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CME Group

August 30, 2011

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

Re: Changes to CBOT Wheat Futures
CBOT Submission No. 11-329

A. Intended Changes

The Board of Trade of the City of Chicago, Inc. ("CBOT" or "Exchange") hereby notifies the Commodity Futures Trading Commission ("Commission" or "CFTC") of its intention to implement the following changes to the CBOT Wheat futures and Mini-Sized Wheat futures contracts:

1. Eliminate wheat containing 4 parts per million (ppm) vomitoxin from deliverable grades.
2. Increase the discount for wheat containing 3 ppm vomitoxin from 12 cents per bushel to 20 cents per bushel.
3. Reduce the discount for wheat delivered in the Northwest Ohio delivery territory from 20 cents per bushel to 10 cents per bushel.

The Exchange plans to implement these changes beyond contracts with open interest beginning with the September 2013 contract.

B. Background

As part of an ongoing contract review process, the Exchange held individual meetings with a dozen market participants representing a broad cross-section of the wheat industry from late January through mid-February culminating in a Customer Focus Meeting at the Exchange on February 17. The purpose of the meetings was to garner feedback on contract market performance to ensure the CBOT Wheat futures contract continues to meet customer trading and risk management needs.

Topics for discussion were not limited but mainly centered on Variable Storage Rates (VSR), Contract Quality Specifications, Price Limits, Delivery Locations, Differentials, Load-Out Rates, and Trading Hours. As one would expect with such a broad cross-section of industry participants, ideas varied across topics. However, two consistent themes surfaced:

- While there are mixed views on VSR, and several believed modification to the rate of change of storage rates would be beneficial, in general everyone believed it premature to modify the present VSR mechanism, and the Exchange should allow at least one full season to pass before considering any modifications.

- Key to the effectiveness of the contact is to deliver milling quality wheat while simultaneously maintaining deliverable supplies to ensure that the delivery process provides adequate supplies of merchantable wheat to those taking delivery.

Based on this feedback, the Exchange created survey questions on the identified issues and conducted an industry-wide survey in April on the CME Group website. The survey received 155 responses representing the following self-identified categories:

Industry Category	Responses	Percentage
Commercial (Hedgers other than country elevators and regular delivery facilities)	38	25%
Country Elevator	62	40%
FCM	9	6%
Index Fund/Swap Dealer	5	3%
Regular Facility	4	3%
Speculator	16	10%
Other	21	14%

Opposing Views and Discussion

Elimination of 4 ppm vomitoxin wheat from futures delivery had broad support except from Country Elevators (14 in favor and 30 opposed), Index Funds (2 in favor and 3 opposed) and Regular Facilities (1 in favor and 2 opposed). Only two country elevators provided comments as to why they oppose eliminating 4 ppm vomitoxin as a deliverable grade; one argued that since U.S. millers post bids for 4 ppm wheat, it must not be a serious issue for them and the other argued that by allowing 4 ppm wheat to be delivered, it discourages millers from taking delivery, and that the futures market should not be a substitute for the cash market. One commercial argued that producers need an outlet for their high vomitoxin wheat and elimination from the futures contract would hurt producers. Another commercial argued that 4 ppm vomitoxin wheat should be retained as a safety valve, but with a very large discount.

Most survey participants and focus group participants support eliminating delivery of 4 ppm vomitoxin wheat arguing that the export and milling markets typically specify a maximum of 2 ppm vomitoxin, and the 4 ppm designation on CBOT Wheat makes it a feed wheat contract and constrains participation in the delivery market.

The Food and Drug Administration (FDA) does not provide guidelines for vomitoxin levels in raw wheat, but does provide guidance for finished wheat products for human consumption at 1 ppm vomitoxin. The FDA acknowledges the level of vomitoxin in raw wheat can vary depending on each particular miller's technological ability to reduce vomitoxin level in finished wheat products (http://www.fda.gov/downloads/Food/GuidanceComplianceRegulatoryInformation/GuidanceDocuments/NaturalToxins/UCM217558.pdf).

Following this guideline that finished wheat products for human consumption should contain at most 1 ppm vomitoxin, more cleaning effort is required the higher the level of vomitoxin in raw wheat. Thus, the ability of a miller to accept wheat containing 4 ppm vomitoxin is based on that miller's technological ability to clean 4 ppm vomitoxin wheat, which the FDA describes as variable across millers. Small- to medium-sized millers in the Focus Group indicated a current inability to participate in the futures delivery process because of the risk of 4 ppm vomitoxin wheat delivery.

Also, while elevators and millers may make cash bids for wheat containing 4 ppm vomitoxin, often wheat that tests that high is subject to restrictions (e.g., No storage contracts; see, for example, http://www.heritagecooperativegrain.com/images/E0056502/Toxin.pdf). The Exchange believes the CBOT Wheat futures market should serve the milling and export markets, and the elimination of wheat containing 4 ppm vomitoxin from deliverable grades will allow small- and medium-sized milling operations to participate in the delivery market when economical. As of 8/22/11, there were no 4 ppm vomitoxin shipping certificates outstanding.

U.S. Wheat Associates annual survey of quality characteristics for Soft Red Winter wheat finds a composite vomitoxin average of 2 ppm in 2010 supplies with a five-year average of 0.8 ppm, indicating most of the U.S. SRW crop will remain deliverable on CBOT futures.
http://www.uswheat.org/reports/cropQuality/doc/8ACBA00D5C588B018525777A005FE6CE/$File/SRW2010.pdf?OpenElement#

Increasing the discount for 3 ppm vomitoxin wheat in futures delivery was supported by all categories in the survey except for the "Other" category (5 in favor and 6 opposed) and Country Elevators (14 in favor and 30 opposed). Again, few comments were included. It was argued that increasing the discount for 3 ppm vomitoxin wheat would reduce deliverable supply, but under this scenario, 3 ppm wheat would not be prohibited from delivery, just the discount for delivering it would increase. Another argued that the Exchange should not impose vomitoxin discounts because the cash market is more efficient at this. However, if the Exchange did not specify any discounts, the incentive would always be to deliver the lowest quality wheat (i.e., wheat with the highest vomitoxin). The Exchange wants to encourage delivery of milling quality wheat (i.e., wheat with 2 ppm or less vomitoxin), but still maintain deliverable supplies with 3 ppm wheat at a discount. Most feedback on this issue is at the two extremes – either allow unlimited vomitoxin in deliverable wheat or strictly limit it to 2 ppm. The intention specified here splits the difference with encouragement for delivery of 2 ppm wheat while maintaining deliverable supplies with 3 ppm wheat at a deeper discount.

Commission Regulation, Appendix A to Part 40 – Guideline No. 1, requests "Explanation as to consistency with, or reason for variance from cash market practice," for commodity characteristics. A 20 cent discount for 3 ppm vomitoxin wheat compared to 2 ppm is likely a steeper discount than many cash market discounts for similar quality differentials, but it is still within normal cash market differentials. For example, the following vomitoxin discount schedule on 8/22/11 shows that 2 ppm vomitoxin wheat would be delivered at no discount and 3 ppm vomitoxin wheat at 10 cent discount (http://aghost.net/images/e0235302/discountw_DNK.htm). However, another elevator on the same date specifies 2 ppm vomitoxin wheat at no discount and 3 ppm vomitoxin wheat at a 30 cent discount (http://www.heritagecooperativegrain.com/images/E0056502/Toxin.pdf). The 20 cent discount for 3 ppm wheat specified here is within this cash market range.

Delivery differentials were not identified as a major issue by the focus group. However, because of load-out activity in the Northwest Ohio territory, the Exchange conducted research around Toledo and Northwest Ohio delivery differentials and held meetings with Northwest Ohio regular warehousemen.

In 2009 the Northwest Ohio delivery territory was created with a 20 cent per bushel discount. Feedback at that time indicated that the relationship between cash prices in northwest Ohio and Toledo, while variable, averaged around a 20 cent premium for Toledo at that time. However, elevators in the Northwest Ohio territory have been building out shuttle loading capability and it is now uncommon for wheat grown in northwest Ohio to move into the Toledo market; instead, it now moves to the Gulf and East Coast for export and to mills in the Southeast. Public rail tariffs from northwest Ohio to export points and to the Southeast are at a few cents discount to Toledo tariffs suggesting that export bound wheat from the Northwest Ohio territory may actually be more valuable than Toledo wheat. For example, on 8/22/11, the cheapest CSX public tariff for private cars from Toledo, OH to New Orleans, LA was $2,756 plus a $546.84 estimated fuel surcharge.[1] Alternatively, the same tariff from Kenton, OH, within the Northwest Ohio territory, to New Orleans, LA was $2,671 plus a $530.67 estimated fuel surcharge.

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[1] Public tariffs were obtained through the CSX ShipCSX website available here: http://shipcsx.com/public/ec.shipcsxpublic/Main?module=public.pricing. To obtain the public tariff from Toledo to the New Orleans, fill in the following fields: Origin State: Ohio; Origin City: Toledo; Origin Carrier: CSX; Destination State: Louisiana; Destination City: New Orleans; Destination Carrier: CSX; STCC/Commodity Description: 0113710. To obtain public tariff rates from Kenton, OH, use the same fields except use Origin City: Kenton.

In addition to rail tariff differentials favoring Northwest Ohio relative to Toledo, many completed futures load-outs have come from the Northwest Ohio territory, also suggesting the territory's discount may be too large. Furthermore, Northwest Ohio facilities are no longer issuing shipping certificates as the number of outstanding certificates from that territory has fallen from a peak of 950 certificates to zero outstanding as of 8/22/11.

Toledo does maintain vessel loading capability that is not required of Northwest Ohio warehousemen, which gives certificate holders in Toledo an additional load-out option. Feedback from commercial contract participants in both Toledo and northwest Ohio estimate the transportation and loading costs to move grain from the Northwest Ohio territory to a vessel loading location in Toledo at 15 to 20 cents per bushel. The Ohio State estimates grain hauling costs of 16 cents per bushel for a 6 – 52 mile haul (http://ohioline.osu.edu/ae-fact/pdf/AEDE-11-10.pdf). With loading costs included, the total costs to move and load grain into a vessel would likely be at least 20 cents per bushel. However, vessel loading in Toledo is rarely executed. Over the past five years, USDA reports SRW wheat inspected or weighed for export at Toledo ports has averaged only 317,000 bushels per year with a high of 1.4 million bushels in 2007. Thus, the option for vessel loading, since used infrequently, has value, but is likely less than the 20 cents it currently costs to load Northwest Ohio wheat on a vessel in Toledo.

The USDA-AMS publishes daily cash bids for country elevators in northern Ohio and terminal market bids in Toledo (http://www.ams.usda.gov/mnreports/sj_gr116.txt). Since 2009, the median price difference in these cash bids is Toledo 11 cents per bushel over northern Ohio. Of the 650 daily cash bids reported by the USDA since January 2009, 120 have been with Toledo between 8 and 12 cents per bushel above northern Ohio. Thus, almost 19 percent of the observations are within 2 cents per bushel of the 10 cent discount proposed for the Northwest Ohio territory here. The table below summarizes the USDA cash bid price differences between Toledo and northern Ohio since January 2009.

Cents per Bushel USDA Bids for Toledo were Above Northern Ohio Bids	**Number of Days Since January 2009**
Between 0 and 4 cents	82
Between 1 and 5 cents	82
Between 2 and 6 cents	87
Between 3 and 7 cents	95
Between 4 and 8 cents	107
Between 5 and 9 cents	105
Between 6 and 10 cents	117
Between 7 and 11 cents	120
Between 8 and 12 cents	**120**
Between 9 and 13 cents	124
Between 10 and 14 cents	115
Between 11 and 15 cents	114
Between 12 and 16 cents	101
Between 13 and 17 cents	82
Between 14 and 18 cents	64
Between 15 and 19 cents	42
Between 16 and 20 cents	26

Based on these data, the proposed discount for Northwest Ohio of 10 cents per bushel is well within the cash market range.

Northwest Ohio regular warehousemen may oppose this proposal arguing for delivery in their territory at par. However, the Exchange believes a 10 cent discount is appropriate given the USDA price data and the potential value of vessel loading in the Toledo territory.

Implementation

These contract changes have received widespread support from a broad cross-section of Wheat contract participants. The Exchange believes these changes will enhance the viability of the contract's delivery process, which will continue to augment cash – futures convergence.

Implementation is planned for contracts without open interest, i.e., the September 2013 contract and all subsequent contracts.

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

If you require any additional information, please contact Fred Seamon at 312-634-1587 or via e-mail at Fred.Seamon@cmegroup.com. Alternatively, you may contact me at 212-299-2207 or via e-mail at Felix.Khalatnikov@cmegroup.com. Please reference CBOT Submission No. 11-329 in any related correspondence.

Sincerely,

/s/ Felix Khalatnikov
Director & Associate General Counsel

1406

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

Attachment

CBOT Rulebook
Chapter 14. Wheat Futures

14104. GRADES / GRADE DIFFERENTIALS

Upon written request by a taker of delivery at the time loading orders are submitted, a futures contract for the sale of wheat shall be performed on the basis of United States origin only.

WHEAT GRADE DIFFERENTIALS	
At 3¢ Premium	**At Contract Price**
No. 1 Soft Red Winter	No. 2 Soft Red Winter
No. 1 Hard Red Winter	No. 2 Hard Red Winter
No. 1 Dark Northern Spring	No. 2 Dark Northern Spring
No. 1 Northern Spring	No. 2 Northern Spring

Wheat which contains moisture in excess of 13.5% is not deliverable.

A contract for the sale of wheat for future delivery shall be performed on the basis of the grades officially promulgated by the Secretary of Agriculture as conforming to United States Standards at the time of making the contract. If no such United States grades shall have been officially promulgated, then such contract shall be performed on the basis of the grades established by the Department of Agriculture of the State of Illinois, or the standards established by the Rules of the Exchange in force at the time of making the contract.

[~~A taker of delivery of wheat shall have the option to request in writing load-out of wheat which contains no more than 4 (four) parts per million of deoxynivalenol (vomitoxin). At the taker's expense, a determination of the level of vomitoxin shall be made at the point of load-out by the Federal Grain Inspection Service or by a third party inspection service which is mutually agreeable to the maker and taker of delivery.~~]

[~~Effective September 1, 2009, all wheat shipping certificates shall be marked as either 3 parts per million deoxynivalenol (vomitoxin) or 4 parts per million vomitoxin. Shipping certificates marked as 3 parts per million vomitoxin shall be delivered at contract price, while shipping certificates marked as 4 parts per million shall be delivered at a 12 cent per bushel discount. A taker of delivery of wheat shall have the option to request in writing vomitoxin testing. At the taker's expense, a determination of the level of vomitoxin shall be made at the point of load-out by the Federal Grain Inspection Service or by a third party inspection service which is mutually agreeable to the maker and taker of delivery. Regular facilities shall load out wheat containing unit average testing results of 3 parts per million vomitoxin or below for canceled shipping certificates marked as 3 parts per million and shall load out wheat containing unit average testing results of 4 parts per million vomitoxin or below for canceled shipping certificates marked as 4 parts per million.~~]

Effective September 1, 2011, all wheat shipping certificates shall be marked as either 2 parts per million deoxynivalenol (vomitoxin), 3 parts per million vomitoxin, or 4 parts per million vomitoxin. Shipping certificates marked as 2 parts per million vomitoxin shall be delivered at contract price, while shipping certificates marked as 3 parts per million shall be delivered at a 12 cent per bushel discount and shipping certificates marked as 4 parts per million shall be delivered at a 24 cent per bushel discount. A taker of delivery of wheat shall have the option to request in writing vomitoxin testing. At the taker's expense, a determination of the level of vomitoxin shall be made at the point of load-out by the Federal Grain Inspection Service or by a third party inspection service which is mutually agreeable to the maker and taker of delivery. Regular facilities shall load out wheat containing unit average testing results of 2 parts per million vomitoxin or below for canceled shipping certificates marked as 2 parts per million, shall load out wheat containing unit average testing results of 3 parts per million vomitoxin or below for canceled shipping certificates marked as 3 parts per million, and shall load out wheat containing unit average testing results of 4 parts per million vomitoxin or below for canceled shipping certificates marked as 4 parts per million.

Effective September 1, 2013, all wheat shipping certificates shall be marked as either 2 parts per million deoxynivalenol (vomitoxin), or 3 parts per million vomitoxin. Shipping certificates marked as 2 parts per million vomitoxin shall be delivered at contract price, while shipping certificates marked as 3 parts per million shall be delivered at a 20 cent per bushel discount. A taker of delivery of wheat shall have the option to request in writing vomitoxin testing. At the taker's expense, a determination of the level of vomitoxin shall be made at the point of load-out by the Federal Grain Inspection Service or by a third party inspection service which is mutually agreeable to the maker and taker of delivery. Regular facilities shall load out wheat containing unit average testing results of 2 parts per million vomitoxin or below for canceled shipping certificates marked as 2 parts per million and shall load out wheat containing unit average testing results of 3 parts per million vomitoxin or below for canceled shipping certificates marked as 3 parts per million.

14105. LOCATION DIFFERENTIALS

In accordance with the provisions of Rule 14106., wheat for shipment from regular facilities located within the Chicago Switching District, the Burns Harbor, Indiana Switching District, on the Ohio River, or the Toledo, Ohio Switching District may be delivered in satisfaction of Wheat futures contracts at contract price, subject to the differentials for class and grade outlined above. Wheat for shipment from regular facilities in the Northwest Ohio territory may be delivered in satisfaction of Wheat futures contracts at a discount of [~~20~~] **10** cents per bushel, subject to the differentials for class and grade outlined above. Wheat for shipment from regular facilities on the Mississippi River may be delivered in satisfaction of Wheat futures contracts at a premium of 20 cents per bushel, subject to the differentials for class and grade outlined above. Only No. 1 Soft Red Winter and No. 2 Soft Red Winter Wheat for shipment from regular facilities located within the St. Louis-East St. Louis and Alton Switching districts may be delivered in satisfaction of Wheat futures contracts at a premium of 10 cents per bushel over contract price, subject to the differentials for class and grade.

CBOT Rulebook
Chapter 14B. Mini-Sized Wheat Futures

14B05. LOCATION DIFFERENTIALS

In accordance with the provisions of Rule 14B06., wheat for shipment from regular facilities located within the Chicago Switching District, the Burns Harbor, Indiana Switching District, on the Ohio River, or the Toledo, Ohio Switching District may be delivered in satisfaction of minisized Wheat futures contracts at contract price, subject to the differentials for class and grade outlined above. Wheat for shipment from regular facilities in the Northwest Ohio territory may be delivered in satisfaction of mini-sized Wheat futures contracts at a discount of [~~20~~] **10** cents per bushel, subject to the differentials for class and grade outlined above. Wheat for shipment from regular facilities on the Mississippi River may be delivered in satisfaction of mini-sized Wheat futures contracts at a premium of 20 cents per bushel, subject to the differentials for class and grade outlined above. Only No. 1 Soft Red Winter and No. 2 Soft Red Winter Wheat for shipment from regular facilities located within the St. Louis-East St. Louis and Alton Switching districts may be delivered in satisfaction of mini-sized Wheat futures contracts at a premium of 10 cents per bushel over contract price, subject to the differentials for class and grade.