



## Special Executive Report

S-5758

May 11, 2011

### REVISED CBOT CORN PRICE LIMITS PROPOSAL

After listening to concerns from segments of the corn market, the Exchange has revised its proposal to increase price limits in CBOT Corn futures and options. The Exchange is now proposing, pending CFTC approval, to increase price limits in CBOT Corn futures and options to \$0.40 per bushel per day expandable only once to \$0.60 per bushel per day when at least two contracts close at limit bid or limit offer on the previous trading day. The previous proposal sought to increase price limits to \$0.50 per bushel per day expandable to \$0.75 and then to \$1.10.

The Exchange has received a number of opposing views from some market segments to its proposal to increase daily price limits in Corn futures and options from \$0.30 per bushel per day to \$0.50. Opposition generally falls under two main concerns: higher margin requirements and volatility. Some market participants have voiced concerns relative to financial commitments around higher margin requirements, while others have concerns about continuing normal business functions should higher price limits result in higher market volatility. Other market participants continue to support higher price limits due to higher corn prices and volatility and avoiding the loss of price discovery and transparency when futures are locked limit.

History does not show increases in price limits result in higher margins. Of the last three price limit increases in Corn, margins have not moved higher in the two months following implementation and have actually moved lower around one month following implementation. However, since maximum margin requirements are related to price limits, higher price limits could result in higher margin requirements under highly volatile market conditions. Thus, the Exchange seriously considered feedback from market participants concerned about increased capital/credit needs related to higher margin requirements while also continuing to consider the loss of price discovery and transparency when futures are locked limit.

The result of this consideration is to revise the current proposal. The Exchange now proposes that, pending CFTC approval, the daily price limit in Corn futures and options be increased from \$0.30 per bushel per day to \$0.40 per bushel per day, which is expandable one time by 50% to \$0.60, when at least two contracts close at limit bid or limit offer on the previous trading day.

The Exchange believes this revised proposal strikes a reasonable compromise between firms with financial concerns and broader market concerns over price discovery and price transparency.

The Exchange intends to implement the increased price limits shortly following CFTC approval.

If you require any additional information, please contact Randy Shao at 312-648-3795 or via e-mail at [Renyuan.Shao@cmegroup.com](mailto:Renyuan.Shao@cmegroup.com); or Fred Seamon at 312-634-1587 or via e-mail at [Fred.Seamon@cmegroup.com](mailto:Fred.Seamon@cmegroup.com); .

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

**CBOT Rulebook**  
**Chapter 10. Corn Futures**

**Rule 10102. TRADING SPECIFICATIONS**

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**10102.D. Daily Price Limits**

There shall be no trading in corn futures at a price more than ~~[\$0.30]~~ **\$0.40** per bushel (~~[\$1,500]~~ **\$2,000** per contract) above or below the previous day's settlement price. Should two or more corn futures contract months within the first five listed non-spot contracts (or the remaining contract month in a crop year) close at limit bid or limit offer, the daily price limits for all contract months shall increase to ~~[\$0.45]~~ **\$0.60** per bushel the next business day. ~~[Should two or more corn futures contract months within the first five listed non-spot contracts (or the remaining contract month in a crop year) close at limit bid or limit offer while price limits are \$0.45 per bushel, daily price limits for all contract months shall increase to \$0.70 per bushel the next business day. If price limits are \$0.70 per bushel and no corn futures contract month closes limit bid or limit offer, daily price limits for all contract months shall revert back to \$0.45 per bushel the next business day.]~~ If price limits are ~~[\$0.45]~~ **\$0.60** per bushel and no corn futures contract month closes limit bid or limit offer, daily price limits for all contract months shall revert back to ~~[\$0.30]~~ **\$0.40** per bushel the next business day. There shall be no price limits on the current month contract on or after the second business day preceding the first day of the delivery month.