

# **AAC's Subcommittee on Convergence in Agricultural Commodity Markets: Report and Recommendations**

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## Convergence in Wheat: Key Regulatory Issues

- The CBOT SRW wheat contract is the property of the exchange - CME Group.
- However, persistent lack of convergence inhibits the contract's ability to deliver on its key public attributes - ability to discover prices and manage risks.
- There is a consensus that the problem is imbedded in the technical aspects of the contract's design – e.g., par delivery locations, shipping certificates, storage rates.
- Some market participants benefit from the lack of convergence and others lose – an inefficiency that needs to be addressed.
- However, those who know how to solve technical contract design issues are likely to be the beneficiaries of the current design.
- Regulatory intervention might be justified.

## CFTC Involvement in the Past

- In 1926, prior to the birth of the CFTC, the Federal Trade Commission (FTC) expressed concerns over Chicago delivery and **suggested to Congress** that “the Chicago Board of Trade be requested to permit the delivery of grain on futures contracts at other important markets (other) than Chicago.”
- In March 1979, **the CFTC ordered the termination of trading** in the expiring March **wheat** futures contract at Chicago, which had three trading days remaining. Among some of the reasons for the termination was a perceived distortion of price relationship between the March contract and other values of wheat.
- In December 1996, the Commission **issued a notification** to the CBOT that the delivery terms of its **corn and soybean** futures contracts did not satisfy the statutory objectives of Section 5(a)(10) of the Commodity Exchange Act.
- This action resulted in the **creation** of the Illinois Waterway delivery system for **corn and soybeans**, which is the delivery system these futures contracts have today.

# CFTC Initial Involvement Now: Discussion and Analysis

- In 2008-2009, the CFTC **organized industry and academic roundtables/conferences** on convergence and contract design in April 2008, December 2008, and June 2009 (jointly with ERS/USDA).
- Numerous proposals to solve the convergence in grains and oilseeds:

## Address structural issues

Additional delivery locations  
New par delivery area

## Address the carry

Increase storage rates  
Limit speculative ownership of certificates  
Limit market participation of index funds

## Address decoupling of cash and futures markets

Compelled load out/demand certificates  
Cash settlement

# CFTC Subsequent Involvement Now: Transparency and Collaboration

- As the convergence problems persisted, the CFTC **formed the Subcommittee on Convergence** in Agricultural Markets on March 9, 2009. 18 members of the Subcommittee on Convergence conducted three public conference calls during June-September 2009.

- The Subcommittee discussed ways to **address** contract design issues:

  - New par delivery area

  - Higher storage rates

  - Penalties on prolonged ownership of certificates

  - Compelled load out/demand certificates

  - Cash settlement

- In September 2009, the Subcommittee on Convergence **recommended** to the CFTC's Agricultural Advisory Committee that the CME Group adopts a variable storage rate mechanism for the CBOT wheat starting with the December 2009 contract.

- Dave Lehman, representative of the CME Group on the Subcommittee objected to this recommendation.

