Sean M. Downey
Director and Assistant General Counsel
Legal Department

May 31, 2012

VIA E-MAIL

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

Re: Regulation 40.2 Self-Certification of New Product Listing: Short Dated Options on New Crop Corn, Soybean, and Wheat Futures.

CBOT Submission # 12-135

A. Proposed New Products.

The Chicago Board of Trade ("CBOT" or "Exchange") hereby notifies the Commodity Futures Trading Commission ("Commission" or "CFTC") that it intends to self-certify the listing of short dated options on new crop Corn, Soybean, and Wheat futures pursuant to Regulation 40.2. The relevant CBOT Rulebook Chapters are Chapter 10A, Options on Corn Futures, Chapter 11A, Options on Soybean Futures, and Chapter 14A, Options on Wheat Futures.

CBOT currently lists standard, serial, and weekly options on Corn, Soybeans, and Wheat futures. For all these different types of options, the underlying instrument is the futures contract that is nearest to the expiration of the option.

The Exchange intends to add short dated new crop options to the current line-up of standard, serial, and weekly options on CBOT Corn and Soybeans futures on Monday, June 4th, 2012. The Exchange also intends to add short dated new crop options on CBOT Wheat futures on Tuesday, September 4th, 2012.

B. Justification of the New Products.

1. The proposed new products will provide an additional tool for market participants to manage risks associated with their new crop positions.

Because all the grain and oilseeds options currently available exercise into nearby futures, there is a lack of cost effective options for market participants to hedge their positions on key deferred futures, especially new crop futures. Due to the nature of major field crop production, the supply and demand status of the new crop can be significantly different from that of the old crop. The planting and growing season is several months ahead of the harvesting season, when the supply status is more certain. So during the planting and growing season, market participants can't simply roll their position every month as there could be a considerable difference between old and new crop contracts. The typical solution now is to hedge by standard options on new crop futures; for example, use December Corn options, which are many months ahead of expiration. This can be costly, as these options are very expensive due to high time value during the planting and growing season.

Based on the idea of successful weekly grain and oilseeds options, the Exchange plans to list short dated options on new crop futures during the planting and growing seasons. These new options exercise into the new crop futures (December Corn, November Soybean, and July Wheat) which are nearest to the option expiration instead of the nearby futures. They also expire much earlier than standard new crop options. The lower time value would provide market participants a much more cost effective alternative to hedge their new crop positions.

In addition, these new options would give market participants increased hedging flexibility as well as increased trading opportunities. For example, they offer new opportunities to trade high impact events affecting new crop markets in specific time frames, such as the United States Department of Agriculture ("USDA") reports or changes in weather outlook. They may be used to hedge old/new crop Calendar Spread Options positions or take advantage of arbitrage opportunities between old/new crops. They also offer different option Greek characteristics (higher Gamma/Theta) vs. standard new crop options (higher Vega) for option market makers that need to manage Greek sensitivity of their option books.

2. Market participants support the launch of these new options.

Feedback from a large number of market participants, including floor traders, commercial hedgers, and proprietary trading firms has been mostly positive. Many floor traders have indicated significant demand for low premium, short-dated options on new crop futures with higher Gamma and Theta characteristics. Some floor traders also believe these options could help them hedge their positions in old/new crop calendar spread options. Option market makers are in need of products that have Greek characteristics as different as possible from the current offerings and would use these options to offset risks in their long-dated options positions with higher Vega. Some banks have already offered similar products in the OTC market, however, bid/ask spreads are wide due to illiquidity. Commercial hedgers also welcome this new product as many producers and elevators hedge forward one year out. These new options would serve as a more cost effective hedging tool than existing standard new crop options in the early period of their hedging cycle. Also, the short-dated feature can help re-establish their positions close to the current market level over time.

3. Description of the new options.

There are two main differences between short dated new crop options and existing standard options. First, the short dated options exercise into the new crop futures (December Corn, November Soybeans, and July Wheat) instead of the nearby futures. Second, the listing cycle is different. For Corn and Soybeans, the Exchange will list three contract expirations (May, July, and September) on the first business day every January. No other contract months will be listed in the same listing cycle. A new listing cycle won't start until the first business day of the next January. For Wheat, three contract months (December, March, and May) will be listed on the first business day every September. No other contract months will be listed in the same listing cycle. A new listing cycle won't start until the first business day of the next September. Other than these two features, the short dated new crop options will have the same contract specifications – American-style exercise, strike price ranges, strike price increments, minimum premium increments, trading hours and venues, position limits, last trade date, daily and final settlement – as the existing standard options.

C. Compliance with the Commodity Exchange Act

CBOT business staff responsible for the new products and the legal department collectively reviewed the designated contract market core principles ("Core Principles") as set forth in the Commodity Exchange Act (the "Act" or "CEA"). During the review, CBOT staff identified that the new products may have some bearing on the following Core Principles:

- Prevention of Market Disruption: Trading in these contracts will be subject to Rulebook Chapters 4 and 7 which include prohibitions on manipulation, price distortion and disruptions of the delivery or cash-settlement process. As with all products listed for trading on one of CME Group's designated contract markets, activity in the new products will be subject to extensive monitoring and surveillance by CME Group's Market Regulation Department.

- Contracts not readily Subject to Manipulation: The new products are not readily subject to manipulation due to the deep liquidity and robustness in the underlying new crop futures market, which provides diverse participation and sufficient transactions to support the final settlement.

- Compliance with Rules: Trading in these contracts will be subject to the rules in Rulebook Chapter 4 which includes prohibitions against fraudulent, noncompetitive, unfair and abusive practices. Additionally, trading in these contracts will also be subject to the full range of trade practice rules, the majority of which are contained in Chapter 5 and Chapter 8 of the Rulebook. As with all products listed for trading on one of CME Group's designated contract markets, activity in the new products will be subject to extensive monitoring and surveillance by CME Group's Market Regulation Department. The Market Regulation Department has the authority to exercise its investigatory and enforcement power where potential rule violations are identified.

- Position Limitations or Accountability: CBOT business staff responsible for the development of new products is also responsible for the recommendation of the appropriate position limits and/or position accountability levels. After those recommendations are made, in all cases the limits and/or levels are reviewed by the CME Group Market Regulation Department. The Market Regulation Department assesses the proposed limits against CFTC requirements. The contract specifications establish speculative position limits at the same level as specified for existing grain and oilseeds options contracts which are less than 25% of deliverable supply. In addition, positions in this new product will be aggregated with positions in their respective existing options contracts to ensure compliance with CFTC and/or Exchange speculative limits.

- Availability of General Information: The Exchange will publish information on the contracts' specification on its website, together with daily trading volume, open interest and price information.

- Daily Publication of Trading Information: This product will be included in all Exchange and Clearing House reports and bulletins, which are published on CME Group's website daily. Trading information will also be available via quote vendors.

- Financial Integrity of Contracts: All contracts traded on the Exchange will be cleared by the CME Clearing House which is a registered derivatives clearing organization with the Commission and is subject to all Commission regulations related thereto.

- Execution of Transactions: This product will be listed on the CBOT trading floor and CME Globex and will meet CFTC Execution requirements. This product is also listed for clearing through the CME ClearPort platform. The CBOT trading floor is available as a venue to provide for competitive and open execution of transactions. The CME Globex electronic trading platform provides for a competitive and open execution of transactions due to its advanced functionality, high reliability and global connectivity. The CME ClearPort platform provides a competitive, open and efficient mechanism for novating transactions that are competitively executed by brokers.

- Trade Information: Trade information for this product will be collected and maintained in the same way as for other exchange-traded futures and options contracts. All required trade information is included in the audit trail and is sufficient for the Market Regulation Department to monitor for market abuse.

- Protection of Market Participants: Rulebook Chapters 4 and 5 contain multiple prohibitions precluding intermediaries from disadvantaging their customers. These rules apply to trading on all of the Exchange's competitive trading venues and will be applicable to transactions in this product.

- Disciplinary Procedures: Chapter 4 of the Rulebook contains provisions that allow the Exchange to discipline, suspend or expel members or market participants that violate the rules. Trading in this contract will be subject to Chapter 4, and the Market Regulation Department has the authority to exercise its enforcement power in the event rule violations in this product are identified.

- Dispute Resolution: Disputes with respect to trading in this contract will be subject to the arbitration provisions set forth in Chapter 6 of the Rulebook. The rules in Chapter 6 allow all nonmembers to submit a claim for financial losses resulting from transactions on the Exchange to arbitration. A member named as a respondent in a claim submitted by a nonmember is required to participate in the arbitration pursuant to the rules in Chapter 6. Additionally, the Exchange requires that members resolve all disputes concerning transactions on the Exchange via arbitration.

Attachments 1-9 are black-lined to reflect the insertion of terms and conditions required for the introduction of Corn, Soybean, and Wheat futures.

The Exchange hereby certifies that these contract terms and conditions comply with the Commodity Exchange Act, including regulations under the Act. There were no substantive opposing views to this proposal.

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, please contact the undersigned at 312-930-8167 or via e-mail at Sean.Downey@cmegroup.com. Please reference CBOT Submission #12-135 in any related correspondence.

Sincerely,

/s/ Sean M. Downey
Director and Assistant General Counsel

Attachments

The recommended rule book changes are attached with additions **<u>bold and underlined</u>** and deletions [~~bracketed with strikethrough~~].

Attachment 1

CBOT Rulebook
Chapter 10A. Options on Corn Futures

Rule 10A01. OPTIONS CHARACTERISTICS

10A01.A. Contract Months

Trading may be conducted in the nearby Corn futures options contract month and any succeeding months, provided however, that the Exchange may determine not to list a contract month. For options that are traded in contract months in which Corn futures are not traded, the underlying futures contract is the next futures contract that is nearest to the expiration of the option. For example, the underlying futures contract for the February option contract is the March futures contract. **<u>For short dated options on new crop futures, the underlying futures contract is the December futures contract that is nearest to the expiration of the option.</u>**

Attachment 2

CBOT Rulebook
Chapter 10A. Options on Corn Futures
Rule 10A01. OPTIONS CHARACTERISTICS

10A01.E. Exercise Prices

Trading shall be conducted for put and call options with striking prices in integral multiples of five (5) cents and ten (10) cents per bushel per Corn futures contract as follows:

1.

a. At the commencement of trading for each option contract, the Exchange shall list a strike closest to the previous day's settlement price of the underlying Corn futures contract (the at-the-money strike), and strikes in integral multiples of ten cents in a range of 50 percent above and below the at-the-money strike. If the previous day's settlement price is midway between two strikes, the at-the-money strike shall be the larger of the two.

b. Over time, new ten cent strikes will be added to ensure that all strikes within 50 percent of the previous day's settlement price in the underlying futures contract are listed.

2.

a. At the commencement of trading for weekly options, for options that are traded in months in which Corn futures are not traded, **<u>for short dated options on new crop futures,</u>** and for standard option months the business day they become the third listed month, the Exchange shall list a strike closest to the previous day's settlement price of the underlying Corn futures contract (the at-the-money strike), and strikes in integral multiples of five cents in a range of 25 percent above and below the at-the-money strike. If the previous day's settlement price is midway between two strikes, the at-the-money strike shall be the larger of the two. For example, five-cent strike price intervals for the September contract would be added on the first business day after the expiration of the June options contract.

b. Over time, new five-cent strike prices will be added to ensure that all strikes within 25 percent of the previous day's settlement price in the underlying futures are listed.

3. All strikes will be listed prior to the opening of trading on the following business day. Upon demand and at the discretion of the Exchange, new out-of-current-range strike prices at regularly defined intervals may be added for trading on as soon as possible basis. The Exchange may modify the procedures for the introduction of strikes as it deems appropriate in order to respond to market conditions. As new 5 and 10 cent strikes are added, existing strikes outside the newly determined strike ranges without open interest may be de-listed.

Attachment 3

CBOT Rulebook
Chapter 10A. Options on Corn Futures
Rule 10A01. OPTIONS CHARACTERISTICS

10A01.I. Termination of Trading

10A01.I.1. Standard and Serial Options

The last day of trading in any standard or serial option for expiry in a given month shall be the last Friday which precedes by at least two business days the last business day of the calendar month preceding such option's named expiry month. If such Friday is not a business day, then the last day of trading in such option shall be the business day prior to such Friday.

On their last day of trading, expiring standard or serial options shall cease trading at the close of the open outcry trading session for the corresponding Corn futures contract, subject to the provisions of Rule 10A01.D.

10A01.I.2. Weekly Options

Any weekly option shall be designated to expire on a given Friday, provided however that no weekly option shall be designated to expire on any Friday that is also the last day of trading in a standard or serial option (Rule 10A01.I.1.). Trading in any weekly option shall terminate on the Friday on which such option is designated to expire. If such Friday is not a business day, then trading in weekly options designated for expiration on such Friday shall terminate on the business day prior to such Friday.

On their last day of trading, expiring weekly options shall cease trading at the close of the open outcry trading session for the corresponding Corn futures contract, subject to the provisions of Rule 10A01.D.

10A01.I.3. Short Dated Options on New Crop Futures

The last day of trading in any short dated option on new crop futures for expiry in a given month shall be the last Friday which precedes by at least two business days the last business day of the calendar month preceding such option's named expiry month. If such Friday is not a business day, then the last day of trading in such option shall be the business day prior to such Friday.

On their last day of trading, short dated options on new crop futures shall cease trading at the close of the open outcry trading session for the corresponding Corn futures contract, subject to the provisions of Rule 10A01.D.

10A01.I.[~~3~~]4. Trading in Underlying Futures

In the event that the underlying futures market does not open on a day scheduled for option expiration, such option expiration shall occur on the next day on which the underlying futures market opens for trading.

Attachment 4

CBOT Rulebook
Chapter 11A. Options on Soybean Futures
Rule 11A01. OPTIONS CHARACTERISTICS

11A01.A. Contract Months

Trading may be conducted in the nearby Soybean futures options contract month and any succeeding months, provided however, that the Exchange may determine not to list a contract month. For options that are traded in months in which Soybean futures are not traded, the underlying futures contract is the next futures contract that is nearest to the expiration of the option. For example, the underlying futures contract for the February option contract is the March futures contract. **For short dated options on new crop futures, the underlying futures contract is the November futures contract that is nearest to the expiration of the option.**

Attachment 5

CBOT Rulebook
Chapter 11A. Options on Soybean Futures
Rule 11A01. OPTIONS CHARACTERISTICS

11A01.E. Exercise Prices

Trading shall be conducted for put and call options with striking prices in integral multiples of ten (10) cents and twenty (20) cents per bushel per Soybean futures contract as follows:

1.

a. At the commencement of trading for each option contract, the Exchange shall list a strike closest to the previous day's settlement price of the underlying Soybean futures contract (the at-the-money strike), and strikes in integral multiples of twenty cents in a range of 50 percent above and below the at-the-money strike. If the previous day's settlement price is midway between two strikes, the at-the-money strike shall be the larger of the two.

b. Over time, new twenty cent strikes will be added to ensure that all strikes within 50 percent of the previous day's settlement price in the underlying futures contract are listed.

2.

a. At the commencement of trading for weekly options, for options that are traded in months in which Soybean futures are not traded, **<u>for short dated options on new crop futures,</u>** and for standard option months the business day they become the third listed month, the Exchange shall list a strike closest to the previous day's settlement price of the underlying Soybean futures contract (the at-the-money strike), and strikes in integral multiples of ten cents in a range of 25 percent above and below the at-the-money strike. If the previous day's settlement price is midway between two strikes, the at-the-money strike shall be the larger of the two. For example, ten-cent strike price intervals for the September contract would be added on the first business day after the expiration of the June options contract.

b. Over time, new ten-cent strike prices will be added to ensure that all strikes within 25 percent of the previous day's settlement price in the underlying futures are listed.

3. All strikes will be listed prior to the opening of trading on the following business day. Upon demand and at the discretion of the Exchange, new out-of-current-range strike prices at regularly defined intervals may be added for trading on as soon as possible basis. The Exchange may modify the procedures for the introduction of strikes as it deems appropriate in order to respond to market conditions. As new 10 and 20 cent strikes are added, existing strikes outside the newly determined strike ranges without open interest may be de-listed.

Attachment 6

CBOT Rulebook
Chapter 11A. Options on Soybean Futures
Rule 11A01. OPTIONS CHARACTERISTICS

11A01.I. Termination of Trading

11A01.I.1. Standard and Serial Options
The last day of trading in any standard or serial option for expiry in a given month shall be the last Friday which precedes by at least two business days the last business day of the calendar month preceding such option's named expiry month. If such Friday is not a business day, then the last day of trading in such option shall be the business day prior to such Friday.
On their last day of trading, expiring standard or serial options shall cease trading at the close of the open outcry trading session for the corresponding Soybean futures contract, subject to the provisions of Rule 11A01.D.

11A01.I.2. Weekly Options
Any weekly option shall be designated to expire on a given Friday, provided however that no weekly option shall be designated to expire on any Friday that is also the last day of trading in a standard or serial option (Rule 11A01.I.1.). Trading in any weekly option shall terminate on the Friday on which such option is designated to expire. If such Friday is not a business day, then trading in weekly options designated for expiration on such Friday shall terminate on the business day prior to such Friday.
On their last day of trading, expiring weekly options shall cease trading at the close of the open outcry trading session for the corresponding Soybean futures contract, subject to the provisions of Rule 11A01.D.

11A01.I.3. Short Dated Options on New Crop Futures
The last day of trading in any short dated option on new crop futures for expiry in a given month shall be the last Friday which precedes by at least two business days the last business day of the calendar month preceding such option's named expiry month. If such Friday is not a business day, then the last day of trading in such option shall be the business day prior to such Friday.
On their last day of trading, short dated options on new crop futures shall cease trading at the close of the open outcry trading session for the corresponding Soybean futures contract, subject to the provisions of Rule 11A01.D.

11A01.I.[~~3~~]4. Trading in Underlying Futures
In the event that the underlying futures market does not open on a day scheduled for option expiration, such option expiration shall occur on the next day on which the underlying futures market opens for trading.

Attachment 7

CBOT Rulebook
Chapter 14A. Options on Wheat Futures
Rule 14A01. OPTIONS CHARACTERISTICS

14A01.A. Contract Months

Trading may be conducted in the nearby Wheat futures options contract month and any succeeding months, provided however, that the Exchange may determine not to list a contract month. For options that are traded in months in which Wheat futures are not traded, the underlying futures contract is the next futures contract that is nearest to the expiration of the option. For example, the underlying futures contract for the February option contract is the March futures contract. **For short dated options on new crop futures, the underlying futures contract is the July futures contract that is nearest to the expiration of the option.**

Attachment 8

CBOT Rulebook
Chapter 14A. Options on Wheat Futures
Rule 14A01. OPTIONS CHARACTERISTICS

14A01.E. Exercise Prices

Trading shall be conducted for put and call options with striking prices in integral multiples of five (5) cents and ten (10) cents per bushel per Wheat futures contract as follows:

1.
a. At the commencement of trading for each option contract, the Exchange shall list a strike closest to the previous day's settlement price of the underlying Wheat futures contract (the at-the-money strike), and strikes in integral multiples of ten cents in a range of 50 percent above and below the at-the-money strike. If the previous day's settlement price is midway between two strikes, the at-the-money strike shall be the larger of the two.

b. Over time, new ten cent strikes will be added to ensure that all strikes within 50 percent of the previous day's settlement price in the underlying futures contract are listed.

2.
a. At the commencement of trading for weekly options, for options that are traded in months in which Wheat futures are not traded, **<u>for short dated options on new crop futures,</u>** and for standard option months the business day they become the third listed month, the Exchange shall list a strike closest to the previous day's settlement price of the underlying Wheat futures contract (the at-the-money strike), and strikes in integral multiples of five cents in a range of 25 percent above and below the at-the-money strike. If the previous day's settlement price is midway between two strikes, the at-the-money strike shall be the larger of the two. For example, five-cent strike price intervals for the September contract would be added on the first business day after the expiration of the June options contract.

b. Over time, new five-cent strike prices will be added to ensure that all strikes within 25 percent of the previous day's settlement price in the underlying futures are listed.

3. All strikes will be listed prior to the opening of trading on the following business day. Upon demand and at the discretion of the Exchange, new out-of-current-range strike prices at regularly defined intervals may be added for trading on as soon as possible basis. The Exchange may modify the procedures for the introduction of strikes as it deems appropriate in order to respond to market conditions. As new 5 and 10 cent strikes are added, existing strikes outside the newly determined strike ranges without open interest may be de-listed.

Attachment 9

CBOT Rulebook
Chapter 14A. Options on Wheat Futures
Rule 14A01. OPTIONS CHARACTERISTICS

14A01.I. Termination of Trading

14A01.I.1. Standard and Serial Options
The last day of trading in any standard or serial option for expiry in a given month shall be the last Friday which precedes by at least two business days the last business day of the calendar month preceding such option's named expiry month. If such Friday is not a business day, then the last day of trading in such option shall be the business day prior to such Friday.
On their last day of trading, expiring standard or serial options shall cease trading at the close of the open outcry trading session for the corresponding Wheat futures contract, subject to the provisions of Rule 14A01.D.

14A01.I.2. Weekly Options
Any weekly option shall be designated to expire on a given Friday, provided however that no weekly option shall be designated to expire on any Friday that is also the last day of trading in a standard or serial option (Rule 14A01.I.1.). Trading in any weekly option shall terminate on the Friday on which such option is designated to expire. If such Friday is not a business day, then trading in weekly options designated for expiration on such Friday shall terminate on the business day prior to such Friday.
On their last day of trading, expiring weekly options shall cease trading at the close of the open outcry trading session for the corresponding Wheat futures contract, subject to the provisions of Rule 14A01.D.

<u>14A01.I.3. Short Dated Options on New Crop Futures</u>
<u>The last day of trading in any short dated option on new crop futures for expiry in a given month shall be the last Friday which precedes by at least two business days the last business day of the calendar month preceding such option's named expiry month. If such Friday is not a business day, then the last day of trading in such option shall be the business day prior to such Friday.</u>
<u>On their last day of trading, short dated options on new crop futures shall cease trading at the close of the open outcry trading session for the corresponding Wheat futures contract, subject to the provisions of Rule 14A01.D.</u>

14A01.I.[~~3~~]**<u>4</u>. Trading in Underlying Futures**
In the event that the underlying futures market does not open on a day scheduled for option expiration, such option expiration shall occur on the next day on which the underlying futures market opens for trading.