

## Commodity Futures Archive - Selected materials, CFTC Interpretative Letter No. 92-7. (Enforcement of Single-Month Speculative Position Limits.), ¶25,298, Commodity Futures Trading Commission, (May 1, 1992)

¶25,298. Commodity Futures Trading Commission. Division of Economic Analysis. May 1, 1992. Correspondence in full text.

**Interpretations: Contract Markets: Speculative Position Limits.**— A no-action letter, limited in its effect to a certain time period, regarding enforcement of the single-month speculative position limit in CBT's corn, oats, soybeans, soybean meal, soybean oil and wheat futures contracts for positions which are part of an inter-crop year spread has been issued. Under Reg. §150.2, the speculative position limits in these contracts can be exceeded to the extent such positions are “spread or arbitrage positions between single months of a futures contract traded on the same board of trade outside of the spot month, in the same crop year.” According to the no-action letter, inter-month spread positions would be permitted to levels equalling twice the individual-month limit regardless of the crop-year of the individual months comprising the spread position.

See ¶12,151, "Liabilities—Prohibitions" division, Volume 1.

By letters dated March 4 and March 25, 1992, the Chicago Board of Trade (“CBT”) requested that the Commodity Futures Trading Commission (“Commission”)

not take any disciplinary or enforcement action against either the CBOT, under Section 4a, 5a(8), 6(a), 6b and 6c of the Commodity Exchange Act (“CEA”) and CFTC Rule 1.53, or any of its members, member firms or public customers ... regarding trading in ... CBOT agricultural futures contracts in excess of current inter-crop speculative spread position limits provided such trading is in compliance with intra-crop spread position limits

...

In particular, the CBT has requested such treatment of its designated contract markets in corn, oats, soybeans, soybean meal, soybean oil and wheat.

Commission Rule 150.3 provides that

[t]he position limits set forth in §150.2 of this part may be exceeded to the extent such positions are:

(1)...

(3) Spread or arbitrage positions between single months of a futures contract traded on the same board of trade outside of the spot month, in the same crop year; *Provided however*, That such spread or arbitrage positions, when combined with any outright positions in the single month, do not exceed twice the single-month position limit for the futures contract set forth in §150.2 of this part....

17 C.F.R. §150.3 (1991). CBT Rule 425.01 mirrors Commission Rules 150.2 and 150.3.

The CBT letter of March 25, 1992, represents that such relief

is intended to enhance liquidity in the above futures while reducing the anticompetitive effects of current position limit regulations through the end of the current crop year.

Furthermore, the no-action request is consistent with the Board of Trade's petition to the Commission for amendment of CFTC Rules 150.2 and 150.3 which was published by the CFTC in the *Federal Register* on August 2, 1991 (See, 56 *Fed. Reg.* 37049). This no-action request is precipitated by the fact that approval of the proposed regulation amendments may not be finalized until long after current inter-crop spread trading has ceased in Corn, Oats, Soybean meal, soybeans, and Wheat futures.

The exemption from the individual month speculative position limits was promulgated by the Commission in response to a petition for rulemaking of the New York Cotton Exchange. 53 *Fed. Reg.* 41563, 41566 (October 24, 1988). In adopting an inter-month spread exemption, the Commission was sensitive to the possibility that unusually large inter-month spread positions had the potential to disrupt the market when the individual legs of the spread involve separate crop years. *See Id.* at 41565. This potential arises where the pricing characteristics of the commodity differs sufficiently between crop years.

However, the Commission on April 6, 1992, proposed to amend its rules, in part, by raising the speculative position limits for individual months outside of the spot month, for the above futures contracts. For each of the above contracts, the single month speculative position limit level under Rule 150.2 has been proposed to be greater than the level

currently permitted under the spread exemption. If these proposed levels are adopted by the Commission, positions which currently are permitted only as part of a spread within the same crop-year would be within the speculative position limit as revised, without reliance upon any specific spread exemption. Accordingly, the CBT's request for interim relief would merely permit the existing spread exemption to be applicable to all spreads, regardless of the relationship of the months comprising the spread to the commodity's crop-year, in anticipation that such positions could be undertaken under the revised limits without reliance upon such a spread exemption.

In addition to the pending Commission proposal to increase the individual month speculative position limits discussed above, the Division has reviewed actual conditions in these markets and notes that current market conditions do not appear to be inconsistent with the granting of such limited, interim relief. For these reasons, the Division of Economic Analysis will not recommend to the Commission any enforcement action against the CBT under Sections 4a, 5a(8), 6(a), 6b and 6c of the Commodity Exchange Act, (7 U.S.C. §§6a, 7a(8), 8(a), 13a, and 13a-1), or its rules thereunder, or against any trader under Sections 4a, 6(b) 6(c) and 6c of the Commodity Exchange Act, (7 U.S.C. §§6a, 8(a), 13a and 13a-1) or any of its rules thereunder, for exceeding the individual month speculative position limits in the CBT Corn, Oats, Soybeans, Soybean Meal, Soybean Oil and Wheat futures contracts to the extent that such positions are spread or arbitrage positions between single months of the futures contract outside of the spot month; *provided however*, that such spread or arbitrage positions, when combined with any outright positions in the single month, do not exceed twice the single month level for that contract. This no-action position is limited in its effect to the period from its date of issuance until September 30, 1992, or until the effective date of any amendments to Part 150 of the Commission's Rules, whichever is sooner.

The above position is based upon the CBT's representations in its letters of March 4 and March 25, 1992. Any different, omitted, or changed facts or conditions might require a different conclusion. This position does not excuse compliance by the CBT or any individual trader with any other provision of the Commodity Exchange Act or Commission regulations, nor does it address trading requirements, particularly under Part 150 of the 'Commission's rules, in any other contract market, or in these contract markets for any other period of time. It should also be noted that this position is that of the Division of Economic Analysis, and is not binding upon the Commission or any other of its staff.