



C.F.T.C.
OFFICE OF THE SECRETARIAT
2010 SEP 17 PM 4 40

September 17, 2010

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

**RE: CBOT Rules 10C03, 11D03, 14C03 and 16C03
 Settlement Procedures during the Final Month of Clearing for Corn,
 Wheat, and Soybean Calendar Swaps and Ethanol Forward Month
 Swaps.
 CBOT Submission No. 10-262**

Dear Mr. Stawick:

The Board of Trade of the City of Chicago, Inc. ("CBOT" or "Exchange"), following feedback from multiple market participants, plans to change the settlement procedures during the last month of clearing for the following cleared-only products: Corn Calendar Swaps; Soybean Calendar Swaps; Wheat Calendar Swaps; and Ethanol Forward Month Swaps. Final settlement will not be affected.

The final settlement price for Corn, Soybean, and Wheat Calendar Swaps and for Ethanol Forward Month Swaps is the average of the settlement prices for the corresponding futures contract during the final month of clearing. For example, the final settlement price for a July Corn calendar swap is the average of the settlement prices for the July Corn futures contract during the month of June. Also, during the final month of clearing, the settlement price for these calendar swaps is a cumulative average. For example, on the fifth business day in June, the settlement price for a July calendar swap is the average of the settlement prices for the corresponding futures contract over those five business days.

Currently, market makers in these swaps hedge their positions with opposite positions in the corresponding futures contracts. As a calendar swap moves into its last month of clearing, the market maker will begin to unwind its hedged futures positions to mimic the averaging process used with the calendar swap. A price discrepancy arises because the calendar swap is priced differently than the value of the hedge portfolio during the averaging process.

For example, suppose a market maker is short 20 July Corn calendar swaps and to hedge holds 20 long July Corn futures positions. To replicate the averaging process used in July Corn calendar swap settlements, the market maker plans to liquidate one (1) Corn futures contract at the close each business day in June. Suppose further that July Corn futures settle at \$4.00, \$4.10, and \$4.20 respectively on the first three business days in June. On that third business day under current settlement procedures, the Corn calendar swap's daily settlement price would be \$4.10 (average of \$4.00, \$4.10, and \$4.20). The market maker would have offset futures contracts at \$4.00, \$4.10, and \$4.20 for an average of \$4.10. However, he would still hold 17

futures contracts with a current value of \$4.20. The value of the liquidated positions and the hedge portfolio would be \$4.185 which in this case differs from the calendar swap settlement price of \$4.10. This method creates an artificial price difference.

To address this issue, settlement prices for Corn, Soybean, Wheat Calendar Swaps, and Ethanol Forward Month Swaps during the last month of clearing shall be weighted by the current corresponding settlement price over the number of days remaining during the settlement month. For example, assume 20 trading days in the month of June and settlement on the first business day in June in the corresponding futures contract of \$4.00. This results in a July calendar swap settlement of:

$$4.00 * \frac{20}{20} = \$4.00$$

On the second business day in June assume the corresponding futures contract settles at \$4.10. The calendar swap settles at:

$$\left(4.00 * \frac{1}{20}\right) + \left(4.10 * \frac{19}{20}\right) = \$4.095$$

On the third business day in June, the corresponding futures contract settles at \$4.20. The calendar swap settles at:

$$\left(\frac{4.00 + 4.10}{2} * \frac{2}{20}\right) + \left(4.20 * \frac{18}{20}\right) = \$4.185$$

Under current settlement procedures, calendar swap settlements on these first three days would have been \$4.00, \$4.05, and \$4.10, respectively.

Under the new settlement procedures, the settlement price is weighted more heavily to the most recent settlement price of the corresponding futures contract early in the final month of clearing. However, later in the final clearing month, the settlement price is weighted more heavily to the running average price of the corresponding futures contract. At final settlement the result under this new settlement process is exactly consistent with current practice, i.e., final settlement is the average price of the corresponding futures settlement prices during the final month of clearing for the calendar swap.

This change in settlement procedures improves the hedging effectiveness underlying these swaps without changing their character as an average (Asian) style product. Implementation is planned during the month of October 2010 with the November 2010 Corn, Soybean, and Wheat Calendar Swaps and the October 2010 Ethanol Forward Month Swap being the first contracts settled with these new procedures during their final month of clearing.

Mr. David Stawick
September 17, 2010
Page 3 of 7

If you require any additional information regarding this action, please contact Fred Seamon, at 312-634-1587 or via e-mail at Fred.Seamon@CMEGroup.com or me at 312-648-5422. Please reference our CBOT Submission No. 10-262 in any related correspondence.

Sincerely,

/s/ Stephen M. Szarmack
Regulatory Counsel

8477

Additions are bold and underlined

~~[Deletions are bracketed with strikethrough]~~

**Chapter 10C
Corn Calendar Swaps (Clearing Only)**

10C03. FINAL SETTLEMENT PRICE AND DAILY SETTLEMENT DURING THE LAST MONTH OF TRADING

The final settlement price shall be determined on the final settlement day. The final settlement price shall be the cumulative average of the settlement prices for the corresponding CBOT Corn futures contract for each clearing day in the month prior to the contract month. For example, final settlement for a July Corn Calendar Swap would be the cumulative average of the daily settlement prices for the July CBOT Corn futures contract during the month of June. ~~[Daily settlement during the last month of clearing shall be the cumulative average of the settlement prices for the corresponding CBOT Corn futures contract for each clearing day in the month prior to the contract month. For example, the daily settlement for a July Corn Calendar Swap on the 5th clearing day in June would be the average settlement price over the first 5 clearing days in June of the July Corn futures contract. On the 6th clearing day, the daily settlement would be the average settlement price over the first 6 clearing days.]~~

Daily settlement during the last month of clearing shall be the cumulative average of each settlement price of the corresponding Corn futures contract weighting the current day's settlement price across each remaining clearing day. For example, the calculation of the daily settlement price for a July Corn Calendar Swap on the third business day in June in a June with 20 clearing days and with respective settlement prices for the corresponding July Corn futures at \$4.00, \$4.10, and \$4.20 per bushel would weight the average of \$4.00 and \$4.10 (\$4.05) at 2/20ths and weight the current day's settlement of \$4.20 at 18/20ths. In this example, settlement on the third day of clearing in the final month of clearing would be \$4.185 per bushel.

**Chapter 11D
Soybean Calendar Swaps (Clearing Only)**

11D03. FINAL SETTLEMENT PRICE AND DAILY SETTLEMENT DURING THE LAST MONTH OF TRADING

The final settlement price shall be determined on the final settlement day. The final settlement price shall be the cumulative average of the settlement prices for the corresponding CBOT Soybean futures contract for each clearing day in the month prior to the contract month. For example, final settlement for a July Soybean

~~Calendar Swap would be the cumulative average of the daily settlement prices for the July CBOT Soybean futures contract during the month of June. [Daily settlement during the last month of clearing shall be the cumulative average of the settlement prices for the corresponding CBOT Soybean futures contract for each clearing day in the month prior to the contract month. For example, the daily settlement for a July Soybean Calendar Swap on the 5th clearing day in June would be the average settlement price over the first 5 clearing days in June of the July Soybean futures contract. On the 6th clearing day, the daily settlement would be the average settlement price over the first 6 clearing days.]~~

Daily settlement during the last month of clearing shall be the cumulative average of each settlement price of the corresponding Soybean futures contract weighting the current day's settlement price across each remaining clearing day. For example, the calculation of the daily settlement price for a July Soybean Calendar Swap on the third business day in June in a June with 20 clearing days and with respective settlement prices for the corresponding July Soybean futures at \$9.00, \$9.10, and \$9.20 per bushel would weight the average of \$9.00 and \$9.10 (\$9.05) at 2/20ths and weight the current day's settlement of \$9.20 at 18/20ths. In this example, settlement on the third day of clearing in the final month of clearing would be \$9.185 per bushel.

Chapter 14C Wheat Calendar Swaps (Clearing Only)

14C03. FINAL SETTLEMENT PRICE AND DAILY SETTLEMENT DURING THE LAST MONTH OF TRADING

The final settlement price shall be determined on the final settlement day. The final settlement price shall be the cumulative average of the settlement prices for the corresponding CBOT Wheat futures contract for each clearing day in the month prior to the contract month. For example, final settlement for a July Wheat Calendar Swap would be the cumulative average of the daily settlement prices for the July CBOT Wheat futures contract during the month of June. ~~[Daily settlement during the last month of clearing shall be the cumulative average of the settlement prices for the corresponding CBOT Wheat futures contract for each clearing day in the month prior to the contract month. For example, the daily settlement for a July Wheat Calendar Swap on the 5th clearing day in June would be the average settlement price over the first 5 clearing days in June of the July Wheat futures contract. On the 6th clearing day, the daily settlement would be the average settlement price over the first 6 clearing days.]~~

Daily settlement during the last month of clearing shall be the cumulative average of each settlement price of the corresponding Wheat futures contract weighting the current day's settlement price across each remaining clearing

day. For example, the calculation of the daily settlement price for a July Wheat Calendar Swap on the third business day in June in a June with 20 clearing days and with respective settlement prices for the corresponding July Wheat futures at \$5.00, \$5.10, and \$5.20 per bushel would weight the average of \$5.00 and \$5.10 (\$5.05) at 2/20ths and weight the current day's settlement of \$5.20 at 18/20ths. In this example, settlement on the third day of clearing in the final month of clearing would be \$5.185 per bushel.

Chapter 16C
Denatured Fuel Ethanol Forward Month Swaps
(Clearing Only)

16C03. FINAL SETTLEMENT PRICE AND DAILY SETTLEMENT DURING THE LAST MONTH OF TRADING

The final settlement price shall be determined on the final settlement day. The final settlement price shall be the cumulative average of the settlement prices for the Denatured Fuel Ethanol futures contract following the Denatured Fuel Ethanol Forward Month Swap contract month for each clearing day in the Denatured Fuel Ethanol Forward Month Swap contract month.

For example, final settlement for a May Denatured Fuel Ethanol Forward Month Swap would be the cumulative average of the daily settlement prices for the June Denatured Fuel Ethanol futures contract during the month of May.

~~[Daily settlement during the last month of clearing shall be the cumulative average of the settlement prices for the CBOT Denatured Fuel Ethanol futures contract following the Denatured Fuel Ethanol Forward Month Swap contract month for each clearing day in the last month of clearing the Denatured Fuel Ethanol Forward Month Swap contract.~~

~~For example, the daily settlement for a May Denatured Fuel Ethanol Forward Month Swap on the 5th clearing day in May would be the average settlement price over the first 5 clearing days in May of the June Denatured Fuel Ethanol futures contract. On the 6th clearing day, the daily settlement would be the average settlement price over the first 6 clearing days.]~~

Daily settlement during the last month of clearing shall be the cumulative average of each settlement price of the corresponding CBOT Denatured Fuel Ethanol futures contract following the Denatured Fuel Ethanol Forward Month Swap contract month weighting the current day's settlement price across each remaining clearing day.

For example, the calculation of the daily settlement price for a May Denatured Fuel Ethanol Forward Month Swap on the third business day in May in a May with 20 clearing days and with respective settlement prices for the corresponding June

Mr. David Stawick
September 17, 2010
Page 7 of 7

Denatured Fuel Ethanol futures at \$2.00, \$2.10, and \$2.20 per gallon would weight the average of \$2.00 and \$2.10 (\$2.05) at 2/20ths and weight the current day's settlement of \$2.20 at 18/20ths. In this example, settlement on the third day of clearing in the final month of clearing would be \$2.185 per bushel.