Sean M. Downey
Director and Assistant General Counsel
Legal Department

June 4, 2012

VIA E-MAIL

Mr. David Stawick
Office of the Secretariat
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, DC 20581

RE: Regulation 40.4(a) Request for Approval – Revisions to Storage Rates in Rough Rice Futures
CBOT Submission #12-183R

Dear Mr. Stawick:

The Board of Trade of the City of Chicago, Inc. ("CBOT" or "Exchange") pursuant to Commodity Futures Trading Commission ("Commission" or "CFTC") Regulation 40.4(a) hereby requests approval to increase the maximum storage charge that approved delivery warehouses can charge carriers of its outstanding warehouse receipts from 34/100s of one cent per hundredweight per day to 42/100s of one cent per hundredweight per day. The Exchange requests approval to implement this increase in storage rates on November 18, 2012.

Please note that the Exchange is revising CBOT Submission No. 12-183. A copy of this submission with blackline changes from 12-183 is attached as Appendix A.

The CBOT Rough Rice futures ("Rice") contract has exhibited poor cash – futures convergence at futures contract expiration over the past year and a half. Rice has experienced conditions similar to the CBOT Wheat futures ("Wheat") market in 2008 and 2009 when said contract experienced poor convergence. Similar to Wheat, the issue is related to a mismatch between the costs to carry a Rice warehouse receipt in the futures market compared with the cost to carry physical rice in the cash market.

Last spring, following conversations with the CFTC staff, the Exchange began periodic outreach to five rice market participants to closely monitor the convergence issue. This group felt that as rice stocks were drawn down into summer, the Gulf export market would eventually strengthen the basis in late summer or early fall. However, by fall, the basis, while improving modestly, was still historically weak due to light export demand. The USA Rice Federation annual outlook meeting was scheduled for December 2011, and both the CME Group and CFTC Staff agreed to join a focus group looking at convergence at that meeting.

In January 2012, the Exchange held 15 individual calls with key industry participants. Following this outreach, a Rice Industry Meeting was held at the Exchange on February 1, 2012 with over 75 participants in attendance. Finally, an industry-wide survey was conducted from February to March 2012. The Exchange found that there is widespread support for higher storage rates in Rice during its outreach. The current maximum storage rate of 34/100s of one cent per cwt per day has been in effect since Rice started trading on the Mid-America Commodity Exchange in 1986. The vast majority of participants support increasing the static storage rate and do not support any type of variable storage rate concept such as the one implemented in the Wheat market.

Please note that as of June 6, 2012, the Exchange had open interest of 1,407 contracts on the November 2012 contract, 114 contracts on the January 2013 contract, 91 contracts on the March 2013 contract, 7 contracts on the May 2013 contract and 5 contracts on the July 2013 contract. Thus, the Exchange is recommending a change that potentially could affect pricing in contracts with open interest.

After initially expressing interest in effecting the price increase following the expiration of the September 2012 contract, market participants voiced a preference that the implementation of the storage fee changes be delayed until November 18, 2012 due to the proximity of the Sep – Nov to financial full carry. As such, the Exchange recommends this increase in storage charges be approved for implementation on November 18, 2012 after the expiration of the November 2012 contract.[1]
Historically, the Commission has approved increases in storage charges on contracts with open interest beginning with the new-crop expiration when the spreads affected were inside financial full carry. This is due to the fact that if spreads are inside financial full carry, then the storage charge is not constraining the spread and any increase in storage charges should not affect spread relationships and thus, pricing. Due to the proximity of the Sep – Nov to financial full carry, Settlements on June 6, 2012 indicate the Jul – Sep spread was 90.8 percent of full carry; the Sep – Nov spread was 99.7 percent of full carry; the Nov – Jan spread was 89.3 percent of full carry, the Exchange believes the proposed change to storage rates should be implemented following the expiration of the November contract rather than on September 18, 2012.

In contrast, the Jan – Mar spread was 95.1 percent of full carry; the Mar – May spread was 70.6 percent of full carry; and the May – Jul spread was 71.5 percent of full carry. Since these spreads are not close to financial full carry, the pricing issues related to the November contract are not presented. Thus, the proposed November implementation will not have any potential impact on pricing.

CBOT business staff responsible for this contract modification and the CBOT legal department collectively reviewed the designated contract market core principles ("Core Principles") as set forth in the Commodity Exchange Act ("CEA"). During the review, CBOT staff identified the following Core Principles as potentially being impacted:

- <u>Prevention of Market Disruption:</u> Increasing Rough Rice futures storage charges will help prevent market disruptions by making Rice spreads reflective of the cost to carry the underlying physical commodity in the cash market resulting in the cost of storage being discovered in the transparent futures market spreads rather than the less transparent basis market. This should also help the futures market better reflect the dynamics of the physical market and result in a more competitive, open, and efficient market. The increase also promotes fair and equitable trade by improving cash – futures convergence and, thus, hedging effectiveness of the contract.

- <u>Execution of Transactions:</u> Futures spreads more reflective of cash market storage conditions will help the futures market better reflect the dynamics of the physical market and result in a more competitive, open, and efficient market.

- <u>Protection of Market Participants:</u> This change promotes fair and equitable trade by improving cash – futures convergence and, thus, the hedging effectiveness of the contract.

The Exchange certifies that the increase in storage rates complies with the CEA and the rules thereunder. There were no substantive opposing views to this proposal.

The Exchange certifies that the submission has been concurrently posted on the Exchange's website at http://www.cmegroup.com/market-regulation/rule-filings.html.

A copy of the revisions to Rule 17108, with additions underscored and deletions overstruck, is attached hereto as Exhibit 1.

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[1] The CME Clearing Delivery System collects storage charges on the 18th of every month effective through the previous calendar day, i.e., the 17th. Thus, changes to storage charges are most seamless if implemented on the 18th calendar day of the month.

If you require any additional information regarding this action, please contact me at 312-930-8167 or via email at Sean.Downey@cmegroup.com. Please reference CBOT Submission #12-183R in any related correspondence.

Sincerely,

/s/ Sean Downey
Director and Associate General Counsel

Attachment: Exhibit 1 – Rule 17108 (black-lined)
Appendix A – CBOT Submission No. 12-183R (black-lined)

EXHIBIT 1

Recommended change with deletions [~~bracketed with strikethrough~~] and additions **<u>bold and underlined.</u>**

17108. STORAGE CHARGES
Storage charges on rough rice shall not exceed such charges as have been filed with the Exchange in accordance with Rule 17109.A. (which shall be designed to cover costs of storage, insurance and taxes).

No rough rice warehouse receipts shall be valid for delivery on futures contracts unless the storage charges shall have been paid up to and including the 18th day of the preceding month and such payment endorsed on the rough rice warehouse receipt. Unpaid accumulated storage charges at the posted tariff applicable to the warehouse where the rough rice is stored shall be allowed and credited to the buyer by the seller to and including the date of delivery. If storage charges up to and including the 18th calendar day preceding the delivery months of March, July and September and are not paid by the first calendar day of any such delivery month, a late charge will apply. The late charge will be an amount equal to the total unpaid accumulated storage charges multiplied by the “prime interest rate” in effect on the day that the accrued storage charges are paid, all multiplied by the number of calendar days that storage is overdue divided by 360 days. The term “prime interest rate” shall mean the lowest of the rates announced by each of the following four banks at Chicago, Illinois, as its “prime rate”: Bank of America-Illinois, JP Morgan Chase & Co., Harris Trust & Savings Bank and the Northern Trust Company.

Storage on rough rice shall not exceed [~~34/100~~] **<u>42/100</u>** of a cent per hundredweight per day. Regular Rough Rice warehousemen shall maintain in the immediate vicinity of the Exchange either an office, or a duly authorized representative or agent which is a registered clearing member of the Exchange, to whom Rough Rice storage charges must be paid.

APPENDIX A

CME Group

Sean M. Downey
Director and Assistant General Counsel
Legal Department

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Please note that the Exchange is revising CBOT Submission No. 12-183. A copy of this submission with blackline changes from 12-183 is attached as Appendix A.

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Last spring, following conversations with the CFTC staff, the Exchange began periodic outreach to five rice market participants to closely monitor the convergence issue. This group felt that as rice stocks were drawn down into summer, the Gulf export market would eventually strengthen the basis in late summer or early fall. However, by fall, the basis, while improving modestly, was still historically weak due to light export demand. The USA Rice Federation annual outlook meeting was scheduled for December 2011, and both the CME Group and CFTC Staff agreed to join a focus group looking at convergence at that meeting.

In January 2012, the Exchange held 15 individual calls with key industry participants. Following this outreach, a Rice Industry Meeting was held at the Exchange on February 1, 2012 with over 75 participants in attendance. Finally, an industry-wide survey was conducted from February to March 2012. The Exchange found that there is widespread support for higher storage rates in Rice during its outreach. The current maximum storage rate of 34/100s of one cent per cwt per day has been in effect since Rice started trading on the Mid-America Commodity Exchange in 1986. The vast majority of participants support increasing the static storage rate and do not support any type of variable storage rate concept such as the one implemented in the Wheat market.

Please note that as of ~~May~~ June 6~~4~~, 2012, the Exchange had open interest of 1,407~~306~~ contracts on the November 2012 contract, 114~~76~~ contracts on the January 2013 contract, 91~~14~~ contracts on the March 2013 contract, 7~~; and 10~~ contracts on the May 2013 contract and 5 contracts on the July 2013 contract. Thus, the Exchange is recommending a change that potentially could affect pricing in contracts with open interest.

After initially expressing interest in effecting the price increase following the expiration of the September 2012 contract, market participants voiced a preference that the implementation of the storage fee changes be delayed until November 18, 2012 due to the proximity of the Sep – Nov to financial full carry. ~~The~~ As such, the Exchange recommends this increase in storage charges be approved for implementation on November~~September~~ 18, 2012 after the expiration of the November~~September~~ 2012 contract.[2]

Historically, the Commission has approved increases in storage charges on contracts with open interest beginning with the new-crop expiration when the spreads affected were inside financial full carry. This is due to the fact that if spreads are inside financial full carry, then the storage charge is not constraining the spread and any increase in storage charges should not affect spread relationships and thus, pricing. Due to the proximity of the Sep – Nov to financial full carry, Settlements on June 6~~May 29~~, 2012 indicate the Jul – Sep spread was 90.8~~93~~ percent of full carry; the Sep – Nov spread was 99.7~~98~~ percent of full carry; the Nov – Jan spread was 89.3~~88 percent of full carry; the Jan – Mar spread was 97~~ percent of full carry~~; and the Mar – May spread was 85 percent of full carry. Consequently~~, the Exchange believes the proposed change to storage rates should be implemented following the expiration of the November contract rather than on September 18, 2012. ~~approved.~~

In contrast, the Jan – Mar spread was 95.1 percent of full carry; the Mar – May spread was 70.6 percent of full carry; and the May – Jul spread was 71.5 percent of full carry. Since these spreads are not close to financial full carry, the pricing issues related to the November contract are not presented. Thus, the proposed November implementation will not have any potential impact on pricing.

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- Prevention of Market~~r~~ Disruption: Increasing Rough Rice futures storage charges will help prevent market disruptions by making Rice spreads reflective of the cost to carry the underlying physical commodity in the cash market resulting in the cost of storage being discovered in the transparent futures market spreads rather than the less transparent basis market. This should also help the futures market better reflect the dynamics of the physical market and result in a more competitive, open, and efficient market. The increase also promotes fair and equitable trade by improving cash – futures convergence and, thus, hedging effectiveness of the contract.

- Execution of Transactions: Futures spreads more reflective of cash market storage conditions will help the futures market better reflect the dynamics of the physical market and result in a more competitive, open, and efficient market.

- Protection of Market Participants: This change promotes fair and equitable trade by improving cash – futures convergence and, thus, the hedging effectiveness of the contract.

The Exchange certifies that the increase in storage rates complies with the CEA and the rules thereunder.

[2] The CME Clearing Delivery System collects storage charges on the 18th of every month effective through the previous calendar day, i.e., the 17th. Thus, changes to storage charges are most seamless if implemented on the 18th calendar day of the month.

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