



Special Executive Report

S-6245

May 25, 2012

New Settlement Methodology for CBOT Agricultural Futures Effective June 25, 2012

As previously announced in SER-6144, CME Group is modifying the methodology used to establish settlement prices in the following CBOT agricultural futures: Corn, Wheat, Oats, Rough Rice, Soybeans, Soybean Meal and Soybean Oil. The new methodology, described in further detail below, will incorporate both Floor-based and Globex-based activity into the volume-weighted price calculations that are used to determine settlement prices. Pending all relevant regulatory review periods, the new methodology will be implemented on June 25, 2012.

Settlement Procedures

- The designated lead month will be settled to the volume-weighted average price (“VWAP”) of all outright trades executed in the pit and on Globex from 13:14:00-13:15:00 Central Time (“CT”).
- In the event a settlement calculation yields a value that is the midpoint between two ticks, the settlement price will be rounded to the tick closer to the prior day’s settlement price.
- All months other than the designated lead month will settle chronologically based upon the VWAP of calendar spread transactions executed in the pit and on Globex from 13:14:00-13:15:00. For example:

In a March, May, July listing cycle in which the March contract is the designated lead month, the May contract will settle based on the VWAP of the March/May spreads and the July contract will settle based on the VWAPs of the March/July and May/July spreads.

In a July, September, December listing cycle in which the December contract has become the designated lead month, the July contract will settle based on the VWAP of the July/December spreads, and the September contract will settle based on the VWAP of the July/September and September/December spreads.

- In the absence of relevant calendar spread trades, the midpoint of the calendar spreads' best bid/ask on the Floor and on Globex will be used to value the spread, provided that the width of the bid/ask is no greater than the pre-defined bid/ask width threshold established for that product.
- In the absence of relevant calendar spread markets that meet the bid/ask threshold, the net change of the previous contract month will be applied to determine the contract's settlement price. However, if a contract is initially settled to the net change of the previous month and there are posted markets at 13:15 in one or more calendar spreads with that contract as the nearby leg, then the settlement price will be adjusted on a subsequent iteration based upon the midpoint of the bid/ask of those calendar spreads, provided they meet the bid/ask threshold.
- **Expiration Procedures:** On the last trading day of an expiring contract, the settlement period for the expiring contract will be 12:00:00-12:01:00, and the contract's final settlement price will be the VWAP of all outright trades executed in the pit and on Globex during that period. In the absence of trading during the settlement period, the contract will settle to the last trade or a subsequent standing better bid or offer.
- Notwithstanding the foregoing, in the event that the aforementioned calculations cannot be made or if designated CME Group settlement staff, in their sole discretion, determine that the calculations yield results that are not representative of the fair value of the contract, staff shall establish an alternative settlement price.

Additional Notes Regarding Settlement Protocols

- The designated lead month in each product shall be determined by the Exchange. As is presently the case, the designated lead month for a product is generally the most active month and will shift as open interest and volume migrate during the contract lifecycle. Advance notification of changes to the designated lead month will be provided to the marketplace.
- Soybean Oil and Soybean Meal presently close on a month-by-month rotation that begins after 13:15. Beginning June 25, the settlement period for Soybean Oil and Soybean Meal will be 13:14:00-13:15:00, and only trades and bid/ask information during that period will be used in the calculation of daily settlements. There will continue to be a closing rotation after 13:15 for outright contract months other than the designated lead month, and outright market on close orders in those contract months that are entered for execution in the open outcry venue will continue to be executed during the rotation. However, activity during the rotation will not impact the determination of settlement prices.

- Consistent with current practice, on option expiration days (including Crush option expiration days), when the designated lead month futures contract is not the expiring month, both the lead month and the expiring month will settle based on the VWAP of outright activity during the settlement period from 13:14:00-13:15:00. The settlements will be based upon the VWAP of both outright pit activity and outright Globex activity during that period.
- As noted above, a bid/ask width threshold has been established for each product that will determine, based on the bid/ask in the pit and on Globex at 13:15, whether a specific calendar spread may be used in the derivation of settlements in the absence of transactions. The table below details the designated bid/ask thresholds.

Product	Maximum Spread Bid/Ask	Product	Maximum Spread Bid/Ask
Corn	12 ticks	Soybeans	20 ticks
Wheat	20 ticks	Soybean Meal	30 ticks
Rice	40 ticks	Soybean Oil	30 ticks
Oats	40 ticks		

CME Group settlement staff reserves the right, in its sole discretion, to ignore bids or offers that are not transparently exposed for a sufficient period of time prior to 13:15.

- There will continue to be a three-minute post close session in the open-outcry venue that will begin as soon as practicable following the conclusion of regular trading hours. During the post close session, trades may be executed at any price within the daily price limits for the contract. Spread transactions executed during the post close session also may occur at any price, provided that all legs of the spread are priced within the daily price limits. Activity during the post close session will not impact the determination of settlement prices.

An example of the application of the new settlement methodology appears on the following pages.

Questions regarding this Special Executive Report may be directed to the CME Global Command Center at 312.456.2391 or in Europe at 44.207.623.4708.

For media inquiries concerning this Special Executive Report, please contact CME Group Corporate Communications at 312.930.3434 or news@cme.com.

Example of New CBOT Agricultural Futures Settlement Methodology

Lead Month – March 2012

Settled based on outright trades on the Floor and CME Globex (blended VWAP)

Floor VWAP: 400 contracts trade at a VWAP of \$6.75½

Globex VWAP: 1000 contracts trade at a VWAP of \$6.76

March 2012 settlement: \$6.75¾ $((400 \times \$6.75\frac{1}{2}) + (1,000 \times \$6.76)) / 1400$

Second Month – May 2012

Settled based on March/May trades on the Floor and CME Globex (blended VWAP)

Floor VWAP: 600 spreads trade at a VWAP of -12¾ cents

Globex VWAP: 300 spreads trade at a VWAP of -13 cents

Blended VWAP: -12¾ cents = $((600 \times -12\frac{3}{4}) + (300 \times -13)) / 900$

May 2012 settlement: \$6.88½ $\$6.75\frac{3}{4} - (-12\frac{3}{4})$

Third month – July 2012 (Initial)

Assume no March/July or May/July spreads were executed between 13:14 and 13:15, and that there was no bid/ask in those spreads less than or equal to the 12 tick bid/ask threshold applicable to Corn.

Initial settlement is therefore based on the net change of the previous month, May 2012, which is applied to the prior day's July settlement.

May 2012 Net Change = +1¼

July 2012 Prior Day's Settlement = \$7.00

Initial July 2012 settlement: \$7.01¼ $\$7.00 + 1\frac{1}{4}$

Fourth month – September 2012

Settled based on the blended VWAP of Mar/Sep, May/Sep and Jul/Sep trades on the Floor and CME Globex

Floor Mar/Sep VWAP: 40 spreads trade at a VWAP of $-55\frac{1}{4}$ cents

Globex Mar/Sep VWAP: 10 spreads trade at a VWAP of $-55\frac{1}{2}$ cents

Blended Mar/Sep VWAP: $-55\frac{1}{4}$ cents = $((40 \times -55\frac{1}{4}) + (10 \times -55\frac{1}{2})) / 50$

Implied Sep price from Mar/Sep spread: $\$7.31 = \$6.75\frac{3}{4} - (-55\frac{1}{4})$

Floor May/Sep VWAP: 15 spreads trade at a VWAP of $-42\frac{1}{2}$ cents

Globex May/Sep VWAP: 15 spreads trade at a VWAP of -43 cents

Blended May/Sep VWAP: $-42\frac{3}{4}$ cents = $((15 \times -42\frac{1}{2}) + (15 \times -43)) / 30$

Implied Sep price from May/Sep spread: $7.31\frac{1}{4} = \$6.88\frac{1}{2} - (-42\frac{3}{4})$

No July/Sep spreads traded on the Floor or on CME Globex

September 2012 settlement: $\$7.31$ $((50 \times \$7.31) + (30 \times \$7.31\frac{1}{4})) / 80 = 7.31$

Reassessment of July 2012 Settlement

Because the July 2012 contract initially settled to the net change of the May 2012, a second review is performed which examines the bid/ask in spreads in which July was the nearby leg of the spread.

Globex July/Sep spread bid/ask at 13:14:59.999: -32/-30 $\frac{3}{4}$

Floor July/Sep spread bid/ask at 13:15: -32 $\frac{1}{4}$ /-31

Best Bid/Ask: -32/-31

Sep 2012 settled \$7.31. Midpoint of July/Sep spread market is -31 $\frac{1}{2}$.

July 2012 settlement revised from $\$7.01\frac{1}{4}$ to $\$6.99\frac{1}{2}$: $7.31 - 31\frac{1}{2}$

The balance of the listed months would follow the methodology outlined above.