

December 23, 2010

Mr. David A. Stawick  
Secretary  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21st Street, NW.  
Washington, DC 20581

Re: "KCBT Contract Amendment for Wheat"

Dear Mr. Secretary:

Advance Trading wishes to provide comments to the Commission regarding proposed changes to the Kansas City Board of Trade (KCBT) wheat contract as submitted by the KCBT on Dec. 1, 2010. Our company represents clients from the producer, to the warehouse, to the miller. We believe a well functioning futures market that reliably converges increases the market's efficiency. This raises the price to the farmer, increases credit availability to the warehouse, and lowers the price to the user.

The KCBT has faced a very difficult situation with basis widening dramatically resulting in a total failure of the contract to converge. The KCBT has spent many hours trying to find a way to satisfy the majority of market participants. We appreciate these efforts.

Advance Trading believes that the KCBT's adoption of a seasonal storage rate is a step in the right direction and should result in convergence when the market value of storage is worth less than the futures contract specification. However, the seasonal rate only allows spreads to widen a maximum of 33c more per year than the previous specifications. With basis levels \$1.00-1.50 below convergence levels last summer, 33c would have been woefully inadequate to address the problem.

With respect to the KCBT's proposal to establish a protein specification on the wheat contract, we view this as an attempt to mollify that part of the trade that benefited from the lack of convergence through low basis levels and below market storage charges. Does a protein specification assist in promoting convergence? We agree with the NGFA risk management committee's response to that question which follows:

- 1) "Some delivery elevators and other grain purchasers have raised concerns that a tighter protein standard on the futures contract than exists in cash markets might work to the detriment of convergence. In years of low-protein harvests in hard red winter wheat-growing areas, the protein spec could serve to shrink the pool of deliverable wheat supplies. If that occurred, deliveries would be curtailed – a situation that would not help

the contract converge. In addition, there could be undesirable economic consequences for delivery elevators if they are challenged to source wheat supplies that meet the contract specifications.

- 2) Some end-users believe that the protein requirement could assist with convergence. A minimum protein level could give the “taker” of delivery greater assurance that he will receive wheat of sufficient protein levels to produce a product acceptable to customers and consumers (e.g., for a flour miller to produce all-purpose flour).”

Given the difference of opinion on the proper changes to contract terms, the CFTC must thoroughly evaluate if the proposed changes adequately improve convergence. As stated previously, Advance Trading believes the proposal will be inadequate to solve a situation similar to the one that occurred this past summer.

Advance Trading has preferred the initial Wheat Contract Committee’s recommendation of implementing a Variable Storage Rate similar to the CME design. This dynamic structure insures convergence over time as can be seen by the dramatic increase the SRW basis levels.

In closing, all market participants depend on convergence to facilitate an efficient grain marketing system. We look forward to continuing this effort with the CFTC and others to ensure that this occurs.

Sincerely,

Jeffrey W. Hainline, Chair  
Advance Trading Inc