



Special Executive Report

DATE: January 30, 2023
SER#: 9121
SUBJECT: Amendments to the Variable Storage Rate (“VSR”) Mechanism for the Wheat, Mini-Sized Wheat, KC HRW Wheat, and Mini-Sized KC HRW Wheat Futures Contracts Commencing with the May – July VSR Observation Period

Effective February 14, 2023, and pending all relevant Commodity Futures Trading Commission (“CFTC” or “Commission”) regulatory review periods, The Board of Trade of the City of Chicago, Inc. (“CBOT” or “Exchange”) will amend the interest rate used in the Variable Storage Rate (“VSR”) mechanism¹ in the Wheat, Mini-Sized Wheat, KC HRW Wheat, and Mini-Sized KC HRW Wheat Futures contracts as noted in the table below (collectively, the “Contracts”) commencing with the May – July VSR observation period (collectively, the “Rule Amendments”).

Contract Title	CME Globex Code	CME ClearPort Code	Rulebook Chapter
Wheat Futures	ZW	W	14
Mini-Sized Wheat Futures	XW	YW	14B
KC HRW Wheat Futures	KE	KW	14H
Mini-Sized KC HRW Wheat Futures	MKC	MKC	14N

Specifically, the Exchange plans to start measuring financial full carry in the VSR mechanism using the 3M Term Secured Overnight Financing Rate (“SOFR”) plus 221.25 basis points rather than the 3M U.S. Dollar London Interbank Offered Rate (“LIBOR”) plus 200 basis points effective trade date Monday, March 20, 2023 for the May – July VSR observation period.

CBOT designates a maximum storage charge that an approved futures delivery elevator may charge holders of its outstanding shipping certificates of the Contracts. In order to encourage price convergence under certain conditions, maximum storage charges increase or decrease based on observed wheat price spreads relative to financial full carry, which is dependent on the general cost of money for agricultural handlers.

The mechanism that adjusts the maximum storage rate that an approved futures delivery elevator may charge holders of its outstanding shipping certificates, the VSR mechanism. Fundamental to the reasoning behind VSR is the concept of financial full carry, which represents the cost to take delivery of a shipping certificate and “carry” that certificate into the next delivery period. Financial full carry is currently calculated using 3-Month U.S. Dollar LIBOR plus 200 basis points to represent the cost of money for agricultural handlers.

The LIBOR rate is currently being phased out and the longest-surviving LIBOR settings, its Overnight, 1-month, 3-month, 6-month, and 12-month tenors, will cease publication in a manner that is “representative” of the underlying market and economic reality each intends to measure after June 30, 2023. The Federal Reserve Bank of New York’s Alternative Reference Rate Committee (ARRC) identified the Secured Overnight Financing Rate (SOFR) as the short-term interest rate (STIR) that, in its consensus view, would

¹ A primer on the VSR mechanism is available at https://www.cmegroup.com/trading/agricultural/files/pm2307-grains-oilseeds_v2_web.pdf.

represent best practice for use as the underlying reference in new U.S. dollar interest rate derivatives and other U.S. dollar-denominated financial contracts in their June 2017 meeting. The Rule Amendments are designed to take place as a result of the upcoming [cessation of the LIBOR](#) benchmark. The Exchange conducted analysis comparing the daily values of Chicago Mercantile Exchange Inc. ("CME") Term Three-Month SOFR Index with the 3-Month U.S. Dollar LIBOR rate each day from January 3, 2019, to June 2, 2022. Among these 892 observations, the mean difference in the two rates was 0.2125. Further analysis demonstrated that had the Exchange used CME Term Three-Month SOFR Index + 221.25 basis points instead of 3-Month U.S. Dollar LIBOR + 200 basis points in its VSR calculation, at no point since the inception of the CME Term Three-Month SOFR Index would VSR have resulted in a different storage rate. In other words, using a SOFR-based rate instead of the preexisting LIBOR-based rate in CBOT's VSR mechanism would not have changed any storage and carry outcome since 2019.

Additional details regarding the proposal and the related Rule Amendments may be viewed [HERE](#).

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