

Comments by the Kansas City Board of Trade
CFTC Ag Advisory Committee Meeting
August 5, 2010

Mr. Chairman, Commissioners and committee members. The Kansas City Board of Trade appreciates the opportunity to appear before you today to discuss the HRW wheat basis issue. My name is Jeff Borchardt and I serve as President of the exchange. I am joined today by Steve Campbell with Louis Dreyfus Corporation who is vice chairman of the exchange and a member of our wheat contract committee.

The exchange has been engaged in discussions with and received input from a variety of interested parties concerning the historically weak basis levels in HRW wheat, including CFTC Commissioners and staff, the NGFA, KGFA and KAWG. The exchange understands the concerns expressed about the low basis levels and lack of convergence at delivery of late, and has tasked our wheat contract committee with formulating solutions.

The exchange wheat contract committee is made up of a balanced cross-section of commercial market users, including millers, exporters, merchandisers, elevator operators and FCMs with commercial customers. This committee has, for many weeks, been actively and deliberately meeting and reviewing our wheat contract for consideration of structural changes to address the convergence issue. Let me be clear, the committee weeks ago made the determination that doing nothing was not an option. The committee is aware of and has discussed several alternatives, including many that have been discussed in prior years in deliberations over SRW wheat convergence. These alternatives have a common effect of transferring basis volatility into the futures spreads. Some solutions drop the volatility into the nearby spreads to achieve timely convergence. Others feather the volatility into the spread horizon over time. There are pros and cons associated with either result.

What the committee is endeavoring to achieve is a solution that fosters convergence at the delivery period without creating unintended consequences for hedgers on either side of the market, long or short. The key here is the implementation of structural changes with the requisite “balance” that the committee has so diligently maintained in recommending prior contract change packages.

We have received many questions about the committee’s deliberation process. Historically, the KCBT wheat contract committee has met privately throughout the process of ultimately formulating a consensus solution. Once consensus is achieved, the committee has traditionally invited in a select number of outside parties to brief on the process, deliberations and ultimate solution for their comments and views prior to making recommendations to the Board of Directors. Once a recommendation is prepared for the Board, the exchange releases a public statement advising market participants that contract change recommendations are being made to the Board along with a proposed effective date. This is to put the market on notice that trades made in those contract months forward may be subject to the new terms and conditions, subject to membership ratification and CFTC approval.

Now that I have provided you with a summary of our committee’s task and the process, I will yield the remainder of our time to Mr. Campbell, who as an active cash wheat trader can provide the advisory committee with a brief overview of some of the factors contributing to the weakness in basis and convergence.