From: Ron Eliason
Sent: Friday, December 17, 2010 11:59 AM
To: Ron Eliason; Johnson, David; Aron, David
Cc: Hammar, Julian; Arbit, Terry; Miller, Ryne; Heitman, Donald H.
Subject: RE: Your Questions and Comments re: "Net Margin Swaps", "Ag Swaps", etc.

sorry...hit send before proofing...corrected typo's in red.

-----Original Message-----
From: Ron Eliason
Sent: Friday, December 17, 2010 10:35 AM
To: David Johnson; Aron, David
Cc: Hammar, Julian; Arbit, Terry; Miller, Ryne; Heitman, Donald H.
Subject: RE: Your Questions and Comments re: "Net Margin Swaps", "Ag Swaps", etc.

Gentlemen,
Thanks for taking time yesterday to clarify several of the question I have and protocol for commenting regards CFTC rules and rule making. After the call I decided to simply eliminate writing/executing forward revenue or net margin swaps in our partnerships on contract unless customer has $10mln new worth (land value-net assets) and will begin immediately to convert contracts to E&S insurance policies to avoid duplication until CFTC rules are written as it appears understanding will require considerable attorney time/expense to fully understand and protocol for asking is complicated.
Ron

-----Original Message-----
From: Aron, David
Sent: Thursday, December 16, 2010 9:17 AM
To: Ron Eliason
Cc: Heitman, Donald H.; Johnson, David; Miller, Ryne; Arbit, Terry; Hammar, Julian
Subject: Your Questions and Comments re: "Net Margin Swaps", "Ag Swaps", etc.

Dear Mr. Eliason:

Thank you for your emails of November 14th, December 12th and December 15th sent to various CFTC Commissioners and staff regarding the above-referenced topics, which have been forwarded to me (among others). You have provided a good deal of detail; thanks for that. I am finding your emails somewhat difficult to follow, however, so I'd like to call you to clarify my understanding of the products you have described in your emails so we can determine how best to proceed. Are you free this morning? If so, when and what number can I/we call you on?

From: Ron Eliason
Sent: Wednesday, December 15, 2010 4:54 AM
To: Heitman, Donald H.; Van Wagner, David; Gizzarelli, Jason; Shilts, Richard A.; Cashdollar, Robert; Gensler, Gary; Dunn, Michael; O'Malia, Scott; Sommers, Jill; Chilton, Bart
Cc: Ron Eliason
Subject: Agriculture Swaps and Regulatory Reach of CFTC

Questions:
Does CFTC's regulatory rules and/or jurisdiction extend to governance of Ag Swaps as written below?

Forward Crop Revenue Fixed for Floating Swap:

A **financially settled forward "fixed for floating crop revenue swap" written precisely indexed to documented average crop production history (yield) multiplied by acres on specifically identified real estate (recorded section, township, range) multiplied by a forward agreed upon price structure.**

Forward Crop Production Net Margin Fixed for Floating Swap:

A Financially settled forward "fixed for floating crop production net margin swap" written precisely indexed to documented average crop production history (yield) multiplied by acres on specifically identified real estate (recorded section, township, range) multiplied by a forward agreed upon price structure minus crop production input volume*price (expenses) = "net margin".

Forward Contract: A cash transaction common in many industries, including commodity merchandising, in which a commercial buyer and seller agree upon delivery of a specified quality and quantity of goods at a specified future date. Terms may be more "personalized" than is the case with standardized futures contracts (i.e., delivery time and amount are as determined between seller and buyer). A price may be agreed upon in advance, or there may be agreement that the price will be determined at the time of delivery.

Over-the-Counter (OTC): The trading of commodities, contracts, or other instruments not listed on any exchange. OTC transactions can occur electronically or over the telephone. Also referred to as Off-Exchange.

Forward Market: The over-the-counter market for forward contracts.

From: Ron Eliason
Sent: Sunday, December 12, 2010 9:55 AM
To: Heitman, Donald H.; Van Wagner, David; Gizzarelli, Jason; Shilts, Richard A.; Cashdollar, Robert
Cc: Ron Eliason
Subject: RE: Agriculture Revenue Option Swaps.

corrected a couple of typo's from earlier email I had dictated but not proofed before sending. Hopefully this is clearer.

CFTC staff,
I in no way want to be a pest nor waste CFTC commissioners and staff time; however, I cannot obtain an opinion as to whether fixed for floating agriculutre swaps executed in one of two structures listed fall under jurisdiction of CFTC:
1. stand alone financially settled forward revenue swaps written indexed to a government documented average production history (yield) from specific recorded legeally described land multipllied by a forward agreed upon price structure (audti trail is perfected) , or
2. "net margin" swaps written as yield*forward price (revenue) minus crop production input volume*price (expenses) = "net margin"

I have itemized size of the U.S.crop revenue swap market from actual 2010 RMA summary of business reports and outlined my thoughts below. Ignore or delete the attached and outline if not helpful but I would appreciate your and/or staff opinion on how to define the revenue swaps listed above relative to CFTC rules/regulations in place and pending .

Actual documented information down loaded from USDA's RMA agency contains information pertinent to a discussion of agriculture crop production forward revenue swap position limits, portfolio reconciliation, and core principles and other requirements for swap execution facilities.

In this day and age it is next to impossibe to manage a farm operations (yield*price) revenue volatality minus (crop input production cost*price) expense volatility without utilizing swaps. Currently CFTC financial "eligible swap qualifier tests" of net worth requirements and/or risk under management, prohibit/eliminate a majority of production agin riculture from accessing the swap market. As good as the federal crop insuance program is it does nothing to mitigate the cost side of the prodution equation nor is it available every day the exchanges are trading as the values are established during specific 30 day averaging periods.

If CFTC does regulate forward agriculture swaps information outlined below and in attached may be useful in writing swap rules/regulations mandated by Dodd-Frank as the summarized data clearly documents that:
1. Fixed for floating crop production revenue swaps are widely utilized and purchased as federally subsidized crop insurance: hence, rules,regulations, audit, reporting procedures perfected by USDA/RMA could easily be adopted to govern private products.
2. If private industry were allowed to participate in the ag. swap market under similar rules/regulations government funding and/or appropriations required for premium subsidizes would be reduced and most certainly the non-transparent financial risk transferred to the American taxpayer eliminated.
3. Counterparty positions limits could, depending on capitalization, be limited to no more than say $1 billion per entity offering privately structured swaps which is only 2% of the $50bln nominal value of agriculture revenue swaps in 2010.
4. Global trade issue questions regards federally subsidized revenue insurance (swap) program not being 100% WTO compliant is reduced if private products become a part of the mix.
5. Potential market distortions resulting from a single entity, the American taxpayer, holding such a large position, equabilent to 2.5 million exchange traded futures contracts "off exchange" would be reduced.

In 2010 "forward" fixed for floating yield*price revenue swaps were executed on 66.5% of all U.S. planted acres of corn, soybeans, wheat. Liability of these swaps in aggregate totaled a shade over $50 billion; however, each swap contained an embedded look back option derivative capped at 2 times the initial resulting in a contingent liability over $100 billion.

Swaps are delivered to farm operations in production agriculture as Government (taxpayer) Subsidized Crop Revenue Insurance. In 2010 actuarial or market value premium of these swaps was $5.2 billion. Taxpayer paid $3.155 billion in the form of subsidized and the swaps were delivered to the market at a consolidated 60.57% premium discount.

Questions, comments, corrections give me a call or a note as I would relish an opportuntity to discuss in detail.

Ron Eliason
Wichita, Kansas

<u>CFTC posted definition of a Forward Contract:</u> A cash transaction common in many industries, including commodity merchandising, in which a commercial buyer and seller agree upon delivery of a specified quality and quantity of goods at a specified future date. Terms may be more "personalized" than is the case with standardized futures contracts (i.e., delivery time and amount are as determined between seller and buyer). A price may be agreed upon in advance, or there may be agreement that the price will be determined at the time of delivery.

From: Ron Eliason
To: Chilton, Bart
Cc: Ron Eliason
Sent: Sun Nov 14 09:38:49 2010
Subject: RE: GOVERNMENT SUBSIDIZED AGRICULTURE SWAPS EXECUTED ON 147 MILLION ACRES OF US CROP LAND IN 2010

Honorable Chilton,
Thanks for the quick response...I have read several of your speeches and followed your comments regards markets in the WSJ over past few years and consider you to be the "market" expert on the commission. Therefore, my question: In your opinion are "net margin swaps" structured to deliver a financially settled fixed net margin to a farm operation calculated as yield*price minus fertilizer, energy, seed value*price a swap that would be under jurisdiction of CFTC ??

Ron Eliason
Wichita, Kansas.

-----Original Message-----
From: Chilton, Bart
Sent: Sunday, November 14, 2010 7:47 AM
To: Ron Eliason
Subject: Re: GOVERNMENT SUBSIDIZED AGRICULTURE SWAPS EXECUTED ON 147 MILLION ACRES OF US CROP LAND IN 2010

Thx Ron - good points.
B

From: Ron Eliason
To: Gensler, Gary; Dunn, Michael; O'Malia, Scott; Sommers, Jill; Chilton, Bart
Cc: Ron Eliason
Sent: Sun Nov 14 08:06:51 2010
Subject: GOVERNMENT SUBSIDIZED AGRICULTURE SWAPS EXECUTED ON 147 MILLION ACRES OF US CROP LAND IN 2010

I did not sent comments outlined below during CFTC designated Ag Swaps open comment period as not sure financially settled private product "agriculture revenue swaps " fall under the jurisdiction of CFTC even though a broad and growing market exists in the private sector for these products.

Excel attached contains a USDA RMAagency summary of business report indicating financially settled agriculture swaps, delivered as taxpayer subsidized revenue insurance, were marketed on 145.489, 309 acres of US corn, soybeans, and wheat 2010 crops.

Notional minimum risk value, reported by RMA, "financially guaranteed" by the US taxpayer equaled $45,914,236,520. Risk transfer premium of $4,911,919,362 received a taxpayer subsidy of $3,019,453,445.

Additionally, each revenue insurance policy embeds a "free" guaranteed "look back option" derivative which settles each revenue swap at the higher two Asian option averaging periods. ...one 30 day averaging period of delivery month futures prior to the crop being planted and second 30 day averaging period of the delivery month futures during the crop harvest period.

Agriculture revenue swaps obviously have achieved widespread market acceptance as crop insurance. As a

result "appropriate conditions, restrictions or protections" guidelines are in place; hence, "any such rule, regulation or order governing the trading of agricultural swaps" CFTC approves has been perfected by RMA . Therefore, if majority of rules regulating government subsidized revenue swaps were adopted/written into private market based agriculture swaps these products would compliment the government subsidized program thereby shifting/reducing a portion of taxpayer funding and guaranteed risk.

Subsidized revenue insuance (swaps) are economical ,useful, and efficient at the farm level; however, RMA rules/regulations exclude a broad segment of the agriculture production value chain that would benefit if given regulatory approval to access the private swap market as well. Two gaps in the government program:

1. Cost of production input swaps to protect fertilizer, energy, seed, price volatility necessary to deliver a profitable "net margins" forward are not offered except in private markets.
Crop Yield*Price - Cost of Production Input Volume*Price = Net Margin, "Net Margin" agriculture swaps are available in the private market.
2.Capability of executing revenue swaps at market any day the exchange is trading verses limited to only two averaging periods is a major gap.

Based on this brief summary and background which could be detailed I encourage CFTC to approve regulatory rules permitting agriculture swaps as managing/transferring financial risk in production agriculture without them requires wearing of un-necessary risk.

Ron Eliason

Wichita, Kansas