CME Group

August 30, 2011

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

Re: Changes to CBOT Wheat Futures
CBOT Submission No. 11-330

A. Proposed Changes

The Board of Trade of the City of Chicago, Inc. ("CBOT" or "Exchange") hereby notifies the Commodity Futures Trading Commission ("Commission" or "CFTC") that it intends, with CFTC approval, to implement the following changes to the CBOT Wheat futures and Mini-Sized Wheat futures contracts:

1. Allow Hard Red Winter, Dark Northern Spring, and Northern Spring wheat to be deliverable in the St. Louis delivery territory.
2. Add language to the Rulebook outlining the Exchange's custom to adjust how the nearby calendar spread is measured when calculating the Variable Storage Rate (VSR) mechanism when contract changes that could affect that spread are pending.
3. Remove language in the Rulebook requiring River delivery facilities to be connected by railroad service.

The Exchange plans to implement these changes, pending CFTC approval, beginning with the December 2011 contract.

B. Background

As part of an ongoing contract review process, the Exchange conducted a thorough review of the CBOT Wheat futures contract during the first half of 2011 that included Customer Focus meetings with a broad cross-section of the industry and an industry-wide survey. The Customer Focus group identified Hard Red Winter (HRW) and spring wheat delivery in St. Louis as a way to assure deliverable supply and simplify contract terms.

When contract changes are pending that affect the nearby calendar spread, the Exchange adjusts that spread in the VSR calculation, and communicates this to the trade through a Special Executive Report (SER). The Exchange believes that this VSR adjustment should also be specified in the CBOT Rulebook as well as through an SER.

An internal review of the CBOT Wheat futures contract discovered an oversight from 2009 when barge loading facilities were added to the Wheat contract's delivery territories. Barge loading facilities are only required to load-out via barge, but an oversight in the rules still states that Wheat delivery facilities must be connected by railroad tracks. All current facilities are connected by railroad tracks, but these facilities are not required to load-out via rail and this rule should not apply to these barge loading facilities.

Discussion and Opposing Views

Participants in the Exchange's Customer Focus outreach voiced strong support for adding HRW and spring wheat deliveries in the St. Louis – Alton delivery territory. Participants acknowledge that HRW or spring wheat delivery in St. Louis would be unusual, but supported this position with two main points:

1. HRW and spring wheat delivery would help insure deliverable supply should the U.S. experience a short Soft Red Winter (SRW) crop, and
2. These additions would simplify the contract because HRW and spring wheat are already deliverable in all other delivery territories.

The survey responses on this topic were divided with opposition mainly coming from Country Elevators. Few survey participants offered any comments on this issue. The most substantial complaint voiced in the survey was that HRW and spring wheat delivery could complicate the contract. The Exchange believes allowing HRW and spring wheat deliveries in St. Louis actually reduces complexity because all other territories are currently allowed to deliver these classes of wheat. The Focus Group was clear that the contract would still be a SRW contract, but this allowance would provide deliverable supply should the U.S. ever have issues with SRW production.

HRW and spring wheat are higher in protein compared to SRW and typically trade at a premium to SRW. Thus, under normal economic circumstances, it would be unlikely that HRW or spring wheat would be delivered very often in St. Louis. The USDA-AMS publishes cash price data for both SRW and HRW. One location the USDA has historical HRW and SRW prices is in Kansas City. Kansas City lies closer to HRW production, so Kansas City will typically report lower HRW prices relative to SRW prices compared to St. Louis because SRW prices contain more transportation relative to HRW prices in Kansas City.

Based on USDA Kansas City data, HRW prices have exceeded SRW prices on three occasions since January 2000: For 13 days in June – July 2003; for 52 days in February – May 2005; and for 262 days from April 2010 -- April 2011. Since this proposal adds HRW and spring wheat deliveries to St. Louis at no premium, these data indicate that delivery is still within cash market ranges, although delivery of HRW or spring wheat would be rare because they would rarely be the cheapest to deliver class of wheat. The Focus Group indicated that HRW has made economic delivery sense in St. Louis over the past ten years only last fall. Going into the 2010/11 harvest, the SRW 5-year average production was 400 million bushels. However, the 2010/11 crop was 238 million bushels, only 60 percent of average production supporting the Focus Group's argument that HRW would only make economic sense when SRW supplies are tight.

The allowance of HRW and spring wheat deliveries in the St. Louis territory currently has a non-material impact on CBOT Wheat contract pricing. HRW wheat and spring wheat are currently more valuable that SRW wheat, so there is no economic incentive to deliver these wheat classes now or in the foreseeable future. The current USDA St. Louis cash bid (for August 25, 2011) for HRW with ordinary protein is $8.18 per bushel compared to $7.57 per bushel for SRW. Settlement prices on August 25, 2011 for the December 2011 contracts are $7.97 per bushel for CBOT (SRW); $8.92 for KCBT (HRW); and $9.3675 for MGEX (spring wheat). Clearly there would be no incentive to deliver anything other than SRW at this time, so implementation on the December 2011 contract should have no effect on pricing.

When changes to contract terms are pending, they can affect calendar spread relationships. For example, when the par delivery grade for wheat changed in September 2008 from 4 ppm vomitoxin to 3 ppm vomitoxin with the existing 4 ppm shipping certificates still deliverable at a 12 cent discount, the July – September spread expanded with the September above the July contract by financial full carry plus an additional 12 cents. The market, through this spread, was paying those carrying certificates their full financial costs plus the value that would be lost with the September delivery. If VSR had been calculated on this spread in 2008 without regard to the pending contract upgrade, the result would have shown up as the spread being over 130 percent of financial full carry.[1]

However, holding contract terms constant, VSR would have registered this spread at 100 percent of financial full carry. When calculating VSR when contract changes are pending on the deferred contract, the Exchange adjusts the spread in the VSR calculation.[2] A similar situation occurred with the July – September 2011 spread because, again, the par deliverable vomitoxin level was improving to 2 ppm with the September 2011 expiration. The July – September 2011 spread was adjusted in the VSR calculation and communicated to the trade through a SER. The Exchange believes it would be clearer to the trade to also include language in the Rulebook that the spread as measured in the VSR calculation is adjusted when a contract change is pending rather than to rely only on an SER. Currently, the next time this would be invoked would be with the July – September 2013 spread when additional changes to vomitoxin differentials are planned for implementation.

Current contract specifications indicate all wheat delivery facilities must be connected by railroad tracks. In 2009 the Exchange added barge loading facilities on the Ohio and Mississippi Rivers as regular delivery territories. Since the mode of load-out at these facilities is a barge, failure to exclude these facilities from this rule was an oversight. CBOT Rule 14109B specifies that shipping certificates issued from these facilities must provide barge loading facilities and CBOT rule 703.C.B specifies that these facilities load-out rate is based on barge loading.

> *14109B*
> *Delivery in the St. Louis-East St. Louis or Alton Switching Districts, on the Ohio River, and on the Mississippi River must be by shipping certificates at regular facilities providing barge loading facilities and maintaining water depth equal to the average draft of the current barge loadings in the St. Louis-East St. Louis and Alton barge loading districts, and equal to the average draft of the current barge loadings along the Ohio River, and along the Mississippi River, respectively.*
>
> *703.C.B*
> *The load-out rate for regular Wheat facilities in the St. Louis-East St. Louis and Alton Switching District and on the Ohio and Mississippi Rivers shall not be less than one (1) barge per business day. Barge load-out rates for corn, soybeans, and wheat in facilities in the St. Louis-East St. Louis and Alton Switching District and on the Ohio and Mississippi Rivers will be at the shipping station's registered daily rate of loading.*

Correction of this oversight (i.e., not requiring barge loading facilities to be connected by railroad tracks) does not affect the contract as all current barge loading facilities are connected by railroad tracks and there are no actual or, as far as the Exchange is aware, pending regularity applications from facilities without rail connection.

Implementation

Pending CFTC approval, the Exchange plans to implement these changes beginning with the December 2011 and all subsequent contracts.

The Exchange certifies that these contract terms and conditions comply with the Commodity Exchange Act and regulations thereunder. There were no substantive opposing views to this proposal.

If you require any additional information, please contact Fred Seamon at 312-634-1587 or via e-mail at Fred.Seamon@cmegroup.com. Alternatively, you may contact me at 212-299-2207 or via e-mail at

[1] VSR was not in effect in 2008, this example is for illustrative purposes.
[2] This does not change the actual spread, only how the spread is measured for the VSR calculation

Felix.Khalatnikov@cmegroup.com. Please reference CBOT Submission No. 11-330 in any related correspondence.

Sincerely,

/s/ Felix Khalatnikov
Director & Associate General Counsel

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The recommended rule book changes are attached with additions **<u>bold and underlined</u>** and deletions [~~bracketed with strikethrough~~].

Attachment

CBOT Rulebook
Chapter 14. Wheat Futures

14105. LOCATION DIFFERENTIALS

In accordance with the provisions of Rule 14106., wheat for shipment from regular facilities located within the Chicago Switching District, the Burns Harbor, Indiana Switching District, on the Ohio River, or the Toledo, Ohio Switching District may be delivered in satisfaction of Wheat futures contracts at contract price, subject to the differentials for class and grade outlined above. Wheat for shipment from regular facilities in the Northwest Ohio territory may be delivered in satisfaction of Wheat futures contracts at a discount of 20 cents per bushel, subject to the differentials for class and grade outlined above. Wheat for shipment from regular facilities on the Mississippi River may be delivered in satisfaction of Wheat futures contracts at a premium of 20 cents per bushel, subject to the differentials for class and grade outlined above. [~~Only No. 1 Soft Red Winter and No. 2 Soft Red Winter~~] Wheat for shipment from regular facilities located within the St. Louis-East St. Louis and Alton Switching districts may be delivered in satisfaction of Wheat futures contracts at a premium of 10 cents per bushel over contract price, subject to the differentials for class and grade.

14106. DELIVERY POINTS

Wheat certificates shall specify shipment from one of the currently regular for delivery facilities located in one of the following territories: Wheat for shipment from regular facilities located within the Chicago Switching District, the Burns Harbor, Indiana Switching District, the Northwest Ohio Territory, on **<u>the</u>** Ohio River, on **<u>the</u>** Mississippi River or the Toledo, Ohio Switching District may be delivered in satisfaction of wheat futures contracts. [~~Only No. 1 Soft Red Winter and No. 2 Soft Red Winter Wheat for shipment from regular facilities located within the St. Louis-East St. Louis and Alton Switching Districts may be delivered in satisfaction of Wheat futures.~~] When used in these Rules, Burns Harbor, Indiana Switching District will be that area geographically defined by the boundaries of Burns Waterway Harbor at Burns Harbor, Indiana which is owned and operated by the Indiana Port Commission. The Northwest Ohio Territory shall be shuttle loading facilities within the following 12 counties: Allen, Crawford, Hancock, Hardin, Henry, Huron, Marion, Putnam, Sandusky, Seneca, Wood, and Wyandot. The Ohio River facilities shall be river loading facilities on the Ohio River from mile marker 455 to the Mississippi River. The Mississippi River facilities shall be river loading facilities on the Mississippi River downriver from the St. Louis-East St. Louis Alton Switching District to mile marker 715.

14108. PREMIUM CHARGES

To be valid for delivery on futures contracts, all certificates covering wheat under obligation for shipment must indicate the applicable premium charge. No certificate shall be valid for delivery on futures contracts unless the premium charges on such wheat shall have been paid up to and including the 18th calendar day of the preceding month, and such payment is endorsed on the certificate. Unpaid accumulated premium charges at the posted rate applicable to the facility shall be allowed and credited to the buyer by the seller up to and including date of delivery.

The maximum premium charges on Wheat shall be determined prior to the nearby contract delivery period. The Exchange shall measure the nearby spread relative to financial full carry each business day from the 19th calendar day of the delivery month of the contract that expires prior to the nearby contract until the last Friday which precedes by at least two business days the last business day of the month preceding the nearby contract delivery month. For example, for a September expiration, the Exchange would measure the September – December spread relative to financial full carry each business day from July 19 until the last Friday in August which precedes by at least two business days the last business day in August. Financial full carry will be determined by the following formula:

$$N * [\left(\frac{i}{360}\right) * FP + P]$$

Where:

N = Number of calendar days from the first delivery day in the nearby contract to the first delivery day in the contract that follows the nearby contract

i = 3-Month LIBOR rate + 200 basis points

FP = Settlement price for the nearby futures contract

P = Current daily premium charge

The percentage of the nearby spread to financial full carry is calculated each business day during the calculation period and a running average of each of these daily values is calculated. At the end of the calculation period (the last Friday which precedes by at least two business days the last business day of the month preceding the nearby contract delivery month), should the running average carry be 80 percent of financial full carry or greater, then the maximum daily premium charge shall increase 10/100's of one cent per bushel on the 18th calendar day of the nearby contract delivery month. Should the running average carry be 50 percent of financial full carry or less, then the maximum daily premium charge shall decrease 10/100's of one cent per bushel on the 18th calendar day of the nearby contract delivery month.

The Exchange reserves the right to adjust the nearby spread used in the calculation should changes in quality specifications or other pending contract changes have the potential to affect the normal nearby spread relationship.

Premium charges shall not be reduced below 16.5/100's of one cent per bushel per day.

14109. REGULARITY OF FACILITIES AND ISSUERS OF SHIPPING CERTIFICATES

14109.A. Regularity Requirements

In addition to the conditions set forth in Rule 703. A., Conditions for Approval, all facilities regular for delivery of Wheat**, except for barge loading facilities on the Ohio and Mississippi Rivers,** shall be connected by railroad tracks with one or more railway lines.

14109.B. Location

For the delivery of wheat, regular facilities may be located within the Chicago Switching District or within the Burns Harbor, Indiana Switching District (subject to the provisions of Paragraph A above), within the Toledo, Ohio Switching District, within the Northwest Ohio Territory defined as Allen, Crawford, Hancock, Hardin, Henry, Huron, Marion, Putnam, Sandusky, Seneca, Wood and Wyandot counties; on the Ohio river from mile marker 455 to the Mississippi River; on the Mississippi River downriver from the St. Louis-East St. Louis Alton Switching District to mile marker 715; or [~~with respect to only No. 1 Soft Red Winter and No. 2 Soft Red Winter Wheat,~~] within the St. Louis-East St. Louis or Alton Switching Districts.

Delivery in Toledo must be made by shipping certificates at regular facilities providing water loading facilities and maintaining water depth equal to normal seaway draft of 27 feet.

However, deliveries of wheat may be made in off-water elevators within the Toledo, Ohio Switching District PROVIDED that the party making delivery makes the grain available upon call within five calendar days to load into water equipment at one water location within the Toledo, Ohio Switching District. The party making delivery must declare within one business day after receiving shipping certificates and loading orders the water location at which wheat will be made available.

Any additional expense incurred to move delivery grain from an off-water elevator into water facilities shall be borne by the party making delivery; PROVIDED that the party taking delivery presents water equipment clean and ready to load within fifteen calendar days from the time the grain has been made available.

Official weights and official grades as loaded into the water equipment shall govern for delivery purposes.

Delivery in the St. Louis-East St. Louis or Alton Switching Districts, on the Ohio River, and on the Mississippi River must be by shipping certificates at regular facilities providing barge loading facilities and maintaining water depth equal to the average draft of the current barge loadings in the St. Louis-East St. Louis and Alton barge loading districts, and equal to the average draft of the current barge loadings along the Ohio River, and along the Mississippi River, respectively.

CBOT Rulebook
Chapter 14B. Mini-Sized Wheat Futures

14B05. LOCATION DIFFERENTIALS

In accordance with the provisions of Rule 14B06., wheat for shipment from regular facilities located within the Chicago Switching District, the Burns Harbor, Indiana Switching District, on the Ohio River, or the Toledo, Ohio Switching District may be delivered in satisfaction of minisized Wheat futures contracts at contract price, subject to the differentials for class and grade outlined above. Wheat for shipment from regular facilities in the Northwest Ohio territory may be delivered in satisfaction of mini-sized Wheat futures contracts at a discount of 20 cents per bushel, subject to the differentials for class and grade outlined above. Wheat for shipment from regular facilities on the Mississippi River may be delivered in satisfaction of mini-sized Wheat futures contracts at a premium of 20 cents per bushel, subject to the differentials for class and grade outlined above. [~~Only No. 1 Soft Red Winter and No. 2 Soft Red Winter~~] Wheat for shipment from regular facilities located within the St. Louis-East St. Louis and Alton Switching districts may be delivered in satisfaction of mini-sized Wheat futures contracts at a premium of 10 cents per bushel over contract price, subject to the differentials for class and grade.

14B06. DELIVERY POINTS

Wheat shipping certificates shall specify shipment from one of the currently regular for delivery facilities located in one of the following territories:

Wheat for shipment from regular facilities located within the Chicago Switching District, the Burns Harbor, Indiana Switching District, the Northwest Ohio Territory, on **the** Ohio River, on **the** Mississippi River or the Toledo, Ohio Switching District may be delivered in satisfaction of mini-sized wheat futures contracts. [~~Only No. 1 Soft Red Winter and No. 2 Soft Red Winter Wheat for shipment from regular facilities located within the St. Louis-East St. Louis and Alton Switching Districts may be delivered in satisfaction of mini-~~]

~~sized Wheat futures~~]. When used in these Rules, Burns Harbor, Indiana Switching District will be that area geographically defined by the boundaries of Burns Waterway Harbor at Burns Harbor, Indiana which is owned and operated by the Indiana Port Commission. The Northwest Ohio Territory shall be shuttle loading facilities within the following 12 counties: Allen, Crawford, Hancock, Hardin, Henry, Huron, Marion, Putnam, Sandusky, Seneca, Wood, and Wyandot. The Ohio River facilities shall be river loading facilities on the Ohio River from mile marker 455 to the Mississippi River. The Mississippi River facilities shall be river loading facilities on the Mississippi River downriver from the St. Louis-East St. Louis Alton Switching District to mile marker 715.

14B08. PREMIUM CHARGES

To be valid for delivery on futures contracts, all certificates covering mini-sized wheat under obligation for shipment must indicate the applicable premium charge. No certificate shall be valid for delivery on futures contracts unless the premium charges on such wheat shall have been paid up to and including the 18th calendar day of the preceding month, and such payment is endorsed on the certificate. Unpaid accumulated premium charges at the posted rate applicable to the facility shall be allowed and credited to the buyer by the seller up to and including date of delivery.

The maximum premium charges on mini-sized Wheat shall be determined prior to the nearby contract delivery period. The Exchange shall measure the nearby spread relative to financial full carry each business day from the 19th calendar day of the delivery month of the contract that expires prior to the nearby contract until the last Friday which precedes by at least two business days the last business day of the month preceding the nearby contract delivery month. For example, for a September expiration, the Exchange would measure the September – December spread relative to financial full carry each business day from July 19 until the last Friday in August which precedes by at least two business days the last business day in August. Financial full carry will be determined by the following formula:

$$N * [\left(\frac{i}{360}\right) * FP + P]$$

Where:

N = Number of calendar days from the first delivery day in the nearby contract to the first delivery day in the contract that follows the nearby contract

i = 3-Month LIBOR rate + 200 basis points

FP = Settlement price for the nearby futures contract

P = Current daily premium charge

The percentage of the nearby spread to financial full carry is calculated each business day during the calculation period and a running average of each of these daily values is calculated. At the end of the calculation period (the last Friday which precedes by at least two business days the last business day of the month preceding the nearby contract delivery month), should the running average carry be 80 percent of financial full carry or greater, then the maximum daily premium charge shall increase 10/100's of one cent per bushel on the 18th calendar day of the nearby contract delivery month. Should the running average carry be 50 percent of financial full carry or less, then the maximum daily premium charge shall decrease 10/100's of one cent per bushel on the 18th calendar day of the nearby contract delivery month.

The Exchange reserves the right to adjust the nearby spread used in the calculation should changes in quality specifications or other pending contract changes have the potential to affect the normal nearby spread relationship.

Premium charges shall not be reduced below 16.5/100's of one cent per bushel per day.