



December 1, 2010

SENT VIA E-MAIL TO:  
[submissions@cftc.gov](mailto:submissions@cftc.gov)

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

**Re: Submission pursuant to Section 5c(c) of the Act and Commission Regulations 40.4 and 40.5 - "Request for Commission rule approval."**

Dear Mr. Stawick:

**I. REQUEST FOR COMMISSION APPROVAL**

The Kansas City Board of Trade ("KCBT" or "exchange") hereby submits, pursuant to Section 5c(c) of the Act and Commission Regulations 40.4 and 40.5, amendments to Rules 1207.00 and 2000.00, Resolutions 12-1215.00-1 and 17-1715.00-2, and new Resolution 20-2000.00-2 (hereinafter collectively referred to as the "rule amendments"). The following is a brief summary of the aforementioned rule amendments concerning the exchange's wheat futures contract:

Effective With the September 2011 Wheat Futures Contract Month	
Base maximum storage & insurance rate (December through June)	6¢ per bushel per month
Harvest Storage Premium rate (July through November)	9¢ per bushel per month
Storage payment through & due dates	1st notice day of each contract delivery month
Contract price minimum protein requirement	Eleven percent (11%)
Minimum deliverable protein level at 10¢ per bu. discount	Ten and one-half percent (10.5%)
Outstanding warehouse receipts - protein upgrade period	August 24 to August 30, 2011
Vomitoxin restriction	2 ppm (parts per million)

## II. TEXT OF RULE AMENDMENTS

The text of the rule amendments is shown as follows, with additions underlined and deletions lined out:

### ***EFFECTIVE WITH THE SEPTEMBER 2011 CONTRACT MONTH***

## **CHAPTER 12**

**1207.00 Storage Allowance and Other Allowances.** Effective with the September 2011 wheat futures contract month, no warehouse receipts covering grain in store shall be valid for delivery on futures contracts unless the storage charges and insurance charges set forth in Resolution 17-1715.00-2 (but not load-out fee elevation) on such grain have been paid up to the first calendar day of each the current contract delivery month (whether or not such receipts will be delivered in satisfaction of futures contracts) and such payment endorsed on the warehouse receipt. Such endorsement may be made, at the option of the holder, by the regular warehouse issuing the receipt or by the Secretary of the Board of Trade upon payment to the Secretary as agent of the warehouse company. Unpaid accumulated storage and insurance charges and the load-out fee elevation charge shall be assumed by the buyer. Failure to pay the storage and insurance charges by the business day preceding the first calendar day of each contract delivery month shall be deemed a violation subject to the disciplinary procedures set forth in Chapter 14 of the KCBT rules.

### **RES 12-1215.00-1 Deliveries on Warehouse Receipts; Requirements**

#### **Deoxynivalenol (also known as Vomitoxin) Restriction**

RESOLVED, that when warehouse receipts are surrendered to the issuer for load-out pursuant to Rule 1215.00, the taker of delivery shall have the option to, at taker's expense, request in such written load-out instructions that the wheat contain no more than 2 4 ppm (two ~~four~~ parts per million) of deoxynivalenol (vomitoxin). A determination of the level of deoxynivalenol shall be made at the point of origin by the Federal Grain Inspection Service or such other third party inspection service mutually agreeable to the maker and taker of delivery. The determination of the level of deoxynivalenol shall be based on the average test results of the wheat loaded in a single day from a single warehouse for each taker of delivery. As of the effective date of this rule (September 1, 2011) (~~July 1, 2008~~), any warehouse receipts previously issued and outstanding shall be subject to the provisions of this Resolution

## CHAPTER 17

### RES 17-1715.00-2 Elevators and Warehouses; Elevator Charges, Delivery Grain Storage & Insurance

Under the authority of Rule 1715.00, effective September 1, 2011 the maximum ~~insurance and storage and insurance~~ charge for regular elevators on grain delivered on futures contracts is established at \$.00197 per bushel per day from December 1 to June 30, and \$.00296 per bushel per day from July 1 to November 30 ~~\$.00148 per bushel per day, to become effective on and after July 1, 2008.~~

## CHAPTER 20

**2000.00 Contract Grades; Hard Winter Wheat.** Contracts for the delivery of Hard Winter Wheat shall be understood as for "Contract" Hard Winter Wheat, and the following grades may be tendered on contract at the premiums or discounts indicated:

No. 1 Hard Red Winter Wheat with eleven percent (11%) protein level or higher deliverable at 1-1/2 cents per bushel over contract price

No. 2 Hard Red Winter Wheat with eleven percent (11%) protein level or higher deliverable at contract price

All above grades are deliverable at protein levels equal to or greater than 10.5% but less than 11% at a ten cent (10¢) per bushel discount to contract price. Protein levels of less than 10.5% are not deliverable on the contract.

Deliveries of the above grades may be made in such proportions as may be convenient to the seller; subject however, to the provisions of Rules 1206.00 and 1210.00.

### Resolution 20-2000.00-2 Contract Grades; Requirements

#### Upgrade Period and Fee – Protein Requirements

RESOLVED, that during the five (5) business days preceding the first intention day of the September 2011 wheat futures contract month (August 24 to August 30, 2011), warehouse receipts issued and registered with the exchange prior to such time may be presented to the issuing warehouse by the holder and upgraded to reflect a deliverable protein level on such receipts. The issuing elevator must comply with such request and shall, in its sole discretion, make the determination as to the minimum protein level to designate on receipts presented for upgrading. The issuing elevator may charge the holder twelve cents (12¢) per bushel to upgrade the receipt with a designation of 11% minimum protein, or two cents (2¢) per bushel to upgrade the receipt with a designation of 10.5% minimum protein. Warehouse receipts not upgraded pursuant to this Resolution shall not be deliverable against futures contracts from September 2011 forward.

### **III. EXCHANGE ACTION TAKEN AND EFFECTIVE DATE**

The Board of Directors, in a special meeting held on November 4, 2010, by a vote of 7 for and 1 against, approved the wheat futures contract changes recommended by the Wheat Contract Committee, acting pursuant to authority granted them under Rule 233.01(o). The membership, in a vote held on November 30, 2010, ratified the rule amendments by a vote of 115 for and 36 against. Subject to Commission approval, the rule changes shall become effective with the September 2010 wheat futures contract month and the membership has been previously notified by exchange circulars of such (copies of circulars attached).

### **IV. OPERATION, PURPOSE AND EFFECT OF RULE AMENDMENTS**

The lower than normal quality of the 2009 hard red winter (HRW) wheat crop resulted in weaker than normal basis levels last year that remained through the crop year. This spring, concerns about a repeat of quality issues, combined with record world wheat production, very large free carry-over inventories, increased global wheat marketing competition & decreased global demand for U.S. wheat and increasing transportation rates, resulted in a 2010 HRW wheat crop with historically weak basis levels. This extremely weak basis environment affected the normal and reasonable convergence of futures and cash prices as contracts neared expiration, resulting in criticism of the contract's utility.

The exchange fielded many calls from concerned parties, including producers, legislators and regulators about the weak basis situation and recent convergence challenges. Exchange officers and members of the KCBT Wheat Contract Committee engaged in discussions with and received input from a variety of interested parties concerning the matter. All expressed that while the KCBT wheat contract has performed well historically, structural contract change was necessary to foster convergence during periods of extremely weak basis.

The Wheat Contract Committee met frequently from July to November to review and discuss contract amendments to address the convergence issue. Early in the process, the Committee determined that doing nothing was not an option. The Committee discussed several alternatives, including many that have been discussed in prior years in connection with soft red winter (SRW) wheat convergence challenges. The alternatives considered have a common effect of transferring basis volatility into the futures spreads. Some solutions move the volatility into the nearby spreads to achieve more timely convergence. Others shift the volatility more gradually into the contract's term horizon over time.

Following numerous meetings and discussions, including a meeting of the membership to gather input and address concerns associated with the various alternatives, the Committee concluded that the alternative that would foster convergence over time and have the least disruptive affect on back month trade and liquidity was one that increased the base storage rate to a level more in line with overall market storage rates for all grains including competing grains, while adding a Harvest Storage Premium to the base storage rate during the months when wheat and fall crop harvest put the most pressure on storage capacity (July–November). The Committee unanimously recommended that the proposed amendments to Resolution 17-1715.00-2 contained herein, setting forth an increased base storage rate and higher harvest storage premium storage rate, become effective on September 1, 2011.

In addition, the Committee determined that storage and insurance charges on outstanding warehouse receipts should be paid up to the beginning of each contract delivery month rather than the current practice of only paying storage when the holder of warehouse receipts intends to deliver them in satisfaction of futures contracts. The Committee unanimously recommended that the proposed amendments to Rule 1207.00 contained herein, modifying the storage payment obligation on outstanding warehouse receipts, be adopted to become effective with the September 2011 wheat futures contract, meaning that the accrued storage liability on all outstanding warehouse receipts must be paid through (and payment received by) August 31, 2011, which is the first notice day of the September 2011 contract. Accrued storage shall be paid through and by the first notice day of each successive contract month thereafter.

The Board, following a review of the Committee's proposal, questioned the apparent one-sided nature of the proposed amendments. The Board expressed a desire for a proposal that contained balance for both makers and takers. Accordingly, the Board instructed the Committee to reconvene and consider further amendments to recommend to the Board that would serve to better balance the proposal for the benefit of all market participants. The Committee met and, by a vote of 5 for and 3 against, recommended to the Board amendments to Rule 2000.00 and Resolution 12-1215.00-1, as well as new Resolution 20-2000.00-2 to accompany the Committee's earlier recommendations and provide a balanced package of proposed changes for consideration.

The various components of the package are discussed as follows:

#### **Minimum Protein Level Requirement**

The proposed amendments to Rule 2000.00 strengthen the quality standards of the contract by instituting a minimum protein level on grades of wheat delivered in satisfaction of futures contracts. Specifically, deliverable grades shall contain a minimum 11% protein level. However, protein levels of less than 11%, but equal to or greater than 10.5% are deliverable at a ten cent (10¢) per bushel discount to contract price. Protein levels of less than 10.5% are not deliverable.

Attached is a graph published by US Wheat Associates, the data for which was collected and compiled by Plains Grains, Inc. showing protein levels tested of the 2009 & 2010 HRW wheat crops tributary to the gulf. As the graph shows, during the lower protein level crop of 2009, 19% of the samples tested less than 11% protein. During the closer to normal 2010 crop, 13% of the samples tested less than 11% protein. Given that the proposed rules allow for delivery of down to 10.5% protein (at a discount), it appears that the amount of HRW wheat grown annually that would not be deliverable in satisfaction of futures contracts based on protein specifications is approximately 10%.

In addition, attached is a 30-year analysis prepared using data compiled by CII Laboratory Services showing the HRW wheat average protein yields for the State of Kansas broken down by production regions. The data shows that only once in the last 30 years (1983) was the state's average protein yield less than 11%, and that year still exceeded KCBT's proposed 10.5% deliverable minimum. The areas shaded in red showing protein yields of less than 10.5% reflect low production areas of Southeast, East Central & Northeast Kansas. Areas shaded in yellow represent protein yields between 10.5 and 11%. The results of the data clearly show that implementation of a par 11% protein standard with 10.5% deliverable at a discount would not result in any significant reduction in deliverable supplies of HRW wheat tributary to exchange delivery locations.

#### **Outstanding Warehouse Receipts Protein Upgrade Period & Fees**

Accompanying the proposed amendments to Rule 2000.00 is proposed new Resolution 20-2000.00-2 which sets forth the process for upgrading receipts to reflect a protein level prior to the September 2011 delivery month, and the fees associated with such. Similar to changes in the past pertaining to WOCL (wheat of other classes) restrictions and the elimination of #3 HRW as a deliverable grade, the Committee proposed a process for upgrading receipts to reflect the new protein requirements. Holders of outstanding warehouse receipts following the expiration of the July 2011 contract month will have five (5) business days (August 24-30, 2011) to present such warehouse receipts to the issuing warehouse for upgrading to reflect a deliverable protein level. The issuing elevator must comply with such request and shall, in its sole discretion, make the determination as to the minimum protein level to designate on receipts presented for upgrading. The issuing elevator may charge the holder twelve cents (12¢) per bushel to upgrade the receipt with a designation of 11% minimum protein, or two cents (2¢) per bushel to upgrade the receipt with a designation of 10.5% minimum protein. Warehouse receipts not upgraded shall not be deliverable against futures contracts from September 2011 forward.

#### **Vomitoxin Restriction**

The Committee recommended changes to Resolution 12-1215.00-1 to reduce the contract's vomitoxin restriction from 4 ppm (parts per million) to 2 ppm to reflect a more acceptable and merchantable level. The 4 ppm restriction was put into effect back in July 2008 when a rainy spring resulted in higher than normal levels of vomitoxin in Northeast Kansas and southeast Nebraska. Given the drier HRW growing region, typically vomitoxin is not an issue with HRW wheat, like it is with SRW wheat. The

Committee felt that given the lack of vomitoxin issues in this year's crop, the timing was right to institute a reduction in the vomitoxin restriction to 2 ppm. The new 2 ppm level would become effective on September 1, 2011.

### **Base Maximum Storage & Insurance Charges**

As mentioned earlier, the Committee's earlier unanimous recommendation included increasing the base maximum storage and insurance charges effective September 1, 2011 from 4½ ¢ per bushel per month (\$.00148 per bushel per day) to 6¢ per bushel per month (\$.00197 per bushel per day). Given the shortage of storage space in the HRW growing region this year for both HRW wheat and fall crops, the Committee determined that the base storage rate increase would encourage more elevators to carry wheat during periods of weak basis, encourage more storage space to be built, and adjust KCBT wheat storage rates closer to market storage rates for all grains including competing grains.

### **Harvest Storage Premium**

Recognizing the much tighter storage period of July through November when HRW wheat and fall crops are harvested, the Committee unanimously recommended effective September 1, 2011, a Harvest Storage Premium added during the calendar months of July through November of 3¢ per bushel per month (\$.00099 per bushel per day), resulting in a storage rate during these months of 9¢ per bushel per month (\$.00296 per bushel per day). As with the base storage rate increase, the Committee determined that the Harvest Storage Premium would encourage more elevators to carry wheat during periods of weak basis, encourage more storage space to be built, and make HRW wheat competitive for storage with other grains.

### **Storage & Insurance Payment Obligation**

The Committee reviewed the current storage payment obligation rules and determined that the current practice can result in extended periods of accrued and unpaid storage liabilities, creating an unfair cash flow burden on delivery warehouses. Recognizing the need for more frequent payment of storage obligations, the Committee determined that storage and insurance charges on outstanding warehouse receipts should be paid up to the beginning of each contract delivery month. The Committee unanimously recommended that the proposed amendments to Rule 1207.00 contained herein, modifying the storage payment obligation on outstanding warehouse receipts, be adopted and become effective with the September 2011 wheat futures contract, meaning that the accrued storage liability on all outstanding warehouse receipts must be paid through (and payment received by) August 31, 2011, which is the first notice day of the September 2011 contract. Accrued storage shall be paid through and by the first notice day of each successive contract month thereafter.

### **September 2011 Contract Month Implementation**

At the time the Committee began making recommendations to Board for contract changes, it was determined that any such changes be implemented as soon as prudently possible without affecting any significant levels of open interest. Accordingly,

it was determined that a September 2011 contract month implementation timeframe met the Committee's criteria. At the time of the Committee's first recommended rule changes to the Board, in order to provide the marketplace with the maximum amount of notice of the rule amendments prior to the proposed September 2011 contract month implementation time, the exchange issued membership Circular No. 10-43 on September 14, 2010 advising market participants of the proposed wheat contract changes and implementation time. At the time Circular No. 10-43 was issued, open interest in contract months September 2011 and forward was only 7,563 contracts, or 3.6% of total open interest. By contrast, the July 2011 contract month alone had 28,979 open contracts or 13.8% of total open interest. The Committee felt that implementation any earlier than September 2011 would cross too significant an amount of open interest.

Following Board review of the Committee's initial recommendations, as well as a meeting of the membership, the Committee reconvened and revised its recommended changes to the Board. At that time another exchange notice was issued (Circular No. 10-49) making market participants aware of the revised recommendations and reiterating the proposed September 2011 contract month effective date. At the time Circular No. 10-49 was issued, open interest in contract months September 2011 and forward was 10,237 contracts, or 4.6% of total open interest. The July 2011 contract month had 32,117 open contracts or 14.4% of total open interest.

At the behest of the Board following the Board's review of the Committee's revised proposal, the Committee again reconvened to recommend additional changes to provide a balanced set of changes to hedgers on both sides of the market. The Committee recommended additional changes to be combined with its earlier revised recommendations to provide the requisite balance. The Board of Directors subsequently met and approved the Committee's recommended package of changes. Following Board approval, the exchange issued Circular No. 10-53 making market participants aware of the approved package of recommended changes that would be sent to the membership for ratification. At the time Circular No. 10-53 was issued, open interest in contract months September 2011 and forward was 14,981 contracts, or 6.2% of total open interest. The July 2011 contract month had 43,365 open contracts or 18% of total open interest.

It is the opinion of the Committee and Board that the relatively small amount of open contracts in September 2011 and forward combined with the exchange market communications throughout the process (beginning on September 14, 2010) provides sufficient advance notice for existing position holders in such contract months to make adjustments to their positions well in advance of the effective date.

#### V. SUBSTANTIVE OPPOSING VIEWS

To the knowledge of the Board of Directors and staff of the KCBT, no substantive opposing views were expressed by members or others regarding the rule amendments.

Mr. David Stawick  
December 1, 2010  
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Certainly there were differences of opinion throughout the process as to the types and extent of rule amendments (Harvest Storage Premium, Variable Storage Rate, Track Deliveries, Modified Compelled Load-out, etc.) that should be considered in addressing the weak basis issue. In addition, there were concerns expressed by members and associations about the minimum protein requirement. Specifically, the concerns focused on the challenges that regular elevators could face in meeting minimum protein delivery requirements in the event of a low protein HRW wheat crop. However, the data collected and included in this submission detailing HRW wheat protein yields seems to contradict these concerns.

VI. CLOSING

The exchange is not aware of any Commission regulations that need amending or interpreting in order to approve the rule amendments proposed in this submission.

Sincerely,



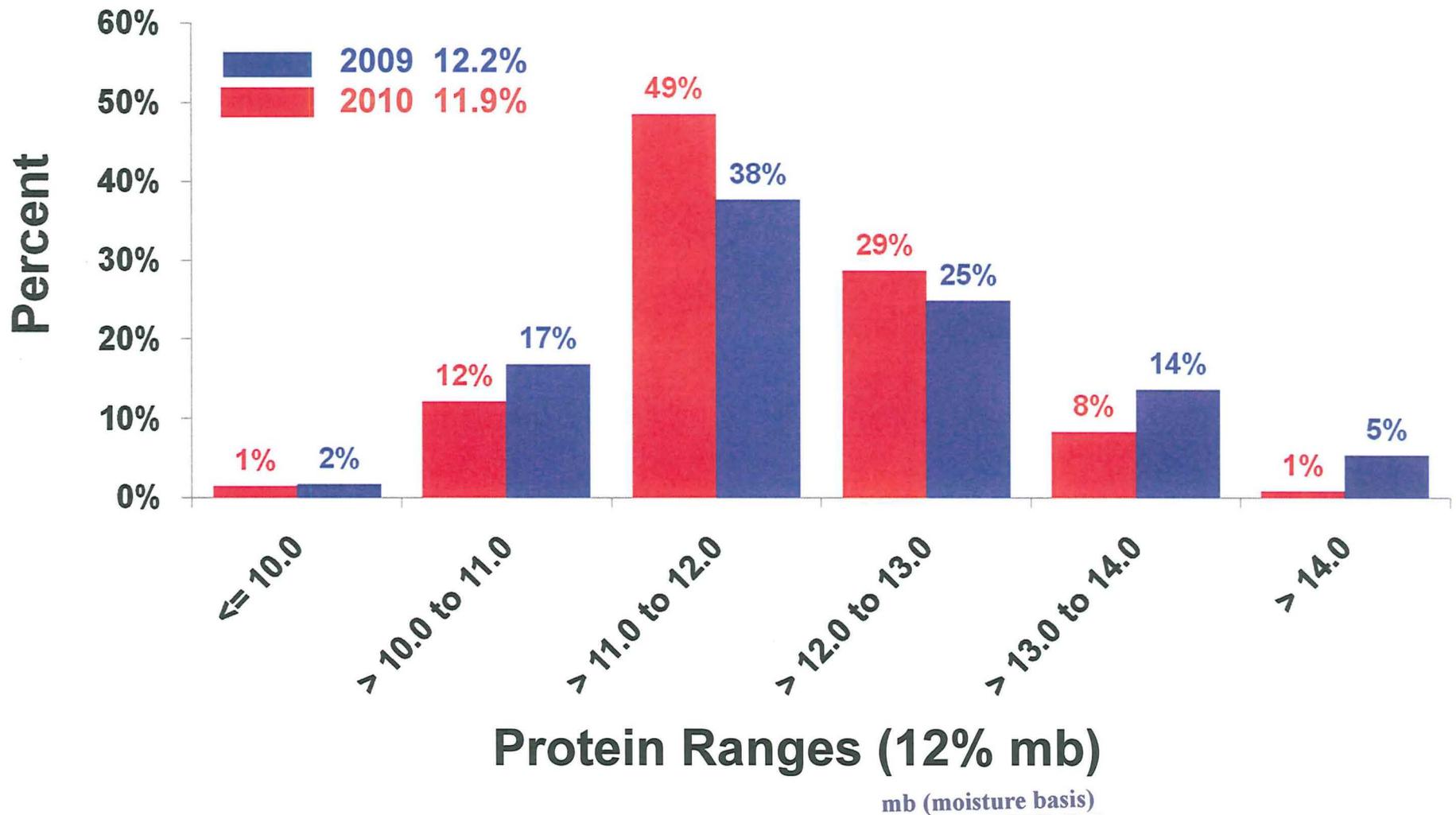
Jeff C. Borchardt  
President

Attachments:

2010 HRW Gulf Tributary Wheat Protein Distribution Graph  
30-Year Analysis of Kansas Protein Averages by Region  
Circular No. 10-53 dated November 4, 2010  
Circular No. 10-49 dated October 14, 2010  
Circular No. 10-43 dated September 14, 2010



# 2010 HRW Gulf Tributary Wheat Protein Distribution







November 4, 2010

Circular No. 10-53

To: All Members

**Board Approves Balanced Package of Proposed Contract Rule Changes**

Last month, the Wheat Contract Committee made recommendations to the Board of Directors for amendments to the storage rules of the wheat futures contract. The committee's unanimous recommendations were detailed in Circular No.10-49.

The Board of Directors, at a special meeting on October 27, reviewed the Committee's recommendations and questioned the apparent one-sided nature of the proposed amendments. The Board expressed a desire for a proposal that contained balance for both makers and takers. Accordingly, the Board instructed the Committee to reconvene and consider further amendments to recommend to the Board that would serve to balance the proposal for the benefit of all market participants. The Committee met and, by a vote of 5 for and 3 against, recommended to the Board amendments to Rule 2000.00 and Resolution 12-1215.00-1, as well as new Resolution 20-2000.00-2 to accompany the Committee's earlier recommendations and provide a balanced package of proposed changes for consideration. Accordingly, the Board at a meeting held on November 4, 2010, by a vote of 7 for and 1 against, approved the combination of the Committee's earlier recommended storage rule amendments and the additional rule amendment recommendations to achieve contract balance.

The following highlights the salient points of the Committee's earlier proposed amendments to Rule 1207.00 and Resolution 17-1715.00-2 and approved by the Board:

1. The base storage rate shall be increased from 4½ ¢ per bushel per month (\$.00148 per bushel per day) to 6¢ per bushel per month (\$.00197 per bushel per day), and shall be applicable during the calendar months of December through June;
2. There shall be a Harvest Storage Premium added during the calendar months of July through November of 3¢ per bushel per month (\$.00099 per bushel per day), resulting in a storage rate during these months of 9¢ per bushel per month (\$.00296 per bushel per day);
3. Payment of storage on outstanding warehouse receipts up to the first calendar day of each delivery month (whether or not such receipts will be delivered in satisfaction of futures contracts);
4. The Harvest Storage Premium shall become effective on September 1, 2011;
5. The storage payment obligation on outstanding warehouse receipts shall become effective with the September 2011 futures contract, meaning that the accrued storage liability on all outstanding warehouse receipts must be paid through (and payment received by) August 31, 2011, which is the first notice day of the September 2011 contract. Accrued storage shall be paid through and by the first notice day of each successive contract month thereafter.

The following highlights the salient points of the Committee's most recent proposed amendments to Rule 2000.00 and Resolution 12-1215.00-1, as well as new Resolution 20-2000.00-2 (to provide contract balance) approved by the Board:

1. Effective with the September 2011 futures contract, deliverable grades of HRW shall contain a minimum 11% protein level. However, protein levels of less than 11%, but equal to or greater than 10.5% are deliverable at a ten cent (10¢) discount to contract price. Protein levels of less than 10.5% are not deliverable;
2. Holders of outstanding warehouse receipts following the expiration of the July 2011 contract month will have five (5) business days (August 24-30, 2011) to present such warehouse receipts to the issuing warehouse for upgrading to reflect a deliverable protein level. The issuing elevator must comply with such request and shall, in its sole discretion, make the determination as to the minimum protein level to designate on receipts presented for upgrading. The issuing elevator may charge the holder twelve cents (12¢) per bushel to upgrade receipts with a designation of 11% minimum protein, or two cents (2¢) per bushel to upgrade receipts with a designation of 10.5% minimum protein. Warehouse receipts not upgraded shall not be deliverable against futures contracts from September 2011 forward;
3. Effective September 1, 2011, the vomitoxin restriction shall be reduced from 4 ppm (parts per million) to 2 ppm.

The specific rule amendments to accomplish the balanced package of proposed changes recommended by the Committee and approved by the Board are as follows, with additions underlined and deletions lined out:

**RES 17-1715.00-2 Elevators and Warehouses; Elevator Charges, Delivery Grain  
Storage & Insurance**

Under the authority of Rule 1715.00, effective September 1, 2011 the maximum ~~insurance and storage and insurance~~ charge for regular elevators on grain delivered on futures contracts is established at \$.00197 per bushel per day from December 1 to June 30, and \$.00296 per bushel per day from July 1 to November 30 ~~\$.00148 per bushel per day, to become effective on and after July 1, 2008.~~

**1207.00 Storage Allowance and Other Allowances.** Effective with the September 2011 wheat futures contract month, no warehouse receipts covering grain in store shall be valid for delivery on futures contracts unless the storage ~~charges~~ and insurance charges set forth in Resolution 17-1715.00-2 (but not load-out fee elevation) on such grain have been paid up to the first calendar day of each the current contract delivery month (whether or not such receipts will be delivered in satisfaction of futures contracts) and such payment endorsed on the warehouse receipt. Such endorsement may be made, at the option of the holder, by the regular warehouse issuing the receipt or by the Secretary of the Board of Trade upon payment to the Secretary as agent of the warehouse company. Unpaid accumulated storage and insurance charges and the load-out fee elevation charge shall be assumed by the buyer. Failure to pay the storage and insurance charges by the business day preceding the first calendar day of each contract delivery month shall be deemed a violation subject to the disciplinary procedures set forth in Chapter 14 of the KCBT rules.

**2000.00 Contract Grades; Hard Winter Wheat.** Contracts for the delivery of Hard Winter Wheat shall be understood as for "Contract" Hard Winter Wheat, and the following grades may be tendered on contract at the premiums or discounts indicated:

No. 1 Hard Red Winter Wheat with eleven percent (11%) protein level or higher deliverable at 1-1/2 cents per bushel over contract price

No. 2 Hard Red Winter Wheat with eleven percent (11%) protein level or higher deliverable at contract price

All above grades are deliverable at protein levels equal to or greater than 10.5% but less than 11% at a ten cent (10¢) per bushel discount to contract price. Protein levels of less than 10.5% are not deliverable on the contract.

Deliveries of the above grades may be made in such proportions as may be convenient to the seller; subject however, to the provisions of Rules 1206.00 and 1210.00.

### Resolution 20-2000.00-2 Contract Grades; Requirements

#### Upgrade Period and Fee – Protein Requirements

RESOLVED, that during the five (5) business days preceding the first intention day of the September 2011 wheat futures contract month (August 24 to August 30, 2011), warehouse receipts issued and registered with the exchange prior to such time may be presented to the issuing warehouse by the holder and upgraded to reflect a deliverable protein level on such receipts. The issuing elevator must comply with such request and shall, in its sole discretion, make the determination as to the minimum protein level to designate on receipts presented for upgrading. The issuing elevator may charge the holder twelve cents (12¢) per bushel to upgrade the receipt with a designation of 11% minimum protein, or two cents (2¢) per bushel to upgrade the receipt with a designation of 10.5% minimum protein. Warehouse receipts not upgraded pursuant to this Resolution shall not be deliverable against futures contracts from September 2011 forward.

#### **RES 12-1215.00-1 Deliveries on Warehouse Receipts; Requirements Deoxynivalenol (also known as Vomitoxin) Restriction**

RESOLVED, that when warehouse receipts are surrendered to the issuer for load-out pursuant to Rule 1215.00, the taker of delivery shall have the option to, at taker's expense, request in such written load-out instructions that the wheat contain no more than 2 4 ppm (~~two~~ ~~four~~ parts per million) of deoxynivalenol (vomitoxin). A determination of the level of deoxynivalenol shall be made at the point of origin by the Federal Grain Inspection Service or such other third party inspection service mutually agreeable to the maker and taker of delivery. The determination of the level of deoxynivalenol shall be based on the average test results of the wheat loaded in a single day from a single warehouse for each taker of delivery. As of the effective date of this rule (**September 1, 2011**) (~~July 1, 2008~~), any warehouse receipts previously issued and outstanding shall be subject to the provisions of this Resolution.

**If approved by the shareholders, the aforementioned changes will become effective with the September 2011 wheat futures contract month, subject to CFTC approval.**

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Jeff C. Borchardt  
President



October 14, 2010

Circular No. 10-49

To: All Members

### **Wheat Contract Committee Revises Storage Rule Recommendations**

Last month, the Wheat Contract Committee made recommendations to the Board of Directors for amendments to the storage rules of the wheat futures contract. The committee's recommendations were detailed in Circular No. 10-43. Following issuance of Circular 10-43, concerns about the proposal were expressed by various membership interests. The Board of Directors, sensing the level of concern, instructed the Wheat Contract Committee to hold a meeting of the membership to explain the details of the proposal and gather member input.

A well-attended meeting of the membership was held and the views and concerns of the membership were expressed. The predominant concern voiced was the uncertainty of future storage rates under the proposal, which could lead to a reduction in liquidity and trade in the contract's term horizon. Some expressed concern about the complexity of the proposal, preferring simplicity in addition to certainty.

Following the member meeting, it was the consensus of the committee that adjustments were necessary to the proposal in order to address the concerns expressed by members, while preserving the primary goal of the proposal, namely the transfer of basis volatility to the futures spread. In that regard, the committee met on October 13 and developed a revised proposal for consideration by the Board of Directors. Unlike the previous proposal, the revised proposal was adopted unanimously by the committee, and is detailed as follows:

1. The base storage rate shall be increased from 4½ ¢ per bushel per month (\$.00148 per bushel per day) to 6¢ per bushel per month (\$.00197 per bushel per day), and shall be applicable during the calendar months of December through June;
2. There shall be a Harvest Storage Premium added during the calendar months of July through November of 3¢ per bushel per month (\$.00099 per bushel per day), resulting in a storage rate during these months of 9¢ per bushel per month (\$.00296 per bushel per day);
3. Payment of storage on outstanding warehouse receipts up to the first calendar day of each delivery month (whether or not such receipts will be delivered in satisfaction of futures contracts);
4. The Harvest Storage Premium shall become effective on September 1, 2011;
5. The storage payment obligation on outstanding warehouse receipts shall become effective with the September 2011 futures contract, meaning that the accrued storage liability on all outstanding warehouse receipts must be paid through (and payment received by) August 31, 2011, which is the first notice day of the September 2011 contract. Accrued storage shall be paid through and by the first notice day of each successive contract month thereafter.

The specific rule amendments to accomplish the committee's recommendations are as follows, with additions underlined and deletions lined out:

**RES 17-1715.00-2 Elevators and Warehouses; Elevator Charges, Delivery Grain  
Storage & Insurance**

Under the authority of Rule 1715.00, effective September 1, 2011 the maximum ~~insurance and storage and insurance~~ charge for regular elevators on grain delivered on futures contracts is established at \$.00197 per bushel per day from December 1 to June 30, and \$.00296 per bushel per day from July 1 to November 30 ~~\$.00148 per bushel per day, to become effective on and after July 1, 2008.~~

**1207.00 Storage Allowance and Other Allowances.** Effective with the September 2011 wheat futures contract month, no warehouse receipts covering grain in store shall be valid for delivery on futures contracts unless the storage ~~charges~~ and insurance charges set forth in Resolution 17-1715.00-2 (but not load-out fee elevation) on such grain have been paid up to the first calendar day of each the current contract delivery month ~~(whether or not such receipts will be delivered in satisfaction of futures contracts)~~ and such payment endorsed on the warehouse receipt. Such endorsement may be made, at the option of the holder, by the regular warehouse issuing the receipt or by the Secretary of the Board of Trade upon payment to the Secretary as agent of the warehouse company. Unpaid accumulated storage and insurance charges and the load-out fee elevation charge shall be assumed by the buyer. Failure to pay the storage and insurance charges by the business day preceding the first calendar day of each contract delivery month shall be deemed a violation subject to the disciplinary procedures set forth in Chapter 14 of the KCBT rules.

**Please note that these recommended rule amendments are subject to Board of Directors approval, membership ratification and CFTC approval.**

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Jeff Borchardt  
President



September 14, 2010

Circular No. 10-43

To: All Members

**Wheat Contract Committee Recommends Storage Rule Amendments**

Over the last two months, the Wheat Contract Committee has been actively and deliberately meeting and reviewing the KCBT wheat contract for consideration of structural changes to foster convergence at the delivery period during times of weak basis. The committee reviewed several contract change alternatives that have the effect of transferring the basis volatility into the futures spread. In the final analysis, the committee, by a vote of 7 for and 2 against, is recommending to the Board of Directors rule amendments that provide for:

1. A storage rate that can vary based on market conditions (“variable storage rate”); and
2. Payment of storage on outstanding warehouse receipts up to the first calendar day of each delivery month (whether or not such receipts will be delivered in satisfaction of futures contracts).

The more salient points of the Committee’s variable storage rate recommendation are as follows:

1. The base storage rate increases from 4½ ¢ per bushel per month (\$.00148 per bushel per day) to 5½ ¢ per bushel per month (\$.00181 per bushel per day);
2. A 30 business day running average calculation period (prior to and including the wheat options last trading day) for reviewing the nearby spread relative to financial full carry;
3. At the end of the calculation period, if the resulting average is 90% or more of full carry, then the storage rate increases by 3½ ¢ per bushel per month (\$.00115 per bushel per day);
4. If the resulting average is more than 50% but not greater than 70%, then the storage rate decreases by 3½ ¢ per bushel per month (\$.00115 per bushel per day);
5. If the resulting average is 50% or less, then the storage rate decreases to the base minimum 5½ ¢ per bushel per month (\$.00181 per bushel per day);
6. Any changes in the storage rate become effective with the first calendar day of the nearby contract delivery month.

**The Committee is recommending that the aforementioned rule changes become effective with the September 2011 contract month (meaning that the first storage rate change could become effective on September 1, 2011). Please note that these recommended rule amendments are subject to Board of Directors approval, membership ratification and CFTC approval.**

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Jeff Borchardt  
President