Statement of

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Chairman Johnson, Ranking Member Caraveo, and members of the Subcommittee, thank you for the invitation to testify today with respect to the reauthorization of the Commodity Futures Trading Commission (CFTC) and, in particular, the importance of the agriculture industry's ability to use and offer risk management tools.

I am Travis Antonsen, Senior Vice President of Grain Marketing and Rail Logistics of Agtegra Cooperative. Agtegra Cooperative is a local farmer-owned agricultural cooperative headquartered in Aberdeen, South Dakota. It is owned by over 6,700 farmers and ranchers, predominantly in North and South Dakota, with a network of over 70 locations and 900 employees. With four main divisions, we buy grain from our farmer-members and provide farmers and ranchers with grain, agronomy, energy and feed products and services. In addition, I was born and raised on a family farm in South Dakota where I continue to farm with my family. We grow corn and soybeans and raise livestock.

Today, I am testifying on behalf of Agtegra Cooperative and the National Council of Farmer Cooperatives (NCFC). NCFC represents roughly 1,700 farmer-owned cooperatives across the country whose members include a majority of our nation's more than 2 million farmers. Agtegra Cooperative is an NCFC member, and also a member of the National Grain and Feed Association (NGFA). I currently serve on the NGFA Risk Management Committee and have previously served on the NGFA Country Elevator Committee and Board of Directors.

Farmer cooperatives – businesses owned, governed and controlled by farmers and ranchers – are an important part of the success of American agriculture. Through their cooperatives, producers are able to improve their income from the marketplace, manage risk, and strengthen their bargaining power, allowing them to compete globally in a way that would be impossible to do individually.

Commodity price risk management tools are essential to help mitigate commercial risk in the production, processing and selling of a broad range of agricultural, energy and food products. America's farmers and ranchers must continue to have access to new and relevant risk management products that enable them to feed, clothe and provide fuel to consumers here at home and around the world. Mostly favorable weather this year appears to be aiding crop development and futures contracts are pricing in expectations for large crops. Thus far it appears producers who previously forward priced crops, which is made possible by derivatives, will likely receive higher prices for their crop. Not everyone forward prices crops, but having the

pricing tools available as part of a multilayered risk management strategy is important for agriculture.

Use of Derivative Markets

As processors and handlers of commodities and suppliers of farm inputs, agriculture firms are commercial end-users of the futures exchanges, as well as the over-the-counter (OTC) derivatives markets. They use exchange-traded futures and options and OTC derivatives to hedge the price risk of commodities they purchase, supply, process or handle.

For example, Agtegra uses exchange-traded futures and options and OTC derivatives to hedge the price risk for the cooperative to protect grain in storage, manage future sales, and to offer forward contracting options to our member-owners. In the process of buying grain from the farm to selling it to the end-user or exporter, that bushel of grain may have had to trade futures four or five times by the time the grain reaches its final destination. The cooperative is also active in offering pricing tools that allow its members to manage their price risk well in advance of harvesting or even planting a crop.

While not used to the extent as exchange-traded contracts, the swaps markets also play a vital role in the ability of cooperatives to hedge in the various commodity markets, in both the agricultural and energy markets. Swaps are especially important in times of extreme price volatility that puts stress on the industry – and allows working capital to be freed up so cooperatives can continue to offer forward pricing options for farmers to manage their own production risk.

In addition, swaps serve as important tools in agriculture markets that may not have sufficient trading volume on the futures exchanges, as well in being able to customize hedges to address situations that may not match up well to conventional futures contract specifications. To access the OTC market, cooperatives use a variety of commercial counterparties as well as registered swap dealers, including large banking entities.

Currently some of our agricultural markets are in a period of lower price levels driven by increasing international crop production. For example, the futures price on the December 2024 corn futures contract peaked at $6.02/bushel on April 25, 2022 and as of the close on July 19, 2024 is down to $4.05/bushel. To manage such large commodity price risks and movements, cooperatives rely on highly functioning derivatives markets.

As a producer, the ability to customize risk management tools through OTC derivative contracts has been an invaluable tool for my operation by giving me the confidence to price grain well before it is planted. The ability to set a price floor and participate in future market rallies over a timeframe that I get to choose has been a game changer to our farm's risk management plan.

CFTC Reauthorization

As the Agriculture Committee has previously looked to reauthorize the CFTC on a number of occasions since authorization expired in 2013, NCFC has supported the Committee's efforts.

Reauthoring CFTC is the way in which this Committee acknowledges the importance of the agency's critical functions. Continued delay unnecessarily withholds that vote of confidence. While the current trend is to focus on new shiny objects such as cryptocurrency, we continue to rely on the CFTC to ensure the soundness of the bedrock of our commodity markets. As outlined above, it is essential for the agriculture industry to have sound, well-functioning commodity derivatives markets, and appreciate that the Agriculture Committee continues to provide that oversight. The CFTC performs the essential role of helping to safeguard U.S. futures, options and swaps markets that our industry relies on for critical risk management and price discovery functions. For the U.S. agricultural and energy contracts that are utilized extensively by our members to manage their market and business risks, this regulatory oversight is crucial.

Throughout Dodd-Frank implementation, now a decade ago, NCFC has advocated that the agriculture industry does not fit in a one-size-fits-all regulatory regime meant for Wall Street. As such, we continue to encourage you to help ensure that regulatory burdens don't impede the ability of farmers, their cooperatives and others involved in the agriculture industry to have access to the risk management tools they need. Reauthorizing CFTC would reassert this Committee's oversight of this role.

Costs to End Users

The CFTC performs the critically important role of helping safeguard U.S. futures and swaps markets, which benefits all Americans with more stable prices and a sound financial system. And while the Commission's responsibilities have continued to expand dramatically, adequate funding has remained stagnant. While outside the jurisdiction of this Committee, we encourage Congress to provide sufficient funding through appropriations for CFTC to perform its important functions. Without sufficient resources to staff the Commission and invest in these areas, the CFTC's ability to perform these important functions, as well as ensuring the integrity of the more traditional commodity markets our members rely on for risk management purposes, will be diminished.

However, aggregate regulatory costs and market liquidity are an ongoing concern for farmers and their cooperatives. Agriculture is a high-volume, low-margin industry, and incremental increases in costs trickle down and impact farmers. Taken incrementally, the costs may not seem unreasonable, but those costs are evident to those who have to absorb or pass them on to the farmer. Even as end users, significant resources must be used just to comply with the additional paperwork requirements called for under Dodd-Frank. In fact, a number of NCFC members have had to greatly increase spending on compliance staff and technology due to additional regulations.

Therefore, we would like to caution the Committee against imposition of any type of user fee on the industry to fund the CFTC. We fear a further increase in cost structure due to higher transaction costs would discourage prudent hedging practices. While the President's 2025 budget request calls for user fees: "CFTC fees would be designed in a way that supports market access, liquidity, and the efficiency of the Nation's derivatives markets," it does not indicate how that would be achievable. We believe the opposite to be true.

There are many users of futures contracts in the agricultural supply chains. In grain alone, there are producers, agricultural cooperatives, country elevators, processors, exporters and poultry and livestock feeders who use futures contracts to reduce price risk. Grain represented by underlying futures contracts can be traded multiple times. If there was a user fee associated with a trade, the likely result is the net selling price received by the producer would go down by the amount of the fee each time the underlying futures contract is traded.

In addition to lower farm gate prices farmers would receive, a user fee would result in an increase in risk being absorbed in the agriculture community in general, and would likely reduce the desire for participants, such as agricultural producers, to hedge their price risk.

Basel III End Game

Throughout the Dodd-Frank Act implementation process, NCFC advocated for rules that would allow for continued access to a robust and diverse set of hedging options, contracts and counterparties. Therefore, NCFC echoes the concerns of the proposals (Federal Reserve, Federal Deposit Insurance Corporation, The Office of the Comptroller of the Currency) raised by other end-users that use derivatives to hedge their commercial risks. While the goal of ensuring and improving financial system integrity is strongly supported by our members, we are concerned our industry would be subject to unintended consequences of what has been proposed.

We appreciate CFTC's engagement with the prudential regulators on this issue and are optimistic to hear that those agencies recently signaled their willingness to take another look at those proposals. If they were to go forward in their current form, potential impacts include:

(A) increased end-users' costs of hedging;
(B) fewer banking organizations acting as futures commission merchants (FCMs) to the agriculture industry and as swap dealers in commodity OTC derivative contracts, thereby reducing end-users' risk management options; and
(C) less liquid and more volatile markets.

The impact of increased capital costs for derivative contracts as a result of proposals may create a disincentive for banking organizations to continue to offer designated contract market (DCM) clearing services through their FCMs, or act as market-makers in OTC commodity derivative contracts, which would result in less liquidity in commodity derivative markets, and fewer options for end-users.

Unnecessarily high capital requirements that do not match the associated risk also will create a barrier to entry for certain market participants, such as farmer-owned cooperatives and private companies. Farmer cooperatives are businesses owned, governed, and controlled by farmers and ranchers. Thus, we are particularly troubled by the determination of "Investment Grade" for Unlisted Corporate Exposures (the "Public Listing Requirement"). The Basel III Endgame Proposal would provide a preferential 65% risk weight for investment grade corporate exposures based on a large banking organization's internal assessment of creditworthiness. However, the Proposal would require that the preferential 65% risk weight can only be applied if the

counterparty has shares that are publicly traded on a national securities exchange or foreign equivalent.

Due to the impact of increased capital costs, we fear bank affiliated FCMs would be disincentivized from doing business with entities that are not publicly traded, while their swap dealing entities reduce, or altogether eliminate, offering those hedging services to cooperatives. Given the arbitrary nature of the public listing requirement and the likely unintended consequences on otherwise highly creditworthy entities, we have urged that this requirement be eliminated.

Thank you again for the opportunity to testify today before the Committee. We appreciate your role in ensuring our industry will continue to be able to effectively hedge commercial risk in supporting the viability of our farmers. I look forward to answering any questions you may have.

Thank you.