I

1 too, wish we could be in-person. For me, it is
2 quite personal. I've known a number of members of
3 that committee for a long time and consider many of
4 you to be dear friends, and I always enjoy seeing
5 you in-person, so looking forward to the day we can
6 be together again in-person.
7 I don’t have any formal remarks. So with that
8 I’ll turn it back over to Summer.
9 MS. MERSINGER: Thank you Commissioner Stump.
10 Commissioner Berkovitz?
11 COMMISSIONER BERKOVITZ: Thank you Summer and
12 thank you to the committee. Thank you, Christa and
13 thank you, Mr. Chairman, for your leadership. And,
14 and of course, thanks to all the members for your
15 participation today in this situation where we're
16 working remotely, and we can’t meet in-person.
17 We're getting the job done at the CFTC, we’re
18 working very, very hard. But it, there's really no
19 substitute for face-to-face and interpersonal
20 interactions. And I do think it -- I also look
21 forward to the day when we can meet in-person in
22 the absence of that, we can meet like this, and

1 phone calls and just keeping the lines of
2 communication open.
3 We really depend on it more than ever to get
4 our job done. We're working remotely and we need
5 to hear from you and the market participants as to
6 what the issues are, and how we can best respond to
7 them and ensure we have a strong agricultural
8 market and a strong agricultural sector.
9 So I really appreciate the time and effort
10 you've put in to the various presentations today.
11 And I look forward to the discussion as well.
12 Thank you.
13 MS. MERSINGER: Thank you, Commissioner
14 Berkovitz.
15 And thanks again to the Committee and the
16 Commissioners for making the time to take part in
17 today's important meeting and for sharing your
18 remarks with the Agricultural Advisory Committee.
19 We know that this is a particularly busy time of
20 the year for those engaged in production
21 agriculture. So we really appreciate your
22 presence.

1 As noted in today's agenda, we will have a
2 brief update on self-reporting from Vince McGonagle
3 who is Principal Deputy Director in our Division of
4 Enforcement.
5 Vince, feel free to get started when you're
6 ready.
7 MR. McGONAGLE: Great, thanks Summer.
8 Good afternoon everyone. Thank you for the
9 opportunity to discuss the self-reporting program
10 with you today. Self-reporting also includes
11 components of cooperation and remediation so I'll
12 touch on those concepts as well. The interaction
13 of self-reporting, cooperation, and remediation
14 informs how the Division may recommend an
15 enforcement action against an individual or an
16 entity.
17 At the CFTC, our mission is to promote the
18 integrity, resilience, and vibrancy of the US
19 derivatives markets through sound regulation.
20 Enforcement is essential to fulfilling this
21 mission, because we work to foster market
22 integrity.

1 One way the Division of Enforcement meets its
2 mission, is to take steps to maximize deterrence.
3 That is, to prevent wrongdoing before it starts.
4 We can do this through timely identification and
5 prosecution of illegal activity and being
6 transparent about the case filings that are made.
7 Timely identification of matters can occur
8 through our surveillance program, regulatory
9 reporting requirements, and analysis of the tips,
10 complaints and referrals from market participants,
11 whistleblowers, and the public.
12 A timely enforcement response can also happen
13 through an effective self-reporting and cooperation
14 program.
15 The Division has had advisories and
16 cooperation for approximately 20 years now, and
17 they were recently updated in 2017. A division
18 advisory on self-reporting, distinct from
19 cooperation, was first issued by the Division in
20 2017 with a supplemental advisory concerning
21 foreign corrupt practices issued in 2019. While
22 self-reporting credit has been recognized in a

1 distinct number of the overall docket of Commission
2 cases, it is one of many tools available to assist
3 the Division.
4 In thinking about the culture of compliance,
5 we recognize that companies have the ability to
6 implement appropriate compliance and supervisory
7 safeguards to detect wrongdoing, and to report it.
8 However, companies with even the best intentions
9 can make mistakes, bad choices, or have bad actors.
10 The company is then in a position to make a
11 decision about whether to notify CFTC and to take
12 steps to cooperate and remediate that wrongdoing.
13 Under our advisory, if a company or an
14 individual wants to self-report, they must first
15 voluntarily report the wrongdoing, fully cooperate,
16 and then remediate.
17 So for purposes of these remarks, I'm
18 generally referencing a company, but the statement
19 will also apply to individuals.
20 So first, voluntarily report the wrongdoing to
21 the division. This disclosure must truly be
22 voluntary and must be made before an imminent

1 threat of disclosure of a government investigation
2 and it must be independent of any other legal
3 obligation. It must be a real disclosure, designed
4 to notify us of the misconduct.
5 So I think what we mean here, and I think this
6 is fairly straightforward, over the past three
7 years since the self-reporting program started, if
8 a firm or entity/individual wanted to report, they
9 easily picked up the phone, reached out and
10 conversations that I've had have gone along the
11 lines of "Vince, we've identified some conduct,
12 we'd like to meet with the Division and other
13 appropriate divisions within CFTC. Can we go ahead
14 and get a meeting set up?" And that begins an
15 effective self-reporting program.
16 The company must also disclose the misconduct
17 to the Division within a reasonably prompt time
18 after becoming aware of it. So we definitely are
19 interested in having a nexus between notification
20 of the conduct, recognition of responsibility, and
21 then the contact. We have seen instances,
22 sometimes where weeks or months have gone by, and

1 we'll certainly consider that as part of our
2 recommendation and determination about the self-
3 reporting and cooperation credit that is warranted.
4 But we think that the earlier that you can get
5 in the door, the better it is for the Commission,
6 the Division to determine effectively the scope of
7 the misconduct, as well as to be in a better
8 position to recognize the steps that the entity has
9 taken.
10 So the company should disclose the misconduct,
11 as I mentioned, within a reasonably prompt time
12 after becoming aware of it. Disclose all relevant
13 facts known to it at the time.
14 So we recognize at the time of the first
15 voluntary disclosure, the company may not yet know
16 of all relevant facts or even the full extent of
17 the conduct. But to encourage voluntary disclosure
18 at the earliest possible time, we'll recommend the
19 company receive full credit where the company made
20 diligent efforts to figure out the relevant facts,
21 fully disclosed the facts known at the time,
22 continued to investigate and disclose additional

1 relevant facts as the company became aware of them.
2 The company must also fully cooperate with the
3 Division throughout the investigation.
4 So the Division's cooperation guidance sets
5 forth several factors, some of which include the
6 following: disclosure of all facts relevant to the
7 misconduct as a company becomes aware of them
8 during its own investigation, including facts
9 related to the involvement of any individuals.
10 It's not enough to report it, but particular facts
11 need to be attributed to particular people. We
12 expect this cooperation to be proactive, not
13 reactive. It's not enough just to be responsive to
14 the Division during the course of the
15 investigation.
16 And then third, the company must timely and
17 appropriately remediate. Remediation is going to
18 depend on the facts and circumstances of a
19 particular case.
20 So the entity has self-reported, cooperated
21 and remediated. What happens?
22 Well, if the company does these things, the

1 Division of Enforcement will, at the outset of this
2 self-report, communicate our expectations
3 concerning cooperation or remediation. The
4 Division of Enforcement will also recommend a
5 substantial reduction in the penalty that otherwise
6 would be applicable. In truly extraordinary
7 circumstances, the Division may recommend a
8 declination to prosecute the case.
9 So I thought it'd be helpful to use an example
10 of a case filing that we've had within the past
11 year or so, and I'll generally paraphrase this
12 statement from the order, for the most part, just
13 anonymizing the name of the entity, but to give a
14 sense of how an a Commission order has recognized
15 self-reporting and cooperation.
16 "After self-identifying that it was in
17 violation of certain regulatory requirements,
18 Entity A immediately initiated a broad internal
19 review of its regulatory compliance program,
20 properly disclosed to the Division the results of
21 that review, despite not knowing the extent of its
22 violative conduct.

1 Following its disclosure, Entity A continued
2 to conduct its internal review and cooperated fully
3 with the Division’s investigation, as well as with
4 the Commission's regulatory divisions by
5 voluntarily and promptly responding to the
6 Division’s inquiries, providing frequent updates on
7 the status of remediation work, and disclosing
8 additional deficiencies.
9 Entity A devoted substantial resources to
10 remediation, acted quickly to ensure forward
11 looking compliance, well as to correct its issues
12 regarding historical reports. The entity also
13 retained outside counsel, undertook an
14 investigation and root cause analysis of the
15 deficiency. The conclusions reached by counsel
16 contributed to reorganization of the business line,
17 including personnel changes.
18 The prompt self-reporting violations to the
19 Division, its substantial cooperation with the
20 division’s investigation, and its extensive
21 remediation efforts are reflected in the
22 substantially reduced civil monetary penalty in

1 this order."
2 Turning to the more recent advisory on self-
3 reporting and cooperation for CEA violations
4 involving foreign corrupt practices, the advisory
5 applies to companies and individuals not registered
6 or required to be registered with CFTC. The timely
7 and voluntary disclosed to the Division violations
8 of the Commodity Exchange Act that involve foreign
9 corrupt practices, say for example, bribes to
10 secure business and swaps or derivatives, contracts
11 or corrupt transactions to effect prices or
12 otherwise affect the price discovery process where
13 the voluntary disclosure is followed by full
14 cooperation and appropriate remediation, similar to
15 our 2017 advisory. In those instances the Division
16 will apply a presumption that it will recommend to
17 the Commission a resolution with no civil monetary
18 penalty, absent aggravating circumstances.
19 For example, the Division will consider
20 whether executive or senior level management of the
21 company was involved, whether misconduct was
22 pervasive within the company, whether the company

1 or individual had previously engaged in similar
2 misconduct.
3 We should note that the presumption of the
4 recommendation of no civil monetary penalty will
5 not be applied to registrants however, who have an
6 independent duty to report.
7 Nonetheless, we would recommend for
8 registrants a substantial reduction in the civil
9 monetary penalty, where the registrant timely and
10 voluntarily self-reported, provided full
11 cooperation, and undertook appropriate remediation.
12 The Division of Enforcement is responsible for
13 the investigation and recommendations to the
14 Commission, for prosecution of violations of the
15 Act and regulations. This is a responsibility that
16 staff and the Commission take seriously. The Self-
17 Reporting Cooperation Advisory provide companies
18 and individuals an opportunity to get out in front
19 of a Division of Enforcement investigation and
20 recommendation for Commission action.
21 Companies and individuals have a choice in
22 determining whether and how to respond to potential

1 violations of the Act and regs. They can decide
2 not to self-report and if the conduct is
3 discovered, the entity can defend themselves with
4 respect to that possible underlying violation and
5 be held accountable for the full range of
6 sanctions, penalties, and remedial actions
7 appropriate to the scope of that violation.
8 Or they can choose to encourage a culture of
9 compliance, proactively engage with the Commission,
10 and obtain a publicly recognized benefit for doing
11 so.
12 Finally, I'd like to thank Christa for sharing
13 some links on the slide deck, and in particular,
14 I'd point out the Division of Enforcement manual,
15 which provides context for these advisories.
16 Summer, back to you.
17 MS. MERSINGER: Thank you, Vince. And if
18 anyone has any questions, feel free to type them in
19 the chat or I realize that some of you may only be
20 on the telephone here. If you have a question and
21 you want to go ahead and unmute yourself, and then
22 identify and give your name, and then ask your

1 question. That works just as well.
2 So we'll pause here for a quick question
3 break.
4 (No response.)
5 MS. MERSINGER: Okay, with no questions we'll
6 move onto our next presenter, please feel free if
7 you do have a question and you think of it
8 throughout these presentations, feel free to chat
9 and we can we can ask at another time.
10 Our next presenter is David Amato, from our
11 Division of Market Oversight. David will provide
12 an update from the Livestock Task Force.
13 David, go ahead when you're ready.
14 MR. AMATO: Thank you. Good afternoon,
15 Chairman Tarbert, Commissioners Quintenz, Behnam,
16 Stump, and Berkovitz, and AAC Chair Mersinger and
17 members of the Agricultural Advisory Committee.
18 Thank you for the opportunity to speak today. My
19 name is David Amato. I'm the supervisor of the
20 Agriculture Group in the CFTC Division of Market
21 Oversight, Market Intelligence Branch.
22 Moving to slide 21, Overview of the CFTC

1 Livestock Task Force.
2 In April of this year, Chairman Tarbert gave
3 me the privilege of leading the Livestock Task
4 Force for the CFTC. The Livestock Task Force
5 consists of expertise across multiple divisions of
6 the CFTC, including economists and data scientists
7 from our Division of Market Oversight, Market
8 Intelligence and Product Review Branches, as well
9 as the Division of Enforcement Surveillance, and
10 the Office of Legislative and Intergovernmental
11 Affairs.
12 The mission of the Task Force is to provide
13 enhanced oversight and surveillance of livestock
14 markets in the face of extreme volatility and risks
15 brought on by COVID-19.
16 As we all know, livestock future markets are
17 critical for price discovery and risk management
18 for this industry.
19 For this briefing, we would like to discuss
20 some of the general fundamental drivers observed
21 during this pandemic, highlighting livestock,
22 specifically Live Cattle. Then I'll share some of

1 the non-confidential overall activities of the Task
2 Force to-date.
3 The opinions in this briefing are my own and
4 not necessarily those of the CFTC or the Chairman
5 or any of the Commissioners.
6 Before discussing this slide, I would like to
7 thank Livestock Task Force members David Fickert,
8 Elitza Voeva-Kolev, Ann Wright, Ken Danger, and
9 Christa Lachenmayr for their contributions over the
10 past several months to the Livestock Task Force.
11 And I would also like to thank Gene Kunda, Jerry
12 Lavin, Bob Penska, Brian Rushton, and Kelly Beck,
13 who although not official members of the Task
14 Force, assisted the Task Force's analytical efforts
15 in multiple ways during this pandemic.
16 As you can tell from that long list, the
17 Chairman has dedicated significant resources and
18 staff to this task force.
19 Moving on to slide 22.
20 The COVID-19 impact on agricultural markets.
21 As 2020 began many of the agricultural markets were
22 seeing relatively low prices affected by weather

1 the previous year and trade conflicts. Starting in
2 the first quarter, COVID-19 brought significant
3 chaos on agricultural and other markets on both the
4 supply and demand side.
5 As a result, the market observed multiple
6 price anomalies, heightened volatility, and
7 increased dislocations. Logistical problems and
8 demand shifts quickly created a buildup of certain
9 livestock products, including milk and bacon, and
10 saw drawdowns of others, including ground beef.
11 The livestock supply chain faced unprecedented
12 challenges as a result of worker illness, packing
13 plant closings, and reductions in processing. The
14 Phase One trade deal between the US and China
15 stalled as the pandemic substantially affected
16 Chinese demands. We've seen a rise in farm
17 bankruptcies and cash receipts for farm goods are
18 expected to fall this year.
19 The record $37 billion in direct payments from
20 the federal government this year to-date has helped
21 sustain farm incomes. Government payments have
22 risen to 36 percent of farm income, the highest

1 share in nearly two decades.
2 Last week, the USDA announced an additional
3 $14 billion in aid for agricultural producers
4 affected by COVID-19 with payments distributed
5 likely in 2021.
6 Moving on to slide 23.
7 Cattle, cash and futures, and boxed beef
8 prices, weekly. This graph shows the price
9 relationships between three separate, but related
10 markets. Cash cattle, represented by the blue
11 line, are transactions between cattle feeders and
12 meat packers.
13 The futures price, as represented by the gray
14 line, is the CME Live Cattle futures price. Boxed
15 beef, represented by the red line, is the gross
16 price of primal cuts of beef put in boxes for
17 shipping from a packing plant to retailers. Boxed
18 beef prices soared during the virus outbreak and
19 continued to break records, from April 17th to May
20 8th of this year, boxed beef prices more than
21 doubled their value, reaching a record $475 per
22 hundredweight.

1 Since then, the choice boxed beef cutouts have
2 fallen to around $220 per hundred weight.
3 This chart illustrates how the global COVID-19
4 pandemic injected massive uncertainty that impacted
5 both the cash and futures markets, as processing
6 plants struggled during the spring to remain open,
7 the wholesale cash and retail values of meat
8 surged. At the same time, livestock cash and
9 futures prices fell sharply leading to large
10 spreads between the value of a processing
11 facilities inputs and its outputs. This is because
12 as plants closed, the packer demand for live
13 animals decreased, causing cash and futures prices
14 to fall.
15 At the same time, however, less finished meat
16 moved to the processing system, raising prices at
17 the wholesale and retail levels shown via the
18 increased boxed beef prices on this graph.
19 Supply and demand has stabilized to a degree
20 since the spring and the situation has improved
21 greatly. Boxed beef prices are now near historical
22 averages, but as we know this could rapidly change

1 depending on news of outbreaks at any of the
2 packing plants.
3 Moving on to slide 24.
4 US cattle slaughter, weekly. Beginning in
5 early spring of this year, the packing plants were
6 among the most significant hotspots for COVID-19
7 cases. On April 28, 2020, President Trump issued
8 an executive order under the Defense Production Act
9 making certain packing plants critical
10 infrastructure to the food supply chain. During
11 the spring, about three dozen livestock processing
12 plants closed due to issues with COVID-19.
13 The duration of these closures ranged from a
14 few days to weeks. Generally, the closures were
15 due to outbreaks among workers at the plants. We
16 estimate that pork and beef processing capacity due
17 to closures and absenteeism fell by as much as 35
18 to 40 percent during the spring.
19 This graphic shows the drastic drop in
20 slaughter numbers for cattle, as you see with the
21 collapse of the blue line for 2020. The COVID-19
22 outbreak reduced weekly US total cattle slaughter

by 38 percent from the March high point. The latest data however shows slaughter numbers for cattle have gone up significantly, up almost 45 percent since the low in early May, reflecting processing plants coming back online, workers returning, absenteeism dropping, and now moving toward normal kill capacities as plants work through the backlog of animals and record cattle waits.

Moving on to slide 25.

Percent change in ag futures since January 2nd of 2020.

This slide gives an overview of the relative futures price changes for ag futures prices, with Live Cattle, the red line, and Lean Hogs, the dark blue line, compared to Corn and Soybeans from the start of the year to present. It shows after the COVID-19 pandemic started, Lean Hog futures fell as much as 40 percent. Additionally, Live Cattle hit a 10-year low down more than 35 percent at one point.

Other ag products were affected similarly,

1 with individual commodities declining between 10
2 and 40 percent when the virus affected the US in
3 March.
4 As you know, the markets have stabilized. We
5 have seen a general uptick from the lows in April,
6 but most ag products are still lower by
7 approximately 10 to 20 percent, when compared to
8 the January numbers, with the exceptions of the
9 grains and oilseeds that are being boosted recently
10 by strong exports to China. Livestock markets,
11 though, are still dealing with animal backlogs and
12 relatively weak demand. With Lean Hogs still
13 lagging by about 25 percent from the start of the
14 year, and Live Cattle prices lagging by about 15
15 percent.
16 Livestock prices in general remain relatively
17 soft, and with restaurant and institutional demands
18 continued to be frail it appears that this will be
19 the case until the opening up of the full economy
20 occurs.
21 Moving on to slide 26.
22 Major agricultural futures 20-day historical

1 volatility. This graphic shows levels of market
2 stress across ag futures measured by 20-day
3 historic volatility, which increased considerably
4 during March, especially for livestock and remains
5 at elevated levels. Lean Hog volatility, the dark
6 blue line, peaked at over 70 percent on an
7 annualized basis. With Live Cattle, the red line,
8 near 60 percent.
9 The market observed uncertainty regarding
10 reopening of packing plants as well as demand.
11 This uncertainty was reflected in exceptionally
12 high volatility in the livestock markets. The
13 grain market by contrast, faced less uncertainty
14 and experienced lower volatility.
15 As an indicator of the extreme volatility. We
16 can use the example of price limit moves in CME
17 Live Cattle futures markets. In this market over a
18 31 trading-day period from March 1st through April
19 14th, the June Live Cattle contract had 14 days
20 reaching the CME-set daily price limits, oftentimes
21 moving limit up and limit down in the same week.
22 In response the CME has recently made

1 significant changes effective in October to price
2 limits in Live and Feeder cattle contracts, raising
3 the limit levels and moving to a similar framework
4 that exists in the grains and oilseeds replacing
5 the current, fixed daily price limit regime with a
6 variable price limit regime that will be price-
7 based and reset annually. A similar change was
8 made to Lean Hogs this past April by the CME.
9 This slide demonstrates that ag volatility
10 after spiking with the crisis has subsided. The
11 reduction of volatility mirrors what we've seen in
12 other commodity markets as futures prices rebound
13 from their year-to-date lows. However, volatility
14 remains substantially elevated as the country
15 slowly reopens, packing plants return to normal
16 operations and export demand improves.
17 Moving on to slide 27, CME Live Cattle futures
18 and options market composition and price. This
19 graphic shows the net contracts that manage money
20 and investor class has in CME Live Cattle, in red.
21 And in light blue bars we see commercial positions.
22 Those commercial positions are producers,

1 processors, merchandisers, and end-users. Both on
2 the right Y-axis and then price represented by a
3 blue line on the left axis. The cash market that
4 farmers, ranchers, and packers and processors deal
5 in every day is exclusively a commercial market of
6 buyers and sellers. However, the ag futures
7 markets shown here have large non-commercials
8 represented by managed money who don't participate
9 in the cash market.
10 This investor class makes trading decisions
11 based on price trends. As prices go up they buy,
12 and as prices go down they sell. If you look at
13 many ag commodities since late January, you'll see
14 a large liquidation by non-commercial managed money
15 in the public, CFTC Commitment of Traders Reports
16 of their long futures positions across the ag
17 markets.
18 In Live Cattle, the net long futures and
19 options positions of managed money, again shown in
20 red, dropped significantly in the spring, going
21 from net long positions of about 90,000 contracts
22 to slight net short positions shown as negative

1 numbers, while futures prices, shown in blue,
2 dropped from $130 to $85 per hundredweight.
3 During the same time period, CFTC data shows
4 commercials, the blue bars, reducing their net
5 short positions, locking in at these lower prices.
6 As we are returning to a more normal supply and
7 demand environment, we slowly see managed money
8 rebuilding their long positions currently around
9 60,000 net long. And prices have been positively
10 affected through this buying by managed money from
11 the April lows in the $80 range to the $110 range
12 we see today.
13 The most important point from this slide is
14 commercials and managed money traders shifted their
15 positions significantly, while prices declined and
16 did the same in the opposite direction as prices
17 began to rise.
18 Moving on to the last slide.
19 The summary of CFTC Livestock Task Force
20 activities. The Livestock Task Force, and the CFTC
21 as a whole, has been in close consultation and
22 dialogue with the CME, livestock industry groups

1 and individual market participants during this
2 pandemic. We've discussed agricultural issues
3 ranging from convergence, to price limits, to
4 market surveillance.
5 Enhanced surveillance of all livestock
6 contract expirations was and continues to be
7 conducted. As an example of this work, we can talk
8 in some detail about the April 2020 CME live cattle
9 expiration.
10 In April, there were significant cash and
11 futures convergence concerns going into the last
12 days of trading for the April 2020 CME Live Cattle
13 contract. These concerns stemmed from the absence,
14 or near absence, of cash markets in many locations.
15 As packer demand for more animals evaporated and
16 feedyard operators had limited, if any options, to
17 send their slaughter-ready cattle due to closures
18 caused by COVID-19.
19 During the April spot expiration, the task
20 force was in frequent contact with CME Market
21 Regulation, market participants, and FCMs
22 throughout the last week of trading. The task

1 force reminded traders of the responsibility for an
2 orderly liquidation and engaged in confidential
3 discussions that served to make clear that the Task
4 Force was watching trading activity closely.
5 Ultimately, on last trading day, the April
6 future rose to expire at $90 per hundred weight and
7 cash sale prices occurred in the $92 to $94 range,
8 making the ending basis $2 to $4 cash over the
9 April future. This reflects solid convergence,
10 especially considering the unprecedented conditions
11 in the cash market. This future expired with no
12 apparent problems.
13 In terms of our internal work product, this
14 work included verbal market status updates to the
15 Commissioners and regular task force presentations
16 to the Commissioners.
17 In terms of the external work product, the
18 Livestock Task Force has briefed the Agricultural
19 Advisory Committee, Congressional offices, other
20 government agencies such as Department of Justice,
21 the USDA, the Department of Homeland Security, the
22 Financial and Banking Information Infrastructure

1 Committee, and the Financial Stability Oversight
2 Council.
3 Finally, although we can't comment on non-
4 public analysis, I can mention one investigation.
5 The finalization of which was announced publicly
6 last week and mentioned by the Chairman at the
7 start of the meeting today. The CFTC brought a
8 spot month position violation against a Mexican
9 meat processor for violating June 2020 Live Cattle
10 futures position limits, the order requires the
11 firm to pay a $35,000 civil monetary penalty, and
12 the firm is also being fined $25,000 by the CME.
13 This case was brought in connection with the
14 CFTC Livestock Market Task Force and the CFTC
15 Enforcement Surveillance. That concludes our
16 Livestock Task Force presentation. I'm happy to
17 take any questions if there are any. Thank you.
18 MS. MERSINGER: Thank you David, and again, if
19 you have questions, feel free to send a chat to the
20 Panelist Group who are on the WebEx platform, or at
21 this point, you can also just unmute your phone and
22 ask your question making sure you identify yourself

1 before you begin speaking.
2 MR. CREAMER: Hi, there. This is Rob Creamer
3 with the FIA-PTG.
4 Thank you for the presentation, I was
5 wondering if you might be able to share any
6 observations you might have about the functioning
7 of the futures markets during and following the
8 volatility of the crisis?
9 And I'm particularly curious about your
10 observations of liquidity and perhaps any areas
11 that could have used improvement.
12 MR. AMATO: Thank you for the question.
13 I think it's similar to what I said at the
14 last AAC, the one we had in April. I think
15 overall, the markets are working, in a sense, as we
16 expect -- price action is very similar to what we
17 would expect. Very similar this year, except to a
18 much greater extent, to price movements like we saw
19 with the Holcomb plant fire back in 2019.
20 So I think in terms of fundamentals, I think
21 the prices are reacting the way we would expect.
22 We've done a lot of research in terms of looking at

1 transactions, looking at who is in this market and
2 who has been participating. We found some
3 interesting things in terms of the liquidity.
4 We've had the record volume that we had back at the
5 height of the COVID response back in March. And
6 we've done some work on, you know, looking at
7 things like high frequency traders.
8 And so, one of the things that we've we found
9 in looking at some of that data is during this time
10 period in 2020, high frequency traders have
11 accounted for about 20 percent of the trading in
12 Live Cattle, but they only account for about 10
13 percent of the aggressive orders, which means that
14 while we're seeing more participation, the high
15 frequency traders are actually providing liquidity,
16 not taking liquidity, as these nonaggressive orders
17 don't take liquidity from the order book.
18 Aggressive orders are the ones that do that
19 because they break the bid-ask spread.
20 So I guess to answer your question, what we're
21 seeing -- we're still seeing good liquidity. And
22 we're seeing the markets react the way we would

1 expect. And obviously, we can't comment on, you
2 know, any investigations that we're doing or any
3 enforcement actions that will take place. But as
4 things happen, you know, those will be made public.
5 MR. CREAMER: Thank you. Thank you for that.
6 That's very helpful, and certainly I'll stay tuned
7 for any reports or information. I was very pleased
8 to hear a comment right there about the liquidity
9 providers in these markets, the algorithmic or
10 electronic trading firms providing liquidity and
11 it's certainly what we intend to do, but thank you
12 for your comments.
13 MS. MERSINGER: Next up, I believe we have a
14 question from Jim Fryer. And he's asking --
15 wondering if you could expand on the one to two
16 weeks that are leading into the April expiration in
17 the large premium of cash to futures.
18 Jim, did you have anything to add?
19 (No response.)
20 MS. MERSINGER: Go ahead -- if you want to go
21 ahead and answer the -- expand upon the one to two
22 weeks leading into the April expiration date, I

1 think that would be helpful.
2 MR. AMATO: Oh, sure. I think the gentleman
3 that made the question yes, there was definitely a
4 large premium there. And there was a lot of
5 concern because as I mentioned, when I was going
6 over the slides, the cash market basically was
7 almost stagnant. And people that we talked to, the
8 feedlot operators that we talked to, you know, told
9 us that they had no options for where to put their
10 cattle. So it was a very, very concerning time for
11 us.
12 And I think what we saw was a significant
13 amount of work, and both from CME standpoint and
14 the CFTC, in talking to traders, reminding them of
15 their responsibilities.
16 And like I said, when I did the slides, we
17 ended up at, I think, very, very good convergence,
18 given what was almost a non-existent cash market.
19 And I think that the thing to keep in mind is the
20 futures market did a great service to the industry
21 because it provided the industry with price
22 discovery. For some people -- for some of the

1 traders, it was the only place to get price
2 information because the cash market was basically
3 like I said, stagnant.
4 MS. MERSINGER: Thank you, Dave.
5 Are there any other questions for David Amato
6 before we move on?
7 (No response.)
8 MS. MERSINGER: All right, well, with that we
9 will move on to our next presentation.
10 We have a team from the CME Group. Alison
11 Coughlin, Director in the Commodity Research and
12 Product Development, she will discuss the South
13 American Soybean Futures Contract. And we also
14 have Fred Seamon who is also in the Commodity
15 Research and Product Development Unit and Tim
16 Andriesen, from the Agricultural Business Line.
17 They will be on the line to answer any
18 questions, when Alison is done with her
19 presentation.
20 Alison, feel free to start whenever you're
21 ready.
22 MS. COUGHLIN: Thank you. Good afternoon,

1 everybody. Thank you very much for having me. I
2 appreciate the opportunity to be here to talk a
3 little bit about our new South American Soybean
4 futures contracts.
5 Next slide, please.
6 So first, I'm going to cover some of the
7 reasons that CME felt that the marketplace needed
8 this tool and what key things we paid attention to
9 in the design of the product. Then we will get
10 into contract specifications. Third, I want to
11 touch on cash settlement, so how it functions and
12 some of the key benefits. And lastly, I will go
13 into how we see this new contract working with the
14 existing CBOT Soybean contract.
15 Next slide, please.
16 Next slide, have to have the fine print.
17 So the reality that led to this product is
18 that the US is not the dominant ag exporter that it
19 once was. Brazil has overtaken the US in both bean
20 production and exports. And so, a regionally
21 priced product made sense. Also these markets have
22 seen long term correlation, but recently we had

1 observed some breakdowns in this relationship, such
2 that CBOT 'Beans were not always pricing on a
3 consistent basis over Brazil or under Brazil, and
4 as Brazil grows, the seasonality of the harvest and
5 export becomes more important.
6 So CBOT 'Beans, the new crop is November,
7 whereas Brazil's new crop occurs in March. And so,
8 those pricing cycles are not aligned for Brazilian
9 hedgers to necessarily use the CBOT Soybean
10 contracts to hedge all of their exposure.
11 Obviously, some non-fundamental supply and
12 demand factors like the trade war really brought
13 the demand for this product to the forefront and
14 signified a greater need for a tool such as a
15 Brazilian price soybean futures contract. And one
16 very important aspect here that I want to highlight
17 is the desire for clearing to eliminate the
18 counterparty credit risk that does exist in the
19 paper market.
20 So by providing a cleared instrument, we are
21 eliminating that risk.
22 Next slide, please.

1 The next two slides speak to the need for the
2 product just in a graphical sense. So I think that
3 this graph just really clearly highlights the
4 growing significance of Brazil and South America as
5 soybean exporters.
6 Just a few decades ago, the US was responsible
7 for over 80 percent of global soybean exports. And
8 today, the US is only responsible for about under
9 40 percent of global soybean exports. So you can
10 see on the charts just the immense growth of Brazil
11 from almost zero percent of global soybean exports
12 all the way to the majority.
13 Next slide.
14 Here's another really important graphical
15 representation of something that we've covered.
16 Here we're looking at the relationship of US Gulf
17 cash prices to Paranagua Port cash prices. You can
18 clearly see the impact of the trade war and how
19 volatile it made this relationship. But even now,
20 however, with a phase one deal in place, you can
21 see that basis coming together in early 2020, and
22 then re-widening to where we are at today.

1 Next slide, please.
2 Here are some of the key contract
3 specifications and salient features. There's a
4 couple key similarities to the legacy CBOT Soybean
5 contract that I want to point out and a couple of
6 important differences. So the contract size
7 parallels the legacy Soybean contract and the
8 listed month also reflects the CBOT Soybeans with
9 the addition of a February expiry and that was due
10 to customer demand for that additional month.
11 Some important differences to discuss are the
12 tick size. So 20 cents per ton is equal to $27.20
13 per contract. So it is roughly a two times the
14 value of the CBOT Soybean contracts but not
15 exactly.
16 And the settlement mechanism is definitely
17 different from the legacy CBOT Soybean product
18 where that product is physical, this product is a
19 financially-settled instrument, which we will get
20 into on the next slide.
21 So I want to explain the financial settlement
22 a little bit, like I said earlier, both the

1 functionality of how it actually works and some of
2 the benefits that we see with a financially-settled
3 product.
4 So obviously, there's two types of
5 settlements, a daily settlement and a final
6 settlement. The daily settlement, like the legacy
7 product, is derived from trades that the market
8 executes that day and it's not directly tied to an
9 assessment. The final settlement, however, is a
10 numerical, financial price as opposed to a
11 guarantee of physical product. So our final
12 settlement number is based on a Platts assessment
13 of the price of soybeans in Santos.
14 To generate that assessment, Platts looked at
15 commercial trades that occur that meet the quality
16 and quantity standards that you see on the screen.
17 And from those trades, bids, offers, indications,
18 et cetera, that Platts receives, they come up with
19 a daily price that reflects the value of Brazilian
20 soybeans. And for the purposes of our contract
21 final settlement, we average all of these daily
22 assessments during the calculation period. The

1 calculation period includes assessments from the
2 16th of the month prior to expiry through the 15th
3 of the expiry month.
4 So for example, the March 2021 expiry will
5 expire on February 15, 2021, and the calculation
6 period is January 16th through February 15th for
7 the March contracts. So all of those daily
8 assessments from Platts will be averaged to
9 determine the final settlement price.
10 The Platts Santos assessment is highly
11 correlated with pricing points around Brazil, so
12 this methodology really allows the futures price to
13 reflect the average Brazilian soybean price during
14 a loading period. We see that as a as a major
15 benefit to this financial settlement mechanism, and
16 additionally, players in the market can stay in the
17 contract through expiration without the threat of
18 taking or making physical delivery.
19 So it allows a potential broader pool of
20 participants to remain in the contract for a longer
21 period of time.
22 Next slide please.

1 So one of the most important takeaways that I
2 really want to highlight is how we see this product
3 fitting into our existing suite.
4 We view these cash-settled regional products
5 as aadditive complement to our benchmark offering.
6 I don't think anything shows this better than when
7 we see a spread trade, which was in fact the first
8 trade that we had in the New South American
9 product; it was in South American and legacy CBOT
10 Soybeans. So we expect a similar relationship to
11 occur with this product that we have with the wheat
12 suite where Black Sea wheat has not had an impact
13 on liquidity on our existing wheat products in
14 terms of open interest or how tight the bid-ask
15 spread is.
16 So we're excited to see where the market takes
17 this product and I'm happy to answer any questions
18 that anyone may have. I appreciate the
19 opportunity. Thank you.
20 MS. MERSINGER: Thank you, Alison. And if
21 anyone has any questions, feel free to speak up or
22 send a chat. Either way works.

1 MR. DIERKS: Summer, this is Neil Dierks from
2 the National Pork Producers Council.
3 MS. MERSINGER: Yes. Go ahead.
4 MR. DIERKS: And I'm not sure there's a real
5 answer to this, I guess I would be interested at
6 some juncture, maybe it's the next AAC meeting -
7 with the inclusion of the South American product,
8 and the traders are far more sophisticated than my
9 brain, but I am interested because we're seeing
10 exchanges starting to offer risk management tools
11 in other countries on the hog side -- what we see
12 in the future of the ability to maintain the
13 dominant futures markets in the United States.
14 Part of that is because from a producer
15 standpoint, you deal with, you know, typically a
16 transportation differential from wherever you're at
17 in Nebraska to Chicago for pricing, and because of
18 the price discovery mechanisms with them.
19 I'd be interested at some junction, just to
20 throw it to Fred or to Tim or whoever in the future
21 that maybe we could hear from them about more
22 strategically, as we see these go together because

1 I'm sure there's going to be all sorts of
2 opportunities that are arriving with these
3 contracts, as you made the reference on the wheat
4 contract, for spreading and things in this order.
5 I'm just curious, I'm trying to sort out the
6 ramifications, because this is probably more of a
7 statement, of what my desire is for our producers.
8 It behooves us to have the futures mechanisms in
9 this country, if nothing else, so that we can avoid
10 transportation differentials on pricing.
11 Just an editorial comment as much as anything,
12 but I'm interested in Alison or Fred or Tim having
13 any response to that.
14 MR. ANDRIESEN: So this is Tim Andriesen.
15 We're happy to drill into that in more depth in a
16 future meeting. What I would tell you is that we
17 very much believe that having one centralized
18 exchange where customers can manage risk on
19 multiple products, whether it's beef in different
20 continents or livestock in different continents,
21 makes a lot of sense. It provides them with you
22 know, the ability to spread those products and it

1 provides them with margin offsets, and a lot of
2 other synergies.
3 We're happy if the Committee would like that;
4 to put something together and have that discussion.
5 MS. COUGHLIN: I should --
6 MR. SEAMON: Neil, this is Fred. I was just
7 going to add to your comment about the US
8 maintaining benchmark status.
9 And what we've been doing in the grains, and
10 Alison certainly alluded to this, and I think it's
11 absolutely right you know, we have benchmark
12 products here at the Exchange and you know the
13 world, the global market, particularly in grains
14 and oil seeds comes to The Board of Trade grain and
15 oilseed contracts to manage risks, but as we've
16 seen, you know, the shift in global production and
17 global exports become more, you know, worldwide.
18 There's a need for this regional price discovery
19 and we're not hearing from anyone that they're
20 interested in replacing the benchmark; they still
21 like the benchmark.
22 They just like having a tool that can be used

1 in conjunction with the benchmark to help with
2 regional price discovery. So, you know that's kind
3 of how I see that evolving and we've got quite a
4 bit of experience with Black Sea Wheat and now
5 South American Soybeans on the grain side. And
6 certainly, as Tim alluded to, we're happy to have
7 that discussion going forward on any commodity that
8 we trade.
9 MR. DIERKS: Thank you.
10 MS. COUGHLIN: This is Alison. I should
11 mention in conjunction with that comment Neil, this
12 touches on it a little bit.
13 This contract from the Exchange is meant more
14 for an international audience, mostly people,
15 customers that are already using our existing
16 instruments and will continue to use our existing
17 instruments. We developed this with B3 as a
18 partner, the Brazilian exchange, and they are also
19 in the process of launching a product that looks
20 similar to this product, but is aimed at more of a
21 domestic Brazilian audience. Smaller, Brazilian
22 entities that may not have the ability to trade on

1 an international exchange.
2 So I just wanted to mention that and make sure
3 that everyone was clear on how the B3 product
4 differs from the CBOT product.
5 Thank you.
6 MS. MERSINGER: Thanks, Alison.
7 We're a few minutes ahead of schedule so if
8 there are other questions feel free to speak up.
9 (No response.)
10 MS. MERSINGER: Well, with that thank you
11 Alison, Tim, and Fred as well. Thank you for
12 taking time to make that presentation.
13 We'll go ahead and move on to our next team of
14 presenters from the National Futures Association.
15 They'll discuss the role of intermediaries in
16 protecting the futures market from fraud. Our
17 presenters today from NFA include Karen Wuertz, who
18 is Senior Vice President of External Affairs and
19 Communications; Christie Hillsman, Communications
20 Manager; Valerie O'Malley, Director of Compliance;
21 Abigail Campbell, Associate Director of OTC
22 Derivatives; and Chris Brettman, CFE, Senior

1 Manager of Business Systems and Information Center.
2 Karen, whenever your team is ready, you can
3 begin.
4 MS. WUERTZ: Hi, Summer. This is Karen, can
5 you hear me?
6 MS. MERSINGER: We can hear you.
7 MS. WUERTZ: Perfect.
8 So good afternoon Chairman Tarbert,
9 Commissioners Quintenz, Behnam, Stump, Berkovitz,
10 and members of the Committee.
11 First off I want to thank all the Commission
12 staff that has helped us with today's logistics,
13 both Summer and Christa. You've both been
14 incredibly helpful and I know we all have said
15 this, and we wish we could all be there in person,
16 but this remote platform is the best option at this
17 time, and eventually we'll all be
18 back together and hopefully it's sooner versus
19 later.
20 I know, I know many members of the Committee,
21 but for those that don't know me, as Summer
22 mentioned, I am Karen Wuertz and I am a Senior Vice

1 President of External Affairs and Communications at
2 NFA. I've spent pretty much my entire career in
3 the regulatory space.
4 We are really honored today to be asked to
5 join this meeting to discuss NFA's role in the
6 regulatory framework for the US derivatives
7 industry. And similar to the CFTC, as Chairman
8 Tarbert mentioned in his opening remarks, you know,
9 NFA also understands the importance of vibrant,
10 fair, and resilient markets for our end users,
11 especially in the ag sector, that rely on these
12 markets for their hedging needs.
13 I've known several of you for, as I mentioned,
14 for a number of years and many of you have heard me
15 discuss NFA's important regulatory work before and
16 in some cases, you've probably heard me say this
17 many times.
18 So today I thought I'd take the opportunity
19 today to have you hear from a number my talented
20 NFA colleagues who are just as committed as I am to
21 NFA's regulatory missions.
22 My colleagues plan to cover a whole host of

1 topics, including our thorough process to ensure
2 that intermediaries meet both NFA's and the CFTC's
3 rigorous standards. We'll go over our robust
4 oversight program. We'll spend some time talking
5 about the strong CFTC-NFA regulatory partnership.
6 And we'll close with the important role of investor
7 education and protection. We've got lots to cover
8 today, so I'm going to turn it over to Christie
9 now.
10 Christie.
11 MS. HILLSMAN: Great. Thanks for that
12 introduction Karen and good afternoon to everybody.
13 Just to reiterate, I'd like to start by just
14 thanking the CFTC for affording us this
15 opportunity. We're thrilled to be here with the
16 AAC.
17 Before we dive into our panel discussion, I'd
18 like to start by just providing some brief NFA
19 background information just for Committee members
20 who may not be familiar with NFA and our important
21 regulatory role.
22 So NFA, the National Futures Association, is

1 the industry-wide, self-regulatory organization for
2 the US derivatives industry, and that includes
3 exchange traded futures, OTC derivatives or swaps,
4 and retail off-exchange foreign currency or Forex,
5 as well.
6 And every aspect of our regulatory activity is
7 overseen by the CFTC. So although we work
8 independently of the CFTC, we are subject to their
9 oversight and we, together, act as strong partners
10 in regulating the derivatives industry.
11 Just by way of background, self-regulation has
12 always played a really central role in the
13 regulation of the US derivatives market. And
14 that's in large part because of the historical
15 evolution of these markets. The Chicago Board of
16 Trade began operations back in 1848. And from its
17 earliest days featured a form of self-regulation to
18 ensure that its members were dealing fairly with
19 the each other and meeting their financial
20 obligations as well.
21 It was only natural then that when Congress
22 first began regulating futures markets, it chose to

1 then build on that self-regulatory foundation that
2 was already in place. In 1974, the US Congress
3 passed legislation that both established the CFTC
4 and also authorized the creation of registered
5 futures associations, or what are commonly referred
6 to as industry-wide, self-regulatory organizations.
7 And we, NFA, were formally designated as a
8 registered futures association. That designation
9 was granted by the CFTC and we opened our doors in
10 1982. Our responsibilities have grown pretty
11 steadily since then, so I think that's enough about
12 our history. Let's talk a little bit about what's
13 happening today.
14 So NFA's sole function is the regulation of
15 its members. And the Commodity Exchange Act
16 requires certain firms and individuals conducting
17 business in the derivatives industry to register
18 with the CFTC. And then, CFTC regulations require
19 with pretty limited exceptions, that those firms
20 and individuals then also become NFA members. This
21 essentially makes membership mandatory.
22 The basic mission of any self-regulatory body

1 is really to ensure a high degree of
2 professionalism and ethics for all of its member
3 firms. So if firms were free to either join or not
4 join NFA, precisely those firms that are most in
5 need of self-regulation would then simply evade it.
6 Today NFA has just about 3,300 member firms
7 and 46,000 individual associate members. Our
8 membership includes futures commission merchants,
9 swap dealers, commodity pool operators, commodity
10 trading advisors, introducing brokers, and retail
11 foreign exchange dealers.
12 Our members range pretty widely in size, from
13 huge multinational corporations, all the way down
14 to one-person operations.
15 We're governed by a board of directors, which
16 serves as our principal governing and policy
17 development body as well. The board consists of
18 both member directors and public directors. And
19 the board is structured to ensure that we're
20 representing each one of our NFA membership
21 categories. And actually, I'll mention that Tom
22 Kadlec, a member of this committee happens to be an

1 NFA board member as well.
2 NFA is funded primarily from membership dues
3 and assessment fees, and our operating budget, is
4 approximately $107 million. We also have just
5 about 550 employees. Our largest departments, as
6 you can probably imagine, are our regulatory
7 departments, so futures and swaps. And then
8 additionally, our technology department.
9 While those are our largest departments, the
10 contributions of all NFA staff allow us to uphold
11 our mission -- a the three-pronged mission, of
12 first safeguarding the integrity of the derivatives
13 market, protecting investors; second, and then
14 third, also ensuring that our members meet their
15 regulatory responsibilities.
16 That's a little bit of background about NFA,
17 who we are and what we do. And at this point, I
18 think I'd like to talk a little bit more about CFTC
19 oversight and collaboration.
20 So as I alluded to a minute ago, CFTC
21 oversight is really critical to our ability to
22 effectively regulate the derivatives industry.

1 Abbie, I'm hoping you can begin our panel
2 discussion for us. Can you just elaborate on our
3 relationship with the CFTC, and how it impacts our
4 work?
5 MS. CAMPBELL: Sure, Christie. I'm happy to
6 start, but you will hear throughout this
7 presentation about many touch points between NFA
8 and the CFTC, and just how we ensure our markets
9 are protected from bad actors looking to engage in
10 harmful activity.
11 Because NFA plays such an important role in
12 the US financial regulatory structure, it is
13 essential that our activities are closely reviewed
14 and monitored by the CFTC to ensure that we're
15 fulfilling our regulatory responsibilities. The
16 CFTC's oversight of NFA activities includes both
17 formal actions, which are required by statutes or
18 regulations, but also informal actions which have
19 evolved over time.
20 At the formal level, all of NFA's most
21 significant actions are subject to CFTC's direct
22 review and approval. However, informally, NFA is

1 in daily contact with the CFTC to discuss ongoing
2 investigations, registration matters, exams,
3 rulemaking issues, and many other issues that can
4 arise during the course of the day.
5 We also have regularly scheduled coordination
6 meetings with the Division of Enforcement, Division
7 of Swap Dealer and Intermediary Oversight, the
8 Division of Market Oversight, Division of
9 International Affairs, and the Commissioners to
10 ensure that the Commission is aware of all of our
11 activities.
12 I would say the feedback from these
13 interactions assists in our future development of
14 our day-to-day work and is key to staying nimble
15 within an evolving marketplace. The CFTC also
16 performs frequent exams of our work in each of our
17 areas of responsibility in order to ensure that
18 we're meeting our regulatory obligations.
19 This is a high-level overview of our main
20 interactions, but as I stated, we will touch upon
21 more examples throughout this panel, so I will
22 pause there.

1 MS. WUERTZ: Great, thanks for that Abbie and
2 Chris, I'll turn to you next. So when a firm or an
3 individual is considering NFA membership the first
4 department that they typically contact is your
5 department, registration. So Chris, how does the
6 registration department ensure that those firms and
7 individuals are fit to be doing business in the
8 derivatives industry, and then ultimately, grant
9 them membership?
10 MR. BRETTMAN: Just like you did Christie, let
11 me add a bit of background. The CFTC has a long
12 history of delegating and assigning regulatory
13 responsibilities to NFA. For example over 30 years
14 ago, the CFTC formally delegated the entire
15 registration function to NFA. All futures
16 professionals required to register with the CFTC
17 are granted registration only after a thorough
18 investigation of their background to determine if
19 they meet the fitness standards set forth in the
20 CEA. Permanent individual applications are
21 electronically filed through NFA's online
22 registration system.

1 Once an application has been received, NFA
2 reviews the disciplinary disclosure from on each
3 application, and several other sources to determine
4 if the firm or individual has any potential
5 statutory disqualifications that may prevent
6 registration.
7 The additional sources include FBI fingerprint
8 card check results, FINRA's CRD, NFA's BASIC
9 system, information provided by non-US regulators,
10 and World Check. The CEA outlines specific
11 circumstances that disqualify someone from
12 registration, or a firm, if that person is a
13 principal of the firm. These include criminal
14 proceedings, regulatory disciplinary actions, civil
15 judiciary proceeding, and miscellaneous other
16 matters.
17 Once registered individuals and firms have an
18 obligation to update their registration records to
19 report disciplinary information. On a routine
20 basis staff monitors certain regulators websites
21 for disciplinary actions, involving the applicants
22 and registrants to identify information that

1 indicates an individual may no longer be fit to be
2 registered. We subscribe electronically to sources
3 like the Department of Justice, which sends out
4 weekly bulletins of actions taken against a firm or
5 individual.
6 MS. HILLSMAN: And Chris, how does NFA ensure
7 that individuals seeking registration have the
8 knowledge that's necessary to do business in the
9 derivatives industry?
10 MR. BRETTMAN: Well, Christie, the Commodity
11 Exchange Act requires NFA to establish training
12 standards and proficiency testing for persons
13 involved in the solicitation of transactions
14 subject to CEA provisions. NFA rules require APs
15 engaged in futures and Forex activities to take and
16 pass proficiency exams that test both their market
17 knowledge and their knowledge of regulatory
18 requirements.
19 NFA recently imposed comparable requirements
20 applicable to swaps-related activity.
21 Specifically, NFA developed swaps proficiency
22 requirements for APs engaging in swaps

1 transactions. These requirements are in the form
2 of an online learning program with embedded test
3 questions. The swaps proficiency requirements
4 cover a number of swaps products, including
5 commodity products.
6 All swaps APs taking NFA's proficiency
7 requirements are required to review a section of
8 training that addresses the application and use of
9 commodity swap products. It also contains test
10 questions relating to commodity-related topics
11 addressed as part of the training section.
12 Individuals must complete these requirements by the
13 compliance date of January 31, 2021.
14 Currently, a little over 40,000 individuals
15 have enrolled in the swaps proficiency online
16 learning program.
17 MS. HILLSMAN: Great, thanks for that Chris.
18 And Val, can you talk a little bit about how our
19 Futures Compliance Department, alongside Chris's
20 Registration Department, assists with that
21 registration and membership application process?
22 MS. O'MALLEY: Sure, Christie.

1 So in addition to the rigorous background
2 checks and proficiency requirements that Chris
3 covered, NFA also performs a robust review of a
4 firm's operations during the application process.
5 For example, FCMs and FDMs and independent IBs
6 have capital requirements and are subject to a
7 financial filing review as part of the application
8 process. These firms must provide NFA with
9 financial statements and corresponding supporting
10 information, which may, among other things include
11 bank statements, general ledgers, and subordinated
12 loan agreements.
13 Along with the financials, these firms must
14 submit a letter detailing the source of the firm's
15 current assets, including the names of any
16 individuals and/or entities that contributed
17 capital to the firm and the amounts contributed.
18 This allows us to ensure that those contributing
19 capital are properly registered are or listed with
20 NFA, and that they're subject to a fitness review.
21 In addition to the financial information and
22 application, firms may also be required to provide

1 certain policies and procedures, such as anti-money
2 laundering procedures, mismanagement procedures,
3 and procedures for handling customer complaints.
4 If a firm intends to hold customer funds, we will
5 scrutinize their procedures regarding the
6 safeguarding of those assets.
7 MS. HILLSMAN: Thanks Val. So it's evident
8 that the membership application process is
9 deliberately pretty rigorous and that ensures that
10 only those firms and individuals that meet the
11 established high standards are then allowed to
12 operate in the derivative markets.
13 Once a firm or individual becomes CFTC-
14 registered and an NFA member, it must then operate
15 its business in compliance with CFTC regulations,
16 as well as those NFA rules that we mentioned.
17 Val, can you give some background on the NFA
18 rulemaking process and how we collaborate with the
19 CFTC on that front?
20 MS. O'MALLEY: Sure. So as we mentioned
21 earlier, NFA is a self-regulatory organization, and
22 the essence of self-regulation involves identifying

1 industry best practices in certain areas, and then
2 mandating those practices for the entire industry.
3 As Christie mentioned earlier, our membership is
4 diverse, therefore our rules must provide
5 meaningful protections and be flexible enough to
6 apply to all of our members.
7 When NFA identifies areas that may require
8 additional rulemaking, we work with our member
9 advisory committees, industry trade associations,
10 and the CFTC to draft proposed rules, and then
11 present those rules proposals to our board of
12 directors.
13 All the rule changes approved by the board are
14 submitted to the CFTC for approval. NFA and DSIO
15 collaborate daily regarding registration and
16 regulatory issues. Daily collaboration permits
17 DSIO and NFA to address technical and compliance
18 issues in a timely manner.
19 We also meet on a quarterly basis with DSIO to
20 discuss any rulemaking or regulatory issues. We
21 welcome DSIO's input and address their concerns
22 with very few exceptions in final rulemaking

1 proposals. NFA submits any proposals to adopt,
2 amend, or rescind its rules to the Commission. And
3 coordination in the early stages of rulemaking, the
4 early rulemaking process, can greatly expedite the
5 CFTC approval process.
6 Once rules are approved, NFA develops and
7 delivers education to members to help them
8 understand their regulatory requirements. This
9 education includes notices to members, webinars,
10 in-person workshops, audio conferences, and online
11 tutorials among others.
12 MS. HILLSMAN: Thanks Val. And since member
13 education falls pretty squarely on my department, I
14 can add a little bit of additional color here.
15 So to build on Val's remarks, we strive to
16 provide ample education for our members, not only
17 on new rulemaking and regulatory requirements, but
18 also on new systems, common exam findings, and hot
19 topics in the financial industry.
20 One timely example that I'll offer is a
21 webinar that we're holding to acclimate firms to
22 our soon-to-be-launched annual questionnaire

1 system, and the annual questionnaire is a filing
2 that all NFA members are required to submit, you
3 might guess, on an annual basis, based on the name.
4 And we want to make sure that all of our firms,
5 know what to expect when they log into that new
6 system.
7 We currently have just about 700 individuals
8 registered for that webinar. So it's pretty clear
9 that there's an educational need here. We're
10 looking forward to that opportunity during the
11 webinar to engage with members in real-time,
12 sharing that new system with them, and then
13 ultimately soliciting their questions and their
14 feedback.
15 And webinars have long been an educational
16 vehicle that we've utilized at NFA. And as you can
17 probably imagine, that webinar format has been
18 especially useful during this COVID-19 era.
19 But speaking of engaging with members in real-
20 time, I will mention that just prior to the start
21 of the pandemic, we also held our annual in-person
22 member workshop in Chicago, New York, and new for

1 us this year, London.
2 Our workshop agendas are constructed based on
3 input that we receive from our members ahead of
4 those events. And in general, we do our best to
5 anticipate member educational needs, but those
6 workshops in particular, are really great
7 opportunities to tailor some long-form education,
8 precisely to those needs and interests of members.
9 Before I turn back to rulemaking, I'll mention
10 just one more educational vehicle that's available
11 to our members, as well as the public at-large.
12 And that's the NFA website.
13 As you probably expect, our website is the
14 most critical resource that we provide, and
15 contains a variety of member-targeted regulatory
16 content, various publications, links to webinar
17 recordings, and much, much more.
18 Our website users tend to be our toughest and
19 our most helpful critics. And as with everything
20 else that I've discussed, we do welcome feedback.
21 So if anyone on the Agricultural Advisory Committee
22 has used our website, and has feedback that they'd

1 like to provide, I'd be happy to take that input.
2 And with that, I'll turn back to NFA's
3 rulemaking. So Val, as you know, for our markets
4 to thrive, customers must know that their funds are
5 safe. So thinking about our futures commission
6 merchant and Forex dealer members, can you give us
7 some examples of critical NFA rules and
8 requirements surrounding that protection of
9 customer funds?
10 MS. O'MALLEY: Sure, Christie.
11 There are many NFA requirements and CFTC
12 regulations to address the protection of customer
13 funds. But honestly, there are too many to cover
14 in the short time we have today. So let me
15 highlight just a few to provide a flavor. All FCMs
16 that hold customer funds are subject to full
17 examinations on an annual basis.
18 Also, all FCMs that hold customer funds report
19 their customer segregated, secured, and cleared OTC
20 collateral fund balances to NFA or CME Group daily.
21 NFA does a confirmation process on FCM balances,
22 and it's worth noting that this is a great process

1 that we have. NFA and CME confirm all segregated,
2 secured, and cleared OTC collateral balances on a
3 daily basis by obtaining confirmation information
4 directly from depositories. NFA uses an automated
5 system that performs daily analysis of the data
6 that it receives and compares the totals reported
7 by the FCM with the amount reported by the FCM's
8 depository to NFA, and then flags material
9 reconciling differences, which are reviewed and
10 investigated by NFA staff.
11 In addition to this, twice a month FCMs file a
12 detailed breakdown of the investment of customer
13 funds and identify the carrying brokers and other
14 depositories holding these funds. In addition to
15 this, FCMs file certified annual reports and
16 monthly unaudited financial statements for staff to
17 review.
18 Finally, if an FCM reduces its level of excess
19 segregated funds by 25 percent or more in any one
20 day, by making disbursements that are not for the
21 benefit of customers, a financial principal must
22 approve the disbursement, notify NFA or the CME,

1 and certify that the firm remains in compliance
2 with all segregation requirements.
3 For FDMs, a similar daily filing and
4 confirmation for customer funds is conducted as
5 well. In addition to this, FDMs are required to
6 provide trade data daily to our FORTRESS system.
7 This system was developed to monitor FDM Forex
8 trading activity in order to identify potential
9 trade practice manipulations and problematic
10 patterns of trading activity. The system receives
11 daily information from our FDMs and produces
12 exception reports that assist NFA in identifying
13 potential trade practice abuses.
14 Now there are many more measures that I could
15 cover but in the interest of time, I'll stop there.
16 MS. HILLSMAN: Thanks Val, and Abbie, turning
17 it over to you, what are some recent rulemaking
18 initiatives that impact our swap dealer members?
19 MS. CAMPBELL: Sure, thanks Christie.
20 So just for a bit of background, swap dealers
21 became NFA members in late-2012. Since then we've
22 had several rulemaking initiatives over the past

1 few years. I'll touch on a few of them, but just
2 briefly.
3 So, one of our rulemaking initiatives stems
4 from the need to develop a swap dealer risk
5 profiling system in order to identify firms that
6 may pose heightened regulatory risk, and to
7 allocate our resources accordingly in an ongoing
8 process. In March of 2017 NSA adapted our
9 financial requirements Section 17 specifying NFA's
10 general authority to collect financial,
11 operational, risk management, and other information
12 from swap dealers that we deem necessary to
13 effectively carry out our oversight
14 responsibilities.
15 To enhance our swap dealer risk profiling tool
16 NFA collects market and credit risk data from swap
17 dealers on a monthly basis, understanding a swap
18 dealers market and credit risk exposure provides
19 NFA with insight into their risk profile. So
20 working with swap dealers, NFA's Swap Participant
21 Advisory Committee, the CFTC, and relevant trade
22 associations, NFA identified a list of metrics

1 related to market and credit risk that provide us
2 with important information for swap dealer risk
3 monitoring without imposing undue burdens on the
4 firms.
5 It's also worth noting that several years
6 back, the CFTC authorized NFA to receive, review,
7 maintain, and serve as the official custodian of
8 swap valuation dispute notices that dealers are
9 required to file pursuant to CFTC regulations.
10 Given NFA's experiences with these notices to-date,
11 we determined that the notices would be more useful
12 for swap dealer monitoring, risk profiling, and
13 providing periodic reports to the CFTC if the
14 notices contained standardized information that
15 could be tracked and monitored across dealers and
16 the industry.
17 So again we worked with the members, the swap
18 dealers, Swap Participant Advisory Committee, CFTC
19 and relevant trade associations to finalize the
20 standardized information to be filed for each
21 dispute, and to provide guidance on the types of
22 disputes that must be reported.

1 And I'll say here I have to echo Christie's
2 mention of member education. This was another
3 great example of regulatory initiative that
4 prompted member educational programming. So NFA
5 held a dedicated webinar to educate swap dealers on
6 requirements regarding both swap valuation dispute
7 notices and monthly risk data reports at the time
8 the filing requirements were instituted, and both
9 topics were also covered at in-person workshops as
10 well.
11 MS. HILLSMAN: Thanks Abbie. And Val, can you
12 give us some highlights of critical rulemaking
13 pertaining to our CPO and CTA members.
14 MS. O'MALLEY: Sure. So NFA has implemented a
15 significant investor protection measure as a result
16 of bad actors engaging in inappropriate behaviors.
17 So as a bit of a background, NFA had taken a
18 number of emergency enforcement actions against
19 CPOs and their principals who directly or
20 indirectly loaned or advanced pool assets to
21 themselves or an affiliated person or entity. Many
22 of these arrangements were used by these principals

1 to purchase luxury items, while others went to
2 related entities that did not have sufficient
3 assets to repay the loans. In each case, the
4 transaction resulted in significant losses to
5 participants' funds. In response to this, NFA
6 adaptive Compliance Rule 245, which with a few
7 limited exceptions for legitimate business
8 transactions, prohibits CPOs from permitting a
9 commodity pool to directly or indirectly loan or
10 advance pool assets to the CPO, or other affiliated
11 persons or entities.
12 Now, Christie, I know you had asked about NFA
13 rules, but I'd like to touch on a regulatory gap
14 identified by NFA that the CFTC was able to address
15 with its regulation. This is just another example
16 of NFA and the CFTC working together to further
17 enhance customer protection and close a loophole
18 for bad actors.
19 Specifically, the CFTC rule that impacts CPOs
20 and CTAs became effective earlier this month and
21 prohibits a person that is subject to a statutory
22 disqualification, or who employed a principal

1 subject to statutory disqualification, from
2 claiming or affirming an exemption from CPO
3 registration. NFA fully supported the proposed
4 CFTC amendment because it addressed the gap in the
5 regulatory framework by preventing a person
6 prohibited from registering as a CPO from operating
7 an exempt fund outside of the CFTC's and NFA's
8 oversight.
9 MS. HILLSMAN: Thanks Val. And I'd like to
10 take a moment here just to offer both you, Val and
11 Abbie, an opportunity to talk about any other
12 recent rule initiatives or hot topics that you'd
13 like to mention.
14 So Val I'll start with you. Anything you'd
15 like to discuss?
16 MS. O'MALLEY: Sure. So, cybersecurity is
17 very much a hot topic and requirements surrounding
18 this is essential in order to ensure the protection
19 of customer funds and firm and customer data.
20 NFA's rules requires members to adopt a written
21 information system security program, or ISSP, to
22 address the risks of unauthorized access to or an

1 attack of their information technology systems, and
2 to respond appropriately should unauthorized access
3 or attacks occur.
4 Because of the differences in the types,
5 sizes, and complexities of members businesses, NFA
6 established general requirements that left the
7 development and implementation of the ISSP to each
8 member. At a minimum, a firm's ISSP should address
9 conducting security and risk analysis, implementing
10 protective measures, having a response and recovery
11 plan in the event it were to occur, and providing
12 training to employees.
13 NFA has held several member outreaches and
14 workshops to educate firms on the requirements and
15 issued a cybersecurity questionnaire and FAQs to
16 assist members in meeting these obligations.
17 In the last year or so, NFA further
18 strengthened the cybersecurity-related obligations
19 to require members to notify NFA of certain
20 cybersecurity incidents.
21 Specifically, NFA adopted a narrowly tailored
22 notice requirement, where a member must notify NFA

1 when it experiences a cybersecurity-related
2 incident related to its commodity interest business
3 that either results in the loss of customer or
4 counterparty funds, loss of member firms capital,
5 or if a firm notifies a customer or counterparty of
6 an incident pursuant to state or federal law.
7 This notification requirement became effective
8 last year. Since the updates became effective, NFA
9 has received notice filings from firms informing us
10 of various cyber incidents, including ransomware
11 attacks, phishing attacks, DDOS attacks and
12 incidents, which involve the loss of customer or
13 firm funds.
14 NFA has a Cybersecurity Resources Group, and
15 has hired a cybersecurity expert who reviews the
16 incidents including firm remediation and corrective
17 action. This expert also supplements exam teams by
18 conducting testing and reviews on exams, as well as
19 acting as a resource for our exam team.
20 MS. HILLSMAN: Great, thanks Val. And Abbie,
21 turning over to you. Are there any hot topics that
22 you'd like to mention?

1 MS. CAMPBELL: Yes, there is one. As many of
2 you are keenly aware the CFTC very recently issued
3 its final swap dealer capital rules. NFA has been
4 preparing for these regulations through developing
5 a comprehensive project team. And we're focused on
6 model approval, ongoing model oversight, financial
7 filing and notifications, staff training, exam
8 module build out, and exam team structure.
9 One other area to highlight that we have been
10 focused on relates to those financial filings. So
11 specific formats were not mandated within the
12 regulation. But firms filing other forms such as
13 the 1FR or FOCUS will be able to submit those for
14 our purposes. However, in response to our
15 recommendation, the final rule release highlights
16 NFA’s authority to adopt a standard filing format
17 for our standalone swap dealers not already filing
18 the 1FR or FOCUS. And that's a process which we
19 have begun.
20 So overall, NFA is prepared and ready to
21 oversee and enforce capital requirements for all
22 swap dealer members in the very near future.

1 MS. HILLSMAN: Thanks, Abbie. Now, just as
2 effective self-regulation involves identifying
3 industry best practices and then mandating those
4 practices for the entire industry, it also involves
5 ensuring that firms subject to the rules actually
6 comply with them.
7 So Val, can you give an overview of how NFA
8 oversees members compliance with NFA rules as well
9 as CFTC regulations?
10 MS. O'MALLEY: Sure. So NFA's Compliance and
11 OTC Derivatives departments, NFA's two largest
12 departments, are devoted to monitoring members for
13 compliance with NFA rules and CFTC regulations and
14 investigate possible violations. Our key
15 monitoring efforts include, among other things,
16 risk-based examination, analysis of member
17 financial and operational data, reviews of retail
18 foreign exchange trade data, and reviews of swap
19 valuation dispute and key market and credit risk
20 data.
21 NFA has been monitoring and conducting exams
22 of FCMs, IBs, CPOs, and CTA members for more than

1 30 years and uses a risk-based approach to monitor
2 them. Our computerized risk management system aids
3 staff in identifying high-risk member firms.
4 The risk system draws upon all of the
5 information NFA currently has concerning member
6 firms, including annual questionnaires, financial
7 statements, disclosure documents, investigations,
8 exams, registration records, arbitration filings,
9 and firm financial disciplinary history. We also
10 review external data such as third-party
11 performance reporting services, and compare those
12 results to the results the member has reported to
13 NFA.
14 Our Risk Management Group identifies new risk
15 factors on an ongoing basis to enhance risk models
16 and identify problem firms more quickly. Some risk
17 factors include customer complaints, prior exam
18 findings, pool investments in atypical assets, and
19 constant positive rates of return reflected in pool
20 quarterly reports.
21 Currently, there are over 100 such risk
22 factors. For example, if a firm were to receive

1 several customer complaints, the firm may be
2 scheduled for an exam sooner rather than later.
3 And depending on the nature and type of the
4 complaints, say for example, a failure to return
5 customer funds, the firm could be scheduled for an
6 immediate exam. In addition to the risk factors
7 used by our system, NFA has also recently started
8 using predictive analytics as part of our new risk
9 modeling system to help identify member firms that
10 should be examined.
11 NFA has been monitoring and conducting exams
12 of swap dealers for about five years now.
13 Therefore, our risk-based approach to monitoring
14 swap dealer members continues to evolve and NFA
15 recently implemented a number of significant
16 enhancements that I'm sure Abbie will touch on
17 shortly.
18 MS. HILLSMAN: Thanks, Val. Now let's dig
19 into what NFA's ongoing regulatory oversight looks
20 like specific to various types of firm registrants.
21 So thinking about member exams, Val, what does
22 oversight look like with regard to examinations of

1 futures commission merchants and Forex dealer
2 members?
3 MS. O'MALLEY: So NFA is a member of the Joint
4 Audit Committee which is made up of a number of
5 derivative exchanges and NFA. One of the Joint
6 Audit Committee's primary responsibilities is to
7 determine the practices and procedures to be
8 followed by each DSRO in conducting examinations
9 and financial reviews of FCMs.
10 The members of the Joint Audit Committee meet
11 on a regular basis to share industry developments,
12 potential rule updates, and any changes to the
13 program used to examine FCMs. The CFTC
14 participates in these meetings and they review the
15 joint exam programs used on examinations. NFA is
16 the DSRO for 22 non-exchange member FCMs and FDMs,
17 17 of which hold customer funds.
18 Generally, and as I mentioned earlier, all
19 FCMs and FDMs that hold customer funds are subject
20 to full on-site examinations on an annual basis and
21 may undergo an additional examination on the
22 interim basis of their segregated funds

1 calculations. Those FCMs and FDMs that do not hold
2 customer funds are examined using a risk-based
3 approach.
4 For FCMs and FDMs that hold customer funds,
5 NFA's exam includes obtaining questionnaires from
6 the firm which outline their procedures and
7 controls for the receipt, disbursement, investment,
8 and general handling of customer funds. As part of
9 the testing, examiners will conduct walk-throughs
10 of the controls in place to ensure that they are
11 implemented and working as designed.
12 For example, examiners will review the process
13 and walk through the controls an FCM uses to
14 authorize a customer disbursement, including
15 verifying that the request is made by a customer,
16 excess funds are available in the customer's
17 account, and that the proper amount is released to
18 the account owner or authorized party.
19 In addition to exams, we monitor FCMs and FDMs
20 by analyzing data submitted to NFA and the CFTC on
21 a regular basis. For example, NFA receives and
22 analyzes the firm's certified and annual reports

1 and monthly unaudited financial statements. As I
2 mentioned earlier, FCM and FDMs that hold customer
3 funds report their balances to NFA on a daily
4 basis. Those balances are compared to balances
5 submitted to NFA directly from depositories holding
6 these funds.
7 In addition to this, FCMs file a detailed
8 breakdown of the investment of customer funds and
9 identify the carrying brokers and other
10 depositories holding these funds twice a month.
11 MS. HILLSMAN: And then Val how are exams and
12 monitoring of CPOs, CTAs, and IB members different
13 from our FCMs and our FDMs?
14 MS. O'MALLEY: So most of NFA's 3,300 members
15 are IBs, CPOs, and CTAs. So given this, we need to
16 be smart with how we allocate our regulatory
17 resources and target these firms using a risk-based
18 approach.
19 As I mentioned earlier, NFA's risk modeling
20 system utilizes predictive analytics to aid staff
21 in identifying high risk member firms, and the
22 system draws upon many key data points the NFA

1 currently has concerning member firms in order to
2 help us select firms to be examined.
3 In addition to this, we also perform financial
4 analysis of reports IBs, CPOs, and CTAs file with
5 NFA, including certified annual reports and semi-
6 annual unaudited financial statements filed by
7 independent IBs to monitor capital compliance,
8 quarterly pool reports and annual certified pool
9 financial statements filed by CPOs, and quarterly
10 PR reports filed by CTAs.
11 Once we have identified a firm to examine
12 based on all of this, NFA takes a risk-based
13 approach for determining the scope and extent of
14 testing. Say for example, on an IB exam, some risk
15 factors may indicate issues related to the improper
16 customer solicitation, misallocation of orders,
17 trading strategies that may not be in the best
18 interest of a customer, and many other areas that
19 the exam team would then focus on.
20 MS. HILLSMAN: Thanks, Val. Now, Abbie. Our
21 swap dealer compliance program is significantly
22 newer than the program that's in place on the

1 futures side. What does NFA member oversight look
2 like with respect to swap dealers?
3 MS. CAMPBELL: Well, there are quite a few
4 ways we oversee swap dealers. Over the past
5 several years NFA has developed a swap dealer
6 regulatory oversight program that includes
7 conducting compliance examinations and ongoing
8 monitoring. Initially while the prioritization of
9 the swap dealer examinations was risk-based, the
10 scope of all of the examinations was based on the
11 inherent risk associated with the Chief Compliance
12 Officer requirements.
13 Staff have since improved its program for
14 risk-based swap dealer exams tailored to the
15 specific regulatory concerns of each firm, by
16 creating a swap dealer risk profiling system. The
17 risk profiling system creates a profile for each
18 swap dealer and weighs and analyzes the
19 standardized quantitative data submitted to NFA by
20 its members, and relevant information such as
21 valuation disputes, and market or credit risk data.
22 In addition, the system also enables the

1 review of qualitative data regarding information
2 collected from policy and procedure reviews, prior
3 exam findings, risk exposure reports, and other
4 monitoring activities that we do.
5 In addition, the OTC department is continuing
6 to advance its risk-based examination approach in
7 furtherance of more targeted and more frequent,
8 formal oversight of all our swap dealer members.
9 And this will allow us to stay up to speed on
10 changes within each member supervision, compliance,
11 and risk management program. Along with ensuring
12 swap dealers are properly managing the risks
13 associated with their swaps activity, and that they
14 are following all requirements designed to protect
15 their customers.
16 As we have seen, our swap dealer members
17 active in agricultural and energy swaps play an
18 extra active role in assisting, and at times
19 advising their clients in trading.
20 So while the regulations provide parameters
21 for our members to follow, and protection to our
22 members, we are continually working to develop our

1 examination program so that all customers are
2 protected, namely those end-user customers who are
3 entering swaps to hedge the risks associated with
4 their commercial enterprises.
5 Specifically, NFA is using new tools to review
6 trade data and counterparty communication as part
7 of our business conduct standards and market
8 practice testing. So trade data visualization
9 software is allowing our examiners to analyze and
10 review large amounts of trade data in a very
11 meaningful way. Data visualization has already
12 allowed our examiners to gain a better
13 understanding of our swap dealers trading programs,
14 and it's improved our testing. And we are
15 continuing to look for ways to analyze large
16 amounts of trade data and to identify abusive trade
17 practices.
18 We're also using new tools to review large
19 volumes of swap dealer communications. So these
20 communication reviews can be broad, looking for
21 keywords of concern across a range of salespeople
22 and counterparties, or very targeted and looking at

1 communication from a particular trader,
2 counterparty or type of behavior.
3 So both the data visualization and the
4 enhanced communication reviews, they're relatively
5 new to exams. But we're very excited by the exam
6 improvements that we are already seeing from
7 adopting these tool sets, and definitely plan on
8 continuing to expand how we're utilizing them.
9 MS. HILLSMAN: Thanks for that, Abbie. So now
10 that we've discussed NFA rules and how we oversee
11 member compliance with them, I'd like to talk a
12 little bit about what happens when firms or
13 individuals don't follow our rules and
14 requirements.
15 So Val, can you give us an overview of what
16 NFA's enforcement process looks like?
17 MS. O'MALLEY: Sure, so to enforce its rules
18 when appropriate, NFA takes disciplinary actions
19 against its members. When NFA has reason to
20 believe that material requirements are being, have
21 been, or are about to be violated, NFA swaps or
22 futures compliance departments work with our

1 enforcement attorneys to prepare a written
2 investigation report for presentation to NFA's
3 Business Conduct Committee or BCC.
4 The BCC consists of nine individuals who are
5 NFA members, are associated with NFA members, or
6 are members of the public. The general makeup of
7 this committee is determined by NFA rules and the
8 committee is tasked with reviewing each
9 investigative report and determining whether to
10 authorize NFA to take a formal disciplinary action
11 which involves issuing a complaint.
12 After NFA issues a complaint, the member
13 respondent has the opportunity to file an answer to
14 the charges. The disciplinary case will be
15 resolved through a settlement or proceed to a
16 hearing before an NFA hearing panel. Depending on
17 how the case is resolved, the BCC or the assigned
18 hearing panel will determine the penalties to
19 impose in an NFA disciplinary case.
20 The penalties may include expulsion or
21 suspension of NFA membership, fines not to exceed
22 $500,000 per violation, or any other penalty or

1 remedial action that the BCC or hearing panel
2 determines is appropriate.
3 Historically, NFA's enforcement efforts have
4 focused on a series of types of misconduct
5 including Ponzi schemes often involving affinity
6 fraud, improper loans or advances from commodity
7 pools to pool operators and their affiliates,
8 misleading and high-pressure sales practices,
9 electronic trading platform abuses, deficient order
10 allocation procedures and practices and failure to
11 cooperate, just to name a few.
12 One example of a disciplinary matter involved
13 an IB and one of its brokers. NFA had received a
14 complaint from one of the firm's hedge customers
15 alleging that the broker had conducted speculative
16 trading in his account. NFA's investigation
17 revealed the number of serious problems with the
18 firm and its brokerage activity.
19 Mainly, although most of the broker's
20 customers had accounts that were supposed to hedge
21 the customers' grain crops, the broker often placed
22 unauthorized speculative trades in these accounts

1 for more bushels of grain than the customers were
2 expected to produce. As a result, these
3 agricultural customers incurred significant losses
4 on their trading activity and on their cash crops.
5 Sanctions against the firm and the broker for
6 this conduct included temporary bans, restitution
7 to customers, and fines.
8 NFA can also take emergency actions called
9 member responsibility actions, or MRAs, when NFA,
10 with the concurrence of our Executive Committee,
11 believes action is necessary to protect the
12 markets, customers, or the members. MRAs are
13 typically issued after detecting some kind of
14 fraud, many of them Ponzi schemes, and there's
15 likely a temporary restraining order since they
16 enable NFA to preserve the status quo and avoid
17 further harm from occurring.
18 Through an MRA, NFA may suspend a member or
19 restrict the members operations, including limiting
20 the firm's ability to trade or accept new customer
21 accounts. So as you may have seen earlier this
22 month, we issued an MRA against a firm for failing

1 to cooperate with NFA during an exam.
2 In this case, due to the firm's failure to
3 provide requested documents and information, we
4 were unable to determine what the firm and its
5 principal did with proceeds from a loan obtained
6 from a futures customer, including whether the
7 principal misappropriated the money to fund his
8 personal trading account and use some of the loan
9 proceeds to trade futures.
10 In this case, and with all cases, NFA worked
11 very closely with CFTC's Enforcement Division to
12 coordinate our enforcement actions and
13 appropriately allocate our regulatory resources.
14 Moreover, if our exams or investigations
15 uncover emergency situations, like the example I
16 just mentioned, then we immediately coordinate with
17 the CFTC. We also work very cooperatively with
18 other law enforcement agencies when we notice or
19 suspect criminal activity. Over the years NFA and
20 the CFTC have brought many cases that have rapidly
21 shut down Ponzi and fraud schemes. Subsequent
22 criminal prosecution of the individuals involved

1 has often resulted in significant prison sentences.
2 So let me close out my comments with some
3 remarks regarding how we collaborate with the CFTC
4 and other regulators regarding enforcement.
5 We meet on a quarterly basis with the CFTC
6 Division of Enforcement to discuss pending
7 investigations. The objective of these meetings is
8 to keep each other informed and to coordinate
9 efforts whenever possible.
10 In addition, whenever NFA uncovers a potential
11 ongoing fraud, NFA immediately notifies the CFTC so
12 that it may bring action in a federal court, in
13 addition to any emergency action that NFA might
14 take.
15 Finally, we may uncover suspicious activity by
16 an entity that is not an NFA member, and in these
17 instances, we refer such matters to the CFTC. In
18 addition, NFA regularly joins the CFTC in meetings
19 with the US Department of Justice's Security and
20 Commissions Fraud Working Group, the US Attorney's
21 Office, the FBI, US Postal Inspectors Office, and
22 the Illinois Securities Department. Additionally,

1 NFA works cooperatively with the CFTC and federal
2 and state law enforcement agencies on specific
3 enforcement matters.
4 These cooperative efforts have uncovered and
5 led to the successful prosecution of a number of
6 fraudulent commodity schemes with almost 30
7 individuals who were expelled or disciplined by NFA
8 receiving significant prison sentences.
9 MS. HILLSMAN: Thanks, Val. So with that,
10 we've spent quite a bit of time talking about
11 ensuring that our members fulfill their regulatory
12 requirements.
13 And our member oversight responsibilities
14 ultimately serve the purpose of protecting
15 customers, which is really the heart and soul of
16 what we do at NFA. We know that customers engaging
17 in derivative activities can feel confident in
18 their financial decisions, when they know that the
19 firms that they choose to do business with are
20 effectively regulated.
21 NFA also strives to educate customers on the
22 unique opportunities and risks that are present in

1 derivatives activities, as well as conducting due
2 diligence on those firms and individuals that they
3 may be considering doing business with. So our
4 educational efforts really focus on providing
5 resources for investors to understand our market
6 and then also to emphasize the importance of doing
7 that due diligence.
8 So understanding the speculative investments
9 and also knowing the background of the firms and
10 individuals who are offering their services.
11 Just to kind of point on that due diligence
12 topic. One of the most frequently accessed tools
13 that's available on NFA's website is NFA's BASIC
14 tool, which is a public searchable database of
15 firms and individuals who conduct business in the
16 derivatives industry. And BASIC contains, among
17 lots of other data, current and historical CFTC
18 registration and NFA membership information,
19 regulatory actions contributed by NFA, the CFTC and
20 the exchanges and swap execution facilities as
21 well. And specific to FCMs, financial data that
22 pertains to net capital segregated funds, secured

1 funds, and uncleared swaps customer collateral as
2 well.
3 And while that data is utilized by a number of
4 external audiences for various purposes, it was
5 designed with customers in mind and is really
6 intended to provide those individuals with
7 transparency into the data that they need in order
8 to make informed, financial decisions.
9 And just as important as knowing the
10 background of a firm or a broker is understanding
11 the products that are being offered.
12 So one key tool that I'd like to mention at
13 this point is called Futures Fundamentals. And
14 Futures Fundamentals is a pretty effective
15 educational web-based tool that delivers engaging
16 content about the role of futures markets in
17 everyday life, and provides information on the
18 derivatives industry.
19 So NFA, and a number of other organizations
20 have taken the lead in further developing this
21 resource and increasing its distribution to
22 hopefully further that investor education and

1 protection.
2 Just to wrap things up, I want to note that
3 NFA's mission today is really the same as it was 37
4 years ago. So our overriding objective is to help
5 the CFTC to protect customers, protect the
6 integrity of the market, and also protect the
7 public's confidence in those markets. We are very
8 proud of our regulatory partnership with the CFTC.
9 And we look forward to continuing to working
10 closely with the Commission to respond to the
11 regulatory challenges that are posed by an industry
12 that, as we all know, is constantly changing.
13 At this time, I'd like to open up the floor.
14 We are happy to answer any questions that anyone
15 might have.
16 MS. MERSINGER: Thank you so much for
17 presentation. If there's anyone on the phone that
18 wants to unmute and ask a question, feel free.
19 MR. CREAMER: This is Rob creamer, again with
20 FIA-PTG. And I was just curious -- first of all, I
21 just wanted to comment, I thought it was very
22 helpful that you went through, you know, covered

1 the risk systems that you guys are utilizing, but
2 also I think it's fantastic that you're providing
3 resources in the area of cybersecurity to your
4 members.
5 Obviously tech is a big part of everyone's
6 businesses these days and I was just wondering if
7 you might be able to share some of the initiatives
8 - if you have any other major initiatives - in
9 technology and the NFA, and in particular, if you
10 might be able to speak to your own internal efforts
11 that are, that you're making to secure your systems
12 and data.
13 MS. O'MALLEY: Sure. This is Val. I can take
14 that one.
15 So, and you know obviously technology is very
16 important. You know we at NFA want to make sure
17 that our infrastructure is kept up-to-date and we
18 maintain the information that we have in a secure
19 manner. Obviously, cybersecurity defenses is a top
20 priority for us as well, too. We actually subject
21 our systems to internal and external reviews, which
22 includes SOC-2 certification audits, as well as

1 other external reviews.
2 And other technology things that we kind of
3 mentioned throughout the presentation, we always
4 want to make sure that our staff and our examiners
5 have the tools that they need to conduct their
6 examinations and investigations in, you know, a
7 timely and efficient manner. And as Abbie kind of
8 alluded to, we have an E-discovery software tool
9 that you know helps us review a large number of
10 electronic communications, whether that be chats or
11 emails, that really helps us, kind of, you know,
12 zero-in on any bad practices that may be occurring.
13 And Abbie also talked about some trade data
14 system that we have, that we can kind of -- it's a
15 visualization tool that we can ingest trade data
16 from firms and then kind of use that to look for
17 patterns of bad activity or maybe outliers in
18 activities.
19 So those are some of the technology issues
20 that NFA has going currently.
21 MR. CREAMER: Thank you very much. And, a great
22 presentation.

1 MR. HAYDEN: Yeah, this is Tommy Hayden, I'm
2 representing the Commodity Markets Council and I
3 had a couple of questions.
4 I was just curious how the pandemic has
5 affected the work and the responsibilities of the
6 NFA. That would be question one.
7 MS. CAMPBELL: Sure. This is Abbie, and I'm
8 happy to take this.
9 So, I mean, I would say that NFA has been very
10 agile and adapting to these new circumstances.
11 Prior to COVID we had already been executing remote
12 or off-site exams.
13 So, that process was already put in into play
14 across the board. But also, you know, when we talk
15 about things, in order to make this possible, we
16 had implemented technology right -- similar to what
17 we're using today, we have WebEx, and utilizing
18 WebEx as a software has given us access to making
19 it, you know, a lot easier for us to have our
20 walkthroughs with firms, you know, typically when
21 we would be on site, we would be standing over
22 someone's shoulder, they would be giving us a

1 presentation.
2 And so, by utilizing software like WebEx it's
3 really made a seamless transition for us to be able
4 to do our exams remotely. And so, I have to say
5 I've been very impressed -- and thankfully it
6 hasn't delayed our examination schedule -- at just
7 how we've been doing things we're just doing things
8 a little bit differently.
9 MR. HAYDEN: Okay, great. Thank you. And
10 just lastly, there was a tremendous amount of
11 information provided, and I appreciate that. And
12 you guys mentioned, you know, the website and all
13 of its tools.
14 Now if one wanted to stay current with, let's
15 say the priorities and developments of NFA. Would
16 that be available on the website? If not, how
17 would one do that.
18 MS. HILLSMAN: Yeah, I could step in and take
19 this one. This is Christie.
20 And all of that information would absolutely
21 be available on NFA's website. But one feature
22 that I will point out that can be especially useful

is, if you go to our website and then scroll down to the bottom of any page, you'll see some functionality that allows you to then subscribe to our email communications, and that'll just ensure that you're hearing right away, whenever we're issuing some new information about priorities, news, anything of that nature.

MR. HAYDEN: Okay, that's great. Thank you.

MS. MERSINGER: Thank you. Any other questions?

MS. WUERTZ: Summer, this is Karen. I just wanted to add just two things to the very good question relating to COVID, and Abbie covered it very well by talking about how we were able to pivot pretty quickly to, you know, remote working with very few hiccups.

Obviously, the other thing we needed to do in the immediate short-term was hear from our members and understand the struggles and the issues that they were having complying with our rules, you know, based on rules expecting that everybody's working in the same office versus working in a

1 remote environment.
2 So in the short-term there, we again had to
3 work very quickly with the CFTC and listen to our
4 members to understand the relief that they needed
5 from those from certain regulations, but also not
6 to, you know, lose the effectiveness of the
7 oversight. So that was in the very short term
8 we're able to react quickly there.
9 The other thing that I wanted to say is -- one
10 of the things that we've undertaken is -- kind of a
11 longer view because as we stay in this environment
12 and we've been doing our work differently for, you
13 know, well over six months, you know, are we really
14 all going to go back to the same way we were
15 working before? And, you know, are there ways that
16 we're learning to do things better?
17 So we put together a group of people at NFA
18 that are looking at kind of the long-term view and
19 again, trying to learn from what other
20 organizations are doing as well and learning from
21 the CFTC. So I think there'll be more to come
22 there as we migrate hopefully back to a more normal

1 environment, but I don't think that will go exactly
2 back to the way we were, that there's also a number
3 of enhancements that we're learning about as we
4 work remotely.
5 But if members have any ideas and thoughts,
6 again, member feedback is very helpful as we start
7 this process.
8 MS. MERSINGER: Thank you, Karen.
9 Are there any other questions for the NFA
10 team?
11 MR. BARKER: So this is Joe Barker.
12 Actually, we're CHS Hedging, a member firm,
13 FCM, and I'm a registered individual, but I just
14 wonder, as the CFTC has moved forward with the
15 reciprocity with international firms, does the NFA
16 play into the examination of the international
17 firms as they comply with their local authorities
18 or how does that work to protect individuals, US
19 citizens, in those cases?
20 MS. WUERTZ: Christie, let me take that. It's
21 Karen, because I've been involved in the
22 international activity for many years and very

1 actively involved in the IOSCO activities. And NFA
2 members, whether they're in the US or not in the
3 US, are subject to the same requirements and the
4 same type of oversight.
5 And so, the border doesn't make a distinction,
6 but one of the things that we've been able to
7 accomplish over the last several years, is really
8 develop strong relationships with the non-US
9 regulators and understand the issues that they're
10 looking at, when they're going to see their
11 registrants, looking for meaningful ways to share
12 information so that we aren't duplicating each
13 other's work.
14 So, in that area it's actually, you know,
15 quite strong, the relationships, because all of the
16 regulators are aligned as far as ensuring that our
17 markets are operating, you know, effectively and
18 are not subject to manipulation. So it's a great
19 question because the borders have really
20 disappeared, but we do have really good
21 relationships that we've developed really over the
22 last couple decades that are that are helping us do

1 our work more efficiently.
2 MS. MERSINGER: Any other questions? We still
3 have time for a few more if others have questions.
4 (No response.)
5 MS. MERSINGER: Hearing none, we can move on
6 to our -- to new business.
7 First up is Dan Rutherford, who is the
8 Associate Director of the CFTC's Office of Customer
9 Education and Outreach.
10 Dan, feel free to begin your presentation
11 whenever you are ready.
12 MR. RUTHERFORD: Great, thank you.
13 First of all, good afternoon to the
14 Commissioners and to the Committee Members and
15 guests. Thank you for allowing me this time to
16 present our new agriculture customer education
17 resources page.
18 Can we advance the slide please?
19 Next slide.
20 First of all my disclaimer, like every good
21 government employee, I have my disclaimer. This is
22 for informational purposes only, any opinions

1 expressed are my own, and also any references to
2 studies, news reports, or any organization trade
3 firm or corporation name do not constitute
4 endorsements, recommendations, or favoring by the
5 CFTC. Thank you.
6 Next slide, please.
7 So our new customer education resource page
8 went live today. It can be found at
9 CFTC.gov/agriculture.
10 It includes checklists, advisories, and
11 articles. Unfortunately, in the iteration that we
12 have out presently, we don't have the CFTC data and
13 research, although those resources can be found
14 elsewhere on the site. And we're going to be
15 looking at future iterations including some
16 additional new research, hopefully.
17 And so, I'll cover that a little bit, but may
18 skip over the slide that you'll see in a minute.
19 And then a number of third-party resources.
20 So let's just kind of quickly go through these
21 various items.
22 Next slide, please.

1 The checklists were designed to help provide
2 producers with sort of a getting started, get them
3 off on the right foot, so to speak. These are
4 step-by-step, single page guides to help producers
5 get started in working in futures and options.
6 They're front and back, they're easy to download,
7 easy to share, easy to print.
8 And they can also be ordered if you have, you
9 know, large groups of customers, members, or
10 students that you would like to purchase and
11 distribute for, you can order those at the URL,
12 lower on the slide, or feel free to email me at
13 consumers@CFTC.gov and we'd be happy to fulfill any
14 orders.
15 The materials are now being printed so they
16 should be available for distribution within a few
17 weeks.
18 Next slide, please.
19 This page also includes a number of advisories
20 and articles that we feel are relevant for the
21 producer agricultural community. And these are,
22 you know, timely issues or things that we feel may

be helpful for producers.

Next slide.

Next slide, please.

Next slide; we'll skip this one.

We also collected a number of external resources, and there's really a lot of great information that's already out there by USDA, CME Group, by a number of universities and nonprofits like Annie’s Project. So we felt that it was important to highlight those resources and make those available rather than try to reinvent the wheel.

Next slide.

But really what this page is about, and as we go moving forward, it's really going to be central to a new initiative that's currently in the planning stages that will center around a number of key elements. The first of which being a risk management planning guide with associated videos that will reside on the page to assist with the learning.

And really, the program comes with a number of

1 planned learning outcomes at this point. We want
2 to help agricultural producers make better
3 decisions when it comes to managing price risk
4 through planning. We have a plan that reduces the
5 likelihood of making heat-of-the-moment decisions
6 or being influenced by fraudulent offers.
7 A second outcome that we would like to see
8 come from this, would be increased knowledge of
9 commonly used hedging strategies. Again, we help
10 to provide them with realistic expectations that
11 will help them avoid "too good to be true" offers.
12 Other outcomes we hope to provide include
13 increased knowledge of commodity futures options
14 and swaps markets, awareness of fraud, use of
15 practices, and how to spot and report problems,
16 awareness of their customer protections, and
17 building skills necessary to select and implement a
18 risk management strategy.
19 We'll do this by developing original content,
20 and through partnerships with other groups.
21 The Risk Management Planning Guide will
22 introduce farmers to risk management process,

1 including common risk management strategies,
2 products, market mechanics, basis and fees,
3 customer protections redress, and ensuring they are
4 working with legitimate financial service
5 providers.
6 A series of online videos that we hope to
7 produce will be curated in an easy, searchable,
8 SEO-optimized knowledge base format that will
9 supplement the RMP and provide a growing repository
10 of answers to producers' questions over time.
11 In terms of research, what we hope to do is
12 recommend research around producer attitudes and
13 behaviors when it comes to hedging market
14 confidence and use of forward futures and options
15 strategies.
16 There has been some a limited amount of
17 research in this area. We know that, for example,
18 a majority of producers don't use futures and
19 options contracts, and we want to find out why that
20 is, what may be preventing them, what problems or
21 trouble areas they see when it comes to using these
22 products and are there educational means in which

1 we can aid that process?
2 And as we build out the program and develop
3 the program, we'll be going, holding a number of
4 roundtables and listening sessions and public
5 presentations, and those events and announcements
6 and other news will also be available on that page.
7 Next slide, please.
8 Finally, our other work. This is some of the
9 more recent work that we've completed in the Office
10 of Customer Education and Outreach. We continue to
11 provide antifraud information and advisories around
12 the coronavirus pandemic and issues related to
13 that.
14 Coming up, we have World Investor Week and
15 we're working very closely with Karen and the team
16 from NFA on putting together a webinar for that and
17 conducting outreach, and also working with teams
18 from the SEC, FINRA, and other organizations.
19 We recently redesigned the learn and protect
20 section, including updating the Red List, producing
21 a number of advisories and articles, developing a
22 publication page and videos. So we hope you can

1 spend a little time familiarize yourself with the
2 new elements on the website.
3 And we've increased our social media outreach
4 and we also continue to collaborate with federal
5 international and private sector partners,
6 including the Financial Literacy Education
7 Commission, IOSCO, and the other participants in
8 the Futures Fundamentals programs.
9 And that does it for me. Are there any
10 question.
11 MR. FRYER: This is Jim Fryer from NCBA.
12 I just have one comment. As far as producer
13 education, and this is one thing that our
14 organization is working on, too, so if ever in the
15 future, there's overlap, we'd like to listen.
16 Thank you.
17 MR. RUTHERFORD: Sure, I'll be happy to get
18 your information and we can definitely connect
19 because it's certainly one thing that we're looking
20 for is how to make partnerships in this space.
21 MR. FRYER: Very good.
22 MS. MERSINGER: Thanks, Dan. Are there other

1 questions for Dan?
2 (No response.)
3 MS. MERSINGER: All right, thank you so much
4 for that presentation.
5 And the next order of business on our new
6 business agenda, I'm going to turn it over to
7 Christa Lachenmayr from the Division of Market
8 Oversight. She is also our newly appointed AAC --
9 she's also going to be joined by our newly
10 appointed Agricultural Advisory Committee members
11 from the US Department of Agriculture, and many of
12 you know Christa from her product review work in
13 the agricultural markets.
14 Christa is also a consultant on our Livestock
15 Task Force, and our newly appointed CFTC liaison to
16 the USDA. I also have to say a huge thank you to
17 Christa for all her hard work in putting this
18 meeting together, I cannot thank her enough for her
19 assistance and guidance in making these meetings
20 happen.
21 So thank you very much, Christa, and I will
22 turn it over to you now.

1 MS. LACHENMAYR: Great, thanks Summer for
2 those kind words. I really appreciate it.
3 It's been a pleasure working with you to plan
4 the last two meetings. You work equally as, if not
5 more hard, so I'm happy to have been a co-
6 conspirator with you.
7 Thanks also to the Chairman, Commissioners,
8 CFTC staff, and AAC members and all of our
9 presenters for making this a great event today.
10 I'd also like to give photo credit to Summer for
11 this slide; it is her family farm in South Dakota.
12 So I'll start with the Subcommittee update.
13 The AAC members may recall that during the April
14 11, 2019 meeting in Overland Park, the Committee
15 voted to form a subcommittee to review recent
16 requests for approval of amendments to agricultural
17 futures contracts and make recommendations for
18 staff policy around that.
19 The Commission recently and unanimously
20 approved the formation of that subcommittee. So on
21 Tuesday we will publish a notice in the Federal
22 Register soliciting nominations for that committee.

1 Subcommittee membership will be open to all. So,
2 and that includes exchange staff and academics,
3 which is a little different than the regular
4 committee membership.
5 Of course, all AAC members are able to self-
6 nominate or be nominated to serve on the
7 subcommittee.
8 So by way of background, the Commodity
9 Exchange Act requires exchanges to seek Commission
10 approval when amending futures contracts based on
11 agricultural commodities as defined in Section
12 1(a)9 of the CEA. The CEA provides for approval,
13 but it does not identify the standards upon which
14 the Commission should evaluate and exchange its
15 implementation plan.
16 So that is separate from the substance of the
17 rule.
18 So for example, how changes or to terms or
19 conditions impact the value of existing positions,
20 how the exchange should assess market conditions in
21 deciding announcing or implementing amendments, or
22 the timing and implementation of amendments.

1 Recent history suggests that Commission
2 guidance on these issues may help exchanges limit
3 risk to both the exchanges and market participants.
4 So exchange staff has requested Commission input on
5 this issue.
6 So I would like to thank my colleagues in the
7 Division of Market Oversight, Summer our DFO, the
8 Chairman and Committee for their support in this
9 initiative and we look forward to updating you on
10 the Subcommittee and its progress.
11 For the USDA liaison update, I'd like to start
12 by echoing the Chairman's welcome to our newest AAC
13 members from the USDA Office of the Chief Economist
14 and Agricultural Marketing Service. The research
15 and data products of these offices are absolutely
16 integral to the operation of the futures markets.
17 I think many of you also know that the AMS
18 staff actually provides the grading services that
19 makes the Live Cattle delivery process possible.
20 So welcome to you both.
21 Secondly, we wanted to let the Committee know
22 that we have some additional meetings scheduled in

1 the near future, to discuss collaboration on
2 customer education and outreach as recommended in
3 the USDA's analysis of beef prices in the aftermath
4 of the Holcomb Fire and during the pandemic. Both
5 agencies are committed to ensuring producers have
6 available optimal risk management tools that they
7 trust.
8 I would now like to hand it over to Ashley
9 Hungerford to talk about some of the cooperative
10 agreements that the Office of the Chief Economist
11 has entered into and changes to the livestock crop
12 insurance program. She will be followed by Erin
13 Morris, who will discuss the upcoming data users
14 meeting.
15 Thank you, Ashley and again welcome Ashley and
16 Erin to the Ag Advisory Committee.
17 DR. HUNGERFORD: Thank you very much for the
18 warm welcome, it's very much appreciated. I'm glad
19 to be here.
20 So my office in USDA, the Office of the Chief
21 Economist, is currently engaging in multiple
22 cooperative agreements with universities for the

1 upcoming year. But there are a few that I would
2 like to highlight centering around cattle markets.
3 The first being with Texas A&M University. This
4 proposed work on cattle markets includes regional
5 and national workshops, along with a set of
6 Commission papers on current issues and trends in
7 the cattle market. Texas A&M will be engaging with
8 experts from around the country including private
9 industry members and industry associations to
10 ensure this research has appropriate regional
11 representation.
12 They will also be looking at a second area
13 concerning beef packing and looking into certain
14 questions such as what are the impediments to
15 expansion for both new and existing firms of
16 various sizes, and what are some common success
17 factors for small and medium packing plants, and is
18 there a set of generalizable strategies for
19 success?
20 OCE's, Office of the Chief Economist's, second
21 cooperative agreement on cattle markets is with
22 Kansas State University. They'll be assessing the

1 relative market fitness concerns and whether
2 fitness of cattle markets is detrimental for
3 overall market effectiveness and efficiency.
4 Kansas State University will also be looking
5 at market information needs and surveillance
6 mechanisms necessary to ensure longer term
7 marketing contracts and formula trade in fed cattle
8 are competitive as cash negotiated trade that is
9 currently used as the base price may become
10 progressively less reliable over time.
11 That concludes the cooperative agreements and
12 then as you mentioned, there's been some recent
13 updates in livestock insurance. Livestock products
14 have been available for almost a couple of decades
15 now, but it's pretty small as far as the crop
16 insurance portfolio is concerned.
17 There is are two main types, when we're
18 talking about beef cows or beef cattle and swine.
19 There's a livestock risk protection, which is just
20 a price protection policy. And then there's
21 livestock gross margin insurance, which is that
22 difference between the animal price and feed price

1 that can be insured. The major changes that have
2 recently occurred is a doubling in the head limit.
3 So feeder cattle and fed cattle are under separate
4 policies. And now the annual limit on that is
5 12,000, whereas before it was 6,000 head a year .
6 For swine, the annual limit on a policy is now
7 150,000 head per year, whereas previously it was
8 75,000.
9 Also for these livestock policies, in
10 particular since in the with livestock risk
11 protection, there is an endorsement length
12 increased for swine. Now, price can be protected
13 up to 52 weeks out. Previously, it was 26 weeks
14 out. That was as farthest endorsement that you
15 could have for swine.
16 And then, along with these policy changes, new
17 feeder cattle and swine types will be created under
18 the livestock risk protection that will allow for
19 unborn livestock to be insured, as well, against
20 price declines.
21 Also, there has been subsidy increases to
22 these policies. Recently, the livestock risk

1 protection has undergone premium subsidy increases.
2 And for livestock gross margin, a subsidy has been
3 added to the cattle and swine policies.
4 So that concludes my update on my end.
5 Thank you very much, Christa.
6 MS. MERSINGER: Erin, are you able to speak?
7 MS. MORRIS: I am, yes. Thank you.
8 Thank you so much for the opportunity to be
9 here. I really appreciate it, and as a few other
10 folks have highlighted, I think, USDA and CFTC have
11 been doing a lot of collaboration, and look forward
12 to working more closely together.
13 So I know I'm one of the last things standing
14 between us and being finished, so I will keep this
15 brief. I just wanted to take the opportunity to
16 mention the upcoming USDA Fall Data Users Meeting.
17 I think many of you are familiar with that event.
18 It’s a great opportunity for the Agricultural
19 Marketing Service as well as our fellow other USDA
20 data agencies to really come together and host this
21 event for our users to talk about, you know,
22 upcoming changes, new products and services, et

1 cetera.
2 So, this year's meeting will be the afternoon
3 of October 28th. And like most other things in
4 this current climate, it will be a virtual meeting.
5 Hopefully we can have it again in-person -- soon,
6 one of these days.
7 I just wanted to highlight a couple of the
8 breakout sessions. There'll be a What's New with
9 NASS session, as well as a session on using
10 satellite data. AMS is going to be talking about
11 ways that we ensure the accuracy of our market news
12 reports.
13 And finally, there'll be a session on foreign
14 production trade and import-export data, and some
15 weather things as well.
16 So, I hope to have a lot of participation and
17 thank you so much for your time this afternoon and
18 thanks again for having me.
19 MS. MERSINGER: Thank you so much Christa,
20 Ashley, and Erin.
21 Now I'd like to open the floor for any
22 additional questions or comments from our committee

members. Go ahead and unmute if you have additional questions or comments.

MR. FRYER: This is Jim Fryer from NCBA again.

I believe this question is for Ashley and I'm anticipating and excited to hear about some of the LRP changes and the one specifically about unborn livestock that will have potential to have price risk protection.

Is that something that needs to go through the Farm Bill, or when do we expect that to be available?

DR. HUNGERFORD: I know for a fact it does not have to go through the Farm Bill and I believe that was coming up in the next year, next crop year, which is just the calendar year for cattle, so that should be out for 2021 policies.

MR. FRYER: Very good, thank you.

MS. MERSINGER: Thank you, Jim. Any other questions? Feel free to chime in.

(No response.)

MS. MERSINGER: All right, hearing no additional questions, I want to thank everyone for

1 joining the meeting today.
2 If you missed anything, we will have the
3 transcript and recording of this meeting up on our
4 website in the near future so you can always go
5 back and listen again.
6 We know this is a really busy time for
7 everyone, so we really appreciate everyone taking
8 time to participate in the meeting and a special
9 thank you to our presenters for taking time to
10 prepare and present.
11 With that, the meeting is now adjourned.
12 Thank you so much.
13 (Whereupon, at 4:52 p.m., the Agricultural
14 Advisory Committee meeting was adjourned.)
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