



A CME/Chicago Board of Trade/NYMEX Company

## Special Executive Report

S-5018

September 29, 2009

### **EXCHANGE PROPOSES VARIABLE STORAGE RATES IN WHEAT**

**Pending CFTC approval, the Exchange plans to implement Variable Storage Rates (VSR) on CBOT Wheat futures contracts effective with the September 2010 contract.**

The Research and Product Development (RPD) Department in cooperation with market participants and regulators developed the idea of variable storage rates to address convergence issues in the Wheat futures market and has been evaluating this concept since last August. Following the July and September 2009 expirations, which demonstrated significant improvement in convergence due to the seasonal storage rates, expanded delivery territory and tighter vomitoxin standard implemented in July 2009, we conducted additional market research on variable storage rates to further enhance market performance.

In August 2009, RPD conducted a broad industry survey to validate the variable storage rate concept and found strong support for the concept. The vast majority of firms responding to the survey believe variable storage rates will result in significantly improved convergence and that the advantages of implementing the concept outweigh the disadvantages.

The Exchange maintains its policy of not implementing contract changes that have material effects on prices on contracts with open interest. Since this change has the potential to impact pricing of calendar spreads, it is targeted for implementation for the first spread that is not currently at financial full carry. Based on settlement prices on September 28, 2009, and assuming an interest rate of 3-Month LIBOR plus 200 basis points, the July10 / Sep10 spread and the Sep10 / Dec10 spread are the first spreads trading below financial full carry.

The Exchange recommends implementation with the September 2010 contract, pending CFTC approval. The effective daily storage rate at that time will be 26.5/100's of one cent per bushel per day. The Sep10 / Dec10 spread will be measured relative to full carry from July 19 through August 27, 2010. Should this spread average 85 percent of full carry or greater during this time, the daily storage rate will increase to 36.5/100's of one cent per bushel on September 18, 2010. Should this spread average 50 percent of full carry or less during this time, the daily storage rate will decrease to 16.5/100's of one cent per bushel on September 18, 2010. If this spread averages above 50 percent of full carry and below 85 percent of full carry, the daily storage charge will remain unchanged at 26.5/100's of one cent per bushel on September 18, 2010.

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#### **14108. PREMIUM CHARGES**

To be valid for delivery on futures contracts, all certificates covering wheat under obligation for shipment must indicate the applicable premium charge. No certificate shall be valid for delivery on futures contracts unless the premium charges on such wheat shall have been paid up to and including the 18th calendar day of the preceding month, and such payment is endorsed on the certificate. Unpaid accumulated premium charges at the posted rate applicable to the facility shall be allowed and credited to the buyer by the seller up to and including date of delivery.

**The premium charges on Wheat shall be determined prior to the nearby contract delivery period. The Exchange shall measure the nearby spread relative to financial full carry each business day from the 19<sup>th</sup> calendar day of the delivery month of the contract that expires prior to the nearby contract until the last Friday which precedes by at least two business days the last business day of the month preceding the nearby contract delivery month. For example, for a September expiration, the Exchange would measure the September – December spread relative to financial full carry each business day from July 19 until the last Friday in August which precedes by at least two business days the last business day in August. Financial full carry will be determined by the following formula:**

$$N * \left[ \left( \frac{i}{360} \right) * FP + P \right]$$

**Where:**

**N = Number of calendar days from the first delivery day in the nearby contract to the first delivery day in the contract that follows the nearby contract**

**i = 3-Month LIBOR rate + 200 basis points**

**FP = Settlement price for the nearby futures contract**

**P = Current daily premium charge**

**The percentage of the nearby spread to financial full carry is calculated each business day during the calculation period and a running average of each of these daily values is calculated. At the end of the calculation period (the last Friday which precedes by at least two business days the last business day of the month preceding the nearby contract delivery month), should the running average carry be 85 percent of financial full carry or greater, then the daily premium charge shall increase 10/100's of one cent per bushel on the 18<sup>th</sup> calendar day of the nearby contract delivery month. Should the running average carry be 50 percent of financial full carry or less, then the daily premium charge shall decrease 10/100's of one cent per bushel on the 18<sup>th</sup> calendar day of the nearby contract delivery month.**

**Premium charges shall not be reduced below 16.5/100's of one cent per bushel per day.**

~~[The premium charges on Wheat shall not exceed 26.5/100 of one cent per bushel per day during the period from July 18 through December 17. The premium charges on Wheat shall not~~

~~exceed 16.5/100 of one cent per bushel per day during the period from December 18 through July 17.]~~

#### **14B08. PREMIUM CHARGES**

To be valid for delivery on futures contracts, all certificates covering mini-sized wheat under obligation for shipment must indicate the applicable premium charge. No certificate shall be valid for delivery on futures contracts unless the premium charges on such wheat shall have been paid up to and including the 18th calendar day of the preceding month, and such payment is endorsed on the certificate. Unpaid accumulated premium charges at the posted rate applicable to the facility shall be allowed and credited to the buyer by the seller up to and including date of delivery.

The premium charges on mini-sized Wheat shall be determined prior to the nearby contract delivery period. The Exchange shall measure the nearby spread relative to financial full carry each business day from the 19<sup>th</sup> calendar day of the delivery month of the contract that expires prior to the nearby contract until the last Friday which precedes by at least two business days the last business day of the month preceding the nearby contract delivery month. For example, for a September expiration, the Exchange would measure the September – December spread relative to financial full carry each business day from July 19 until the last Friday in August which precedes by at least two business days the last business day in August. Financial full carry will be determined by the following formula:

$$N * \left[ \left( \frac{i}{360} \right) * FP + P \right]$$

Where:

N = Number of calendar days from the first delivery day in the nearby contract to the first delivery day in the contract that follows the nearby contract

i = 3-Month LIBOR rate + 200 basis points

FP = Settlement price for the nearby futures contract

P = Current daily premium charge

The percentage of the nearby spread to financial full carry is calculated each business day during the calculation period and a running average of each of these daily values is calculated. At the end of the calculation period (the last Friday which precedes by at least two business days the last business day of the month preceding the nearby contract delivery month), should the running average carry be 85 percent of financial full carry or greater, then the daily premium charge shall increase 10/100's of one cent per bushel on the 18<sup>th</sup> calendar day of the nearby contract delivery month. Should the running average carry be 50 percent of financial full carry or less, then the daily premium charge shall decrease 10/100's of one cent per bushel on the 18<sup>th</sup> calendar day of the nearby contract delivery month.

**Premium charges shall not be reduced below 16.5/100's of one cent per bushel per day.**

~~[The premium charges on mini-sized Wheat shall not exceed 26.5/100 of one cent per bushel per day during the period from July 18 through December 17. The premium charges on mini-sized Wheat shall not exceed 16.5/100 of one cent per bushel per day during the period from December 18 through July 17.]~~