## SUBMISSION COVER SHEET

***IMPORTANT*: Check box if Confidential Treatment is requested** ☐

**Registered Entity Identifier Code (optional): 17-192**

**Organization: The Board of Trade of the City of Chicago, Inc. ("CBOT")**

**Filing as a:** ☒ **DCM** ☐ **SEF** ☐ **DCO** ☐ **SDR**

**Please note - only ONE choice allowed.**

**Filing Date (mm/dd/yy): 5/18/17 Filing Description: Amendments to the Location Differential Discount of the Oat Futures Contract**

**SPECIFY FILING TYPE**

**Please note only ONE choice allowed per Submission.**

**Organization Rules and Rule Amendments**

| | | |
|---|---|---|
| ☐ | Certification | § 40.6(a) |
| ☐ | Approval | § 40.5(a) |
| ☐ | Notification | § 40.6(d) |
| ☐ | Advance Notice of SIDCO Rule Change | § 40.10(a) |
| ☐ | SIDCO Emergency Rule Change | § 40.10(h) |

**Rule Numbers:**

**New Product** **Please note only ONE product per Submission.**

| | | |
|---|---|---|
| ☐ | Certification | § 40.2(a) |
| ☐ | Certification Security Futures | § 41.23(a) |
| ☐ | Certification Swap Class | § 40.2(d) |
| ☐ | Approval | § 40.3(a) |
| ☐ | Approval Security Futures | § 41.23(b) |
| ☐ | Novel Derivative Product Notification | § 40.12(a) |
| ☐ | Swap Submission | § 39.5 |

**Official Product Name**:

**Product Terms and Conditions (product related Rules and Rule Amendments)**

| | | |
|---|---|---|
| ☒ | Certification | § 40.6(a) |
| ☐ | Certification Made Available to Trade Determination | § 40.6(a) |
| ☐ | Certification Security Futures | § 41.24(a) |
| ☐ | Delisting (No Open Interest) | § 40.6(a) |
| ☐ | Approval | § 40.5(a) |
| ☐ | Approval Made Available to Trade Determination | § 40.5(a) |
| ☐ | Approval Security Futures | § 41.24(c) |
| ☐ | Approval Amendments to enumerated agricultural products | § 40.4(a), § 40.5(a) |
| ☐ | "Non-Material Agricultural Rule Change" | § 40.4(b)(5) |
| ☐ | Notification | § 40.6(d) |

**Official Name(s) of Product(s) Affected**: See filing.

Christopher Bowen
Managing Director and Chief Regulatory Counsel
Legal Department

May 18, 2017

**VIA ELECTRONIC PORTAL**

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

**Re: CFTC Regulation 40.6(a) Certification. Notification Regarding Amendments to Location Differential Discount of the Oat Futures Contract.**
**CBOT Submission No. 17-192**

Dear Mr. Kirkpatrick:

The Board of Trade of the City of Chicago, Inc. ("CBOT" or the "Exchange") is notifying the Commodity Futures Trading Commission ("CFTC" or "Commission") that it is self-certifying amendments to Rule 15105. ("Location Differentials") of the Oat Futures contract (the "Contract") (CME Globex Code: ZO; Clearing Code: O; Rulebook Chapter 15) effective on Sunday, June 4, 2017 for trade date Monday, June 5, 2017 commencing with the May 2018 contract month and beyond.

Specifically, the location differential for the Duluth, Minnesota and Superior, Wisconsin Switching District of the Contract will be reduced from 14 cents per bushel to 3 cents per bushel to more accurately reflect current freight spreads. As the destination for Duluth-Superior feed oats has diversified in recent years, the difference in freight spreads for oats shipped from Minneapolis-St. Paul versus Duluth-Superior is approximately 3 cents per bushel on average. Amendments to Rule 15105. appear in Exhibit A in blackline format.

Open interest in the Contract has declined significantly. The Exchange conducted a comprehensive review of the Contract. The Exchange communicated with a majority of the Contracts' market participants and obtained meaningful feedback on the performance of the Contract. In addition, Exchange staff communicated with a significant number of the Contracts' market participants at a recent conference of the North American Millers Association.

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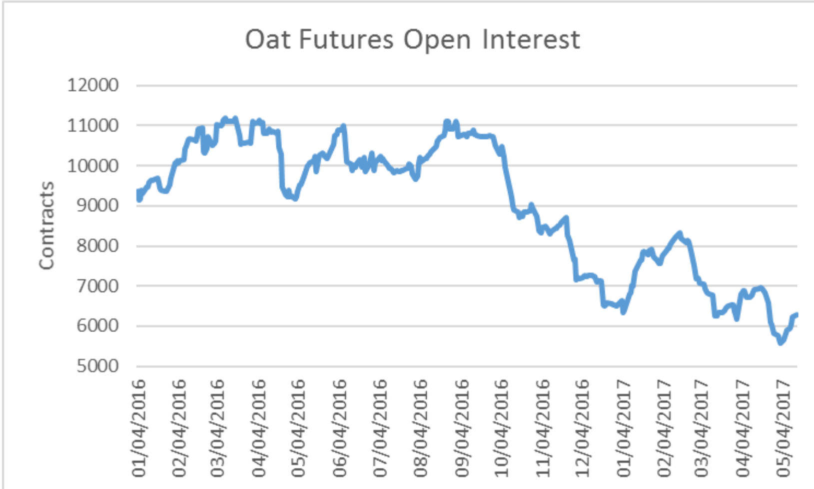
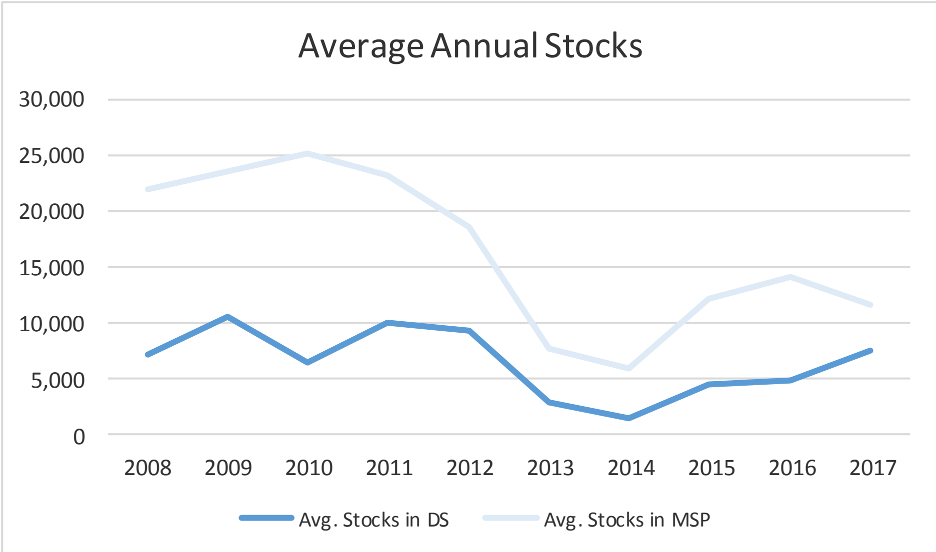



After the comprehensive review of the Contract, the Exchange determined that fundamental changes in the oat cash market contributed to the decline in trading and open interest of the Contract. The Exchange concluded that: (1) the oat industry is continuing to become increasingly more vertically integrated leading to a reduced need to lay off risk; (2) consumer dietary preferences and changing feed rations have reduced the size of the underlying oats cash market; and (3) market participants are increasingly using flat price cash commitments rather than pricing versus futures due to an increase in calendar spread volatility.

Stemming from customer feedback, the Exchange examined location differentials between Minneapolis-St. Paul and Duluth-Superior. When Duluth-Superior was added as a delivery point, due to a lack of publicly available cash data, the Duluth-Superior delivery differential was set based on industry feedback and the rail tariff to Minneapolis-St. Paul (http://www.cftc.gov/stellent/groups/public/@ioindustryfilingsapplication/documents/selfcertifiedfiling/rul100207cbot001.pdf). At that time, the assumption was that oat values were based on the flow of oats from Duluth-Superior into the large Minneapolis milling industry. Currently, the view of most market participants is that the Contract's location differentials should be based on the oat feed markets, which have multiple demand locations. The participants are of the view that notwithstanding Minneapolis, the Exchange should examine Duluth-Superior delivery differentials in relation to comparative freight spreads from Minneapolis-St. Paul to major feed oat consumption locations.

The Exchange's review indicates that the Contract quality specifications more closely align with feed oats as opposed to milling oats. This has been exacerbated by the growth in specialty oats, like certified gluten free oats, which has caused millers to tighten their quality specifications. Milling specifications are tighter than feed specifications on foreign material and maximum thins. One large miller, who uses the Contract as a hedging tool, maintains that they would be unlikely to take delivery of oats on the Contract for milling purposes because the quality does not meet their milling standard. According to one market participant, the latest deliveries and load-outs made on the Contract were shipped to feed markets in Texas, Oklahoma, and Kentucky. This growth of the feed market as the destination for oats delivered on the Contract indicate that both Duluth-Superior and Minneapolis-St. Paul should be seen as origination points rather than Minneapolis-St. Paul being considered a destination market.

Additionally, the prominence of Minneapolis as a storage location relative to Duluth-Superior has diminished over time. The deliverable stocks in Minneapolis have declined over the last 10 years, whereas deliverable stocks in Duluth-Superior have remained somewhat stable. In 2008, the percentage of total stocks in Minneapolis was approximately 75% and the percentage of total stocks in Duluth-Superior was approximately 25%. In 2017, however, the percentage of total stocks in Minneapolis was about 60% versus the percentage of total stocks in Duluth-Superior of almost 40%.




Capacity in Duluth-Superior elevators is also eclipsing Minneapolis as urban sprawl contributes to elevator closings in Minneapolis-St. Paul. Over the last few decades, more than 19 million bushels of capacity has disappeared from Minneapolis because of elevators shutting down. The Exchange estimates that Minneapolis-St. Paul is slightly above 51 million bushels of storage capacity while Duluth-Superior has a current capacity of over 62 million bushels.

Given this shift in how some customers and the Exchange view the relationship between Minneapolis-St. Paul and Duluth-Superior relative to destination feed markets, it prudent to examine the difference in rail freight from both origins to the same destination in order to approximate location differentials in the absence of public oat price data in Duluth-Superior. The Exchange received oat freight tariff data from one customer that compares freight spreads from Superior and Minneapolis to some common destinations, which supports a reduction in the location differential from 14 cents to 3 cents.

Two major rail lines also corroborated these differences. One railroad agreed that, on average, the difference between shipping oats from Minneapolis-St. Paul compared to Duluth-Superior to a common destination was approximately $150-$200 per railcar. At 5,000 bushels per railcar, the difference is equal to $0.03 to $0.04 per bushel. Available tariff rates on another rail line estimate that the difference in cost per bushel between shipping from these two locations is anywhere from $0.00 to $0.04 per bushel.

The Exchange notes that one customer advised its preference for the Duluth-Superior differential to continue to be based on the tariff between Duluth-Superior and Minneapolis and that the current 14 cent discount should be even deeper. However, all other market participants noted the lack of deliveries in Duluth-Superior over the past year – the last registration for delivery from Duluth-Superior was March 2017, and before that, July 2016 – as evidence that the location is at too steep of a discount, and if more competitively priced, Duluth-Superior deliveries could help reduce spread volatility. T his feedback and the tariff data provided to the Exchange and reinforced by multiple customers supports lowering the Duluth-Superior discount from 14 cents to 3 cents per bushel.

The Exchange reviewed the designated contract market core principles ("Core Principles") as set forth in the Commodity Exchange Act ("CEA" or "Act") and identified that the modifications may have some bearing on the following Core Principles:

- <u>Prevention of Market Disruption</u>: The current discount of 14 cents for the Duluth-Superior Switching District does not reflect cash values and freight rates. Bringing this discount in line with the cash market makes it economical for a facility in this area to deliver through the futures contract and allows the futures price to more accurately represent the value of the commodity.

- Availability of General Information: To comply with this Core Principle and to ensure that market participants are apprised of the amendments to Rule 15105., CBOT will issue a Special Executive Report ("SER") to provide notification to the marketplace. The SER will also be posted on the CME Group website.

Pursuant to Section 5c(c) of the Act and CFTC Regulation 40.6(a), the Exchange hereby certifies that the amendments comply with the Act, including regulations under the Act. Although one market participant provided negative feedback as noted above, no substantive opposing views were expressed to the Exchange.

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

If you require any additional information regarding this submission, please e-mail CMEGSubmissionInquiry@cmegroup.com or contact me at 212-299-2200.

Sincerely,

/s/Christopher Bowen
Managing Director and Chief Regulatory Counsel

Attachment: Exhibit A - Amendments to CBOT Rule 15105. ("Locational Differentials") (blackline format)

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**Exhibit A**

(Additions are <u>underlined</u>.)

## Chapter 15

## Oat Futures

15105. **LOCATION DIFFERENTIALS**
<u>(For all Contract Months up to and Including March 2018)</u>

Oats from regular facilities located within the Chicago Switching District, the Burns Harbor, Indiana Switching District, the Minneapolis, Minnesota Switching District, or the St. Paul, Minnesota Switching District may be delivered in satisfaction of Oats futures contracts at contract price, and oats from regular facilities located in the Duluth, Minnesota or Superior, Wisconsin Switching District may be delivered in satisfaction of Oat futures contracts at a discount of 14 cents per bushel, subject to the differentials for class and grade.

<u>15105.</u> <u>**LOCATION DIFFERENTIALS**</u>
<u>(For all Contract Months Commencing with May 2018 and Beyond)</u>

<u>Oats from regular facilities located within the Chicago Switching District, the Burns Harbor, Indiana Switching District, the Minneapolis, Minnesota Switching District, or the St. Paul, Minnesota Switching District may be delivered in satisfaction of Oats futures contracts at contract price, and oats from regular facilities located in the Duluth, Minnesota or Superior, Wisconsin Switching District may be delivered in satisfaction of Oat futures contracts at a discount of 3 cents per bushel, subject to the differentials for class and grade.</u>