



April 26, 2012

David Stawick
Secretary
Commodity Futures Trading Commission
Three Lafayette Center
1155 21st Street NW
Washington, DC 20581

Re: Petition for Commission Order Regarding the Applicability of the Bona Fide Hedge Exemption to Certain Transactions

Dear Mr. Stawick:

Pursuant to Section 4a(a)(7) of the Commodity Exchange Act ("CEA") and Section 151.5(a)(5) of the regulations of the Commodity Futures Trading Commission (the "Commission"), CME Group¹ hereby petitions the Commission for an order granting exemptive relief from the Commission's regulations governing speculative position limits. Specifically, CME Group asks the Commission, pursuant to its broad exemptive authority in Section 4a(a)(7) of the CEA, to recognize as bona fide hedging transactions anticipatory hedging during the last five days of a physically delivered contract, subject to certain restrictions, for entities engaged in processing, manufacturing and feeding.

We request this relief pursuant to Section 151.5(a)(5) of the Commission's regulations, which permits "[a]ny person engaging in...risk-reducing practices commonly used in the market which they believe may not be specifically enumerated [as hedges to] request relief from...the Commission under Section 4a(a)(7) of the Act concerning the applicability of the bona fide hedging transaction exemption."

Petition

Current CFTC Regulation §1.3(z) ("Bona Fide Hedging Transactions and Positions"), as it pertains to processing, manufacturing and feeding, permits anticipatory hedging, provided that during the last five days of trading in a futures contract, the size of the hedge position is limited

¹ CME Group is the parent of four designated contract markets: (1) Chicago Mercantile Exchange, Inc. ("CME"); (2) the Board of Trade of the City of Chicago, Inc. ("CBOT"); (3) the New York Mercantile Exchange, Inc. ("NYMEX"); and (4) the Commodity Exchange, Inc. ("COMEX"). The CME Group exchanges serve the risk management needs of customers around the globe and offer the widest range of benchmark products available across all major asset classes, including futures and options based on interest rates, equity indexes, foreign exchange, energy, emissions, agricultural commodities, metals, and alternative investment products such as weather and real estate.

to unfilled anticipated requirements of the same cash commodity for that month and for the next succeeding month. The relevant portion of the regulation reads as follows:

§1.3(z)(2)(C)

(2) Enumerated hedging transactions. The definitions of bona fide hedging transactions and positions in paragraph (z)(1) of this section includes, but is not limited to, the following specific transactions and positions: []

(ii) Purchases of any commodity for future delivery on a contract market which do not exceed in quantity: []

(C) Twelve months' unfilled anticipated requirements of the same cash commodity for processing, manufacturing, or feeding by the same person, provided that such transactions and positions in the five last trading days of any agreement, contract or transaction do not exceed the person's unfilled anticipated requirements of the same cash commodity for that month and for the next succeeding month.

In contrast, new CFTC Regulation §151.5(2)(C) prohibits any anticipatory hedging by processors and manufacturers during the last five days in physical-delivery Referenced Contracts:

§151.5(2)(C)

(2) Enumerated hedging transactions and positions. Bona fide hedging transactions and positions for the purposes of this paragraph mean any of the following specific transactions and positions: []

(ii) Purchases of Referenced Contracts that do not exceed in quantity: []

(C) Unfilled anticipated requirements of the same cash commodity, which may not exceed one year for agricultural Referenced Contracts, for processing, manufacturing, or use by the same person, provided that no such position is maintained in any physical-delivery Referenced Contract during the last five days of trading of the Core Referenced Futures Contract in an agricultural or metal commodity or during the spot month for other physical-delivery contracts.

(Emphasis added).

CME Group believes that the longstanding allowance of enumerated bona fide hedges for anticipatory hedging of processing, manufacturing or feeding needs in the last five days of trading, including in physical-delivery contracts, should continue to be permitted, provided that such transactions or positions do not exceed the person's unfilled anticipated requirements of the same cash commodity for that month and for the next succeeding month. This exemption is utilized by participants who have legitimate, near-term anticipated commercial need for the underlying physical commodity and is wholly consistent with the CFTC's definition of bona-fide hedging in its new Regulation §151.5 in that such transactions or positions: (i) represent

substitutes for transactions made or to be made at a later time in a physical marketing channel; (ii) are economically appropriate to the reduction of risks in the conduct and management of a commercial enterprise; and (iii) arise from the potential change in the value of assets that a person anticipates owning, producing, manufacturing, processing, or merchandising.

The restriction limiting such hedges to the person's anticipated requirements in the same cash commodity in the expiration month and the next succeeding month fully addresses any concern that a hedger would be permitted to carry a very large anticipatory hedge position in the final days of the expiring contract without having any near term need for the physical commodity. CME Group believes that the fundamental hedging functions of futures markets are clearly served by allowing for such exemptions. Moreover, the elimination of this longstanding exemption specifically for physical-delivery contracts would undermine the utility of these benchmark price discovery contracts as effective tools for managing price risk by commercial participants with bona fide hedging needs.

CME Group therefore respectfully requests that the Commission grant this petition to reinstate this important exemption for commercial participants in physical-delivery Referenced Contracts.

Should you have any questions regarding this petition, please contact me at (312) 930-3488 or Kathleen.Cronin@cmegroup.com, or Joe Hawrysz, Executive Director, Global Market Surveillance, at (312) 341-7750 or Joe.Hawrysz@cmegroup.com.

Sincerely,



Kathleen Cronin
Senior Managing Director & General Counsel

cc: Steve Sherrrod, Division of Market Oversight
Kenneth Danger, Division of Market Oversight
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Joe Hawrysz, CME Group
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