



**KANSAS CITY  
BOARD OF TRADE**

August 15, 2008

SENT VIA E-MAIL TO:  
[submissions@cftc.gov](mailto:submissions@cftc.gov)

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

OFFICE OF THE SECRETARIAT

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RECEIVED  
C.F.T.C.

**Re: Submission pursuant to Section 5c(c) of the Act and Commission Regulations 40.4 and 40.5 - "Request for Commission rule approval."**

Dear Mr. Stawick:

I. **REQUEST FOR COMMISSION APPROVAL**

The Kansas City Board of Trade ("KCBT" or "exchange") hereby submits, pursuant to Section 5c(c) of the Act and Commission Regulations 40.4 and 40.5, amended Rule 2005.01 pertaining to the settlement price procedures for the wheat futures contract.

II. **TEXT OF AMENDED RULE 2005.01**

The text of amended Rule 2005.10 is shown as follows, with additions underlined and deletions lined out.

**2005.01† Official Close; Settlement Price.** Under the provisions of Rule 1111.00, the pit reporter is instructed to ring the bell before the closing period of the session and immediately after the final bell, call out the highest and lowest quotations made during the closing period. Those quotations shall constitute the official closing range of the market.

~~If there is a range among the quotations during the closing period,~~ The settlement price shall be determined within this range in the following manner:

- a. Immediately following the closing bell, all brokers and traders in the pit shall report to the pit reporter and ~~the chairman of the~~ Wheat Pit Committee all outright trades, bids and offers and all spread trades, bids and offers made in the closing period that are relevant in determining settlement prices in accordance with Sections (b), (c) & (d) below.
- b. The settlement price of the lead contract month (defined as the contract month with the largest open interest) shall be determined by the weighted average method of the trades in the closing period as reflected in the information reported to the pit reporter and Committee a-Chairman in accordance with subpart "a" of this Rule.

- c. The remaining contract months shall be settled based on spread price relationships, considering spread trades reported during the close. If individual spreads trade at multiple prices during the close, the Committee shall use the weighted average of spread prices in determining the settlement. The lead contract month settlement price shall serve as the initial spread relationship basing point for adjacent contract months, whose settlement can then be used in chronology to determine deferred month settlements.
- d. If no spreads involving a particular contract month traded during the close, the Committee shall take into consideration other market information available to the Committee that is pertinent to such contract month, including but not limited to, spread bids and offers, the latest quoted spread trade, the latest outright trades, bids or offers and the settlement price differentials that existed on the previous day in order to determine a settlement price that most accurately reflects the relationship between such month and surrounding contract months.
- e. ~~If there is no trade during the closing period, then the last trade during the day shall be the settlement price, except that the last bid, if higher than the last trade, or the last offer, if lower than the last trade, shall be the settlement price.~~
- d. ~~If no trade occurs during the day, the settlement price shall be set at a price which when compared to the settlement price of the next earlier contract month reflects the same differential that existed between the settlement prices of the two contract months on the previous day, except that a bid or offer in existence at the close shall be the settlement price, if, respectively, it is higher or lower than the last settlement price.~~
- e. ~~If such settlement price is not consistent with sales in other months during the closing period or with market information known to the designated Wheat Pit committee Chairman supervising the closing or to members of the Wheat Pit Committee, the Chairman, with the advice of the Wheat Pit Committee, may establish a settlement price at a level consistent with such other sales or market information and shall cause to be prepared a written record setting forth the basis for any modification of such settlement price.~~

Note: It is possible that the settlement prices established as a result of spread price relationships could result in settlement prices that violate either open outright contract month or spread orders. No such orders shall be elected and brokers shall not be held liable on orders violated as a result of such settlement price procedure.

### **III. EXCHANGE ACTION TAKEN AND EFFECTIVE DATE**

The Board of Directors, in a special meeting held on August 13, 2008 and acting pursuant to authority granted them under Rule 233.01(o), unanimously approved the amendments to Rule 2005.01 as recommended unanimously by the Wheat Contract Committee. Subject to Commission approval, amended Rule 2005.01 shall become effective on Tuesday, September 2, 2008. The membership is being notified today by exchange circular of the proposed effective date.

### **IV. OPERATION, PURPOSE AND EFFECT OF RESOLUTION**

The exchange Wheat Pit Committee held special meetings in recent months to address the issue of individual contract months settling out of line with spread trade. Current settlement procedures require all contract months to settle based on the weighted average of trade in each contract month. At times, these procedures create disparities between individual contract month settlements and the traded spread differentials

Mr. David Stawick  
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between contract months. In an effort to mitigate these disparities, the Wheat Pit Committee and Board approved amendments to Rule 2005.01 that provides for settlements on all but the lead contract month based on spread relationships.

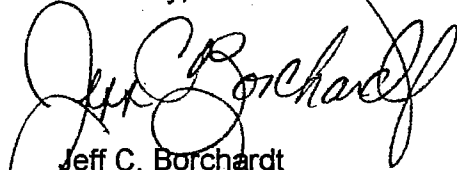
V. **SUBSTANTIVE OPPOSING VIEWS**

To the knowledge of the Board of Directors and staff of the KCBT, no substantive opposing views were expressed by members or others regarding amended Rule 2005.01.

VI. **CLOSING**

The exchange is not aware of any Commission regulations that need amending or interpreting in order to approve amended Rule 2005.01.

Sincerely,



Jeff C. Borchardt  
President



August 15, 2008

Circular No. 08-56

To: All Members

**Amendments to Wheat Futures Settlement Price Procedures**

The Board of Directors, in a special meeting held on August 13, 2008, unanimously approved amendments to Rule 2005.01 pertaining to settlement procedures for the wheat futures contract. Such amendments were approved by the Board following a unanimous recommendation by the Wheat Pit Committee. Amended Rule 2005.01 has been submitted to the Commodity Futures Trading Commission for final approval.

**The purpose of this circular is to inform the membership and their market participants that the Board intends to make amended Rule 2005.01 effective on Tuesday, September 2, 2008, subject to Commodity Futures Trading Commission approval.**

The exchange Wheat Pit Committee held special meetings in recent months to address the issue of individual contract months settling out of line with spread trade. Current settlement procedures require all contract months to settle based on the weighted average of trade in each contract month. At times, these procedures create disparities between individual contract month settlements and the traded spread differentials between contract months.

In an effort to mitigate these disparities, the Wheat Pit Committee and Board approved amendments to Rule 2005.01 that provides for settlements on all but the lead contract month based on spread relationships. The specific rule amendments to accomplish such is shown below, with additions underlined and in red and deletions lined out

**2005.01† Official Close; Settlement Price.** Under the provisions of Rule 1111.00, the pit reporter is instructed to ring the bell before the closing period of the session and immediately after the final bell, call out the highest and lowest quotations made during the closing period. Those quotations shall constitute the official closing range of the market.

~~If there is a range among the quotations during the closing period,~~ The settlement price shall be determined ~~within this range~~ in the following manner:

- a. Immediately following the closing bell, all brokers and traders in the pit shall report to the pit reporter and ~~the chairman of the~~ Wheat Pit Committee all outright trades, bids and offers and all spread trades, bids and offers made in the closing period ~~that are relevant in determining settlement prices in accordance with~~ Sections (b), (c) & (d) below.
- b. The settlement price of the lead contract month (defined as the contract month with the largest open interest) shall be determined by the weighted average method of the trades in the closing period as reflected in the information reported to the pit reporter and Committee ~~a Chairman~~ in accordance with subpart "a" of this Rule.

- c. The remaining contract months shall be settled based on spread price relationships, considering spread trades reported during the close. If individual spreads trade at multiple prices during the close, the Committee shall use the weighted average of spread prices in determining the settlement. The lead contract month settlement price shall serve as the initial spread relationship basing point for adjacent contract months, whose settlement can then be used in chronology to determine deferred month settlements.
- d. If no spreads involving a particular contract month traded during the close, the Committee shall take into consideration other market information available to the Committee that is pertinent to such contract month, including but not limited to, spread bids and offers, the latest quoted spread trade, the latest outright trades, bids or offers and the settlement price differentials that existed on the previous day in order to determine a settlement price that most accurately reflects the relationship between such month and surrounding contract months.
- e. If there is no trade during the closing period, then the last trade during the day shall be the settlement price, except that the last bid, if higher than the last trade, or the last offer, if lower than the last trade, shall be the settlement price.
- d. If no trade occurs during the day, the settlement price shall be set at a price which when compared to the settlement price of the next earlier contract month reflects the same differential that existed between the settlement prices of the two contract months on the previous day, except that a bid or offer in existence at the close shall be the settlement price, if, respectively, it is higher or lower than the last settlement price.
- e. If such settlement price is not consistent with sales in other months during the closing period or with market information known to the designated Wheat Pit committee Chairman supervising the closing or to members of the Wheat Pit Committee, the Chairman, with the advice of the Wheat Pit Committee, may establish a settlement price at a level consistent with such other sales or market information and shall cause to be prepared a written record setting forth the basis for any modification of such settlement price.

Note: It is possible that the settlement prices established as a result of spread price relationships could result in settlement prices that violate either open outright contract month or spread orders. No such orders shall be elected and brokers shall not be held liable on orders violated as a result of such settlement price procedure.

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Jeffrey C. Borchardt  
President