



DIVISION OF  
ECONOMIC ANALYSIS

March 26, 1993

Paul J. Draths  
Vice President and Secretary  
Chicago Board of Trade  
LaSalle at Jackson  
Chicago, Illinois 60604

Dear Mr. Draths:

By a letter dated November 20, 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 Sections 4a, 5a(8), 6(a), 6b and 6c of the Commodity Exchange Act (CEA) and the 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.

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The CBT letter of November 20, 1992, notes that such relief

is similar to the no-action requests submitted by the CBOT and approved by the Commission on July 18, 1991 (in Soybean Oil futures only) and May 1, 1992 (in the aforementioned futures contracts). The CBOT's request also is similar to amendments to the speculative position limits in agricultural futures and options which were approved by the CBOT membership and are currently pending before the Commission (See, Reference File #1093.01). Furthermore, the no-action request is consistent with the Board of Trade's petition to the Commission for amendment of CFTC Rules 150.02 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 Oil, Soybean Meal, Soybeans, and Wheat futures; therefore, this matter requires immediate attention.

Current speculative spread position limits in agricultural futures place severe restrictions on trading in the remaining months of the 1992/1993 old crop year versus the lead 1993/1994 new crop year contract month and additional deferred months. With the growth in volume and open-interest for grains and soybeans over recent years, the tremendous growth in volume and open-interest this year, there is concern that the restrictive spread limits will impede local spreaders in providing the necessary liquidity for hedgers when they roll their futures positions from nearby expiring months into the remaining old crop months. With the shift of ending stocks from government-owned or under government loan to free stocks in recent years, there has been a tremendous increase in the need for owners to hedge stocks carried over from one crop year to the next.

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.

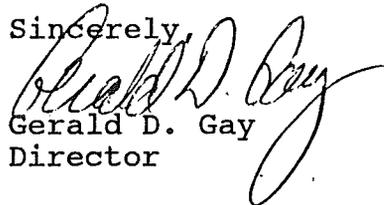
However, the Commission on April 6, 1992, proposed to amend its rules, in part, by raising the speculative position limits for individual months outside of the spot month, for the above futures contracts. For each of the above contracts, the single-month speculative position limit level under rule 150.2 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 not be greater than 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, 1993, 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 letter of November 20, 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.

Sincerely,

A handwritten signature in cursive script, appearing to read "Gerald D. Gay". The signature is written in dark ink and is positioned to the right of the typed name and title.

Gerald D. Gay  
Director