Special Executive Report

S-5285 **June 22, 2010**

LETTER OF CREDIT AND BOND STANDARDS

The Chicago Board of Trade (CBOT) has adopted a new rule on "Failure to Load Out" in Chapter 7 ("Regular Warehouses and Shipping Stations') of its Rulebook, and amended its Letter of Credit and Bond Standards, also in Chapter 7. These changes are effective immediately.

Because shipping certificates do not require issuers to have the physical commodity in storage, the exchange requires issuers of shipping certificates to post collateral with the exchange before the certificate may be registered. This collateral may be in the form of cash, letters of credit, US Treasuries, or USDA warehouse receipts as determined by the exchange. However, despite this posted collateral, the Commodity Futures Trading Commission (CFTC) does not currently allow shipping certificates to be used as collateral in securing receivables in a Futures Commission Merchant's (FCM) capital computation. The changes announced here are expected to provide the CFTC with the security needed to allow shipping certificates to be used as collateral in securing receivable in an FCM's capital computation.

The exchange has incorporated a new rule that provides liquid collateral to any party adversely affected by a shipper's default. If a letter of credit is on deposit with the exchange to collateralize a shipping certificate that a shipper has defaulted on, the exchange will call on that letter of credit and distribute the resulting cash to the affected party.

The exchange has amended its letter of credit interpretation that allows for collateral to fall to 80% of full value. Under the amendments provided here, the exchange will now require initial collateral of at least 110% of the value of the certificate at the time of its registration. Thereafter, the value would be allowed to fall to 100% before the shipper is required to provide additional capital to return the deposit to at least 110% of the current value of the shipping certificate.

Regular facilities with registered shipping certificates that pre-date these changes and posted collateral below the 100% full value level may continue to maintain the current amount of deposit. However, should the value of the current deposit fall below 80% of market value or if the facility registers a new shipping certificate, then the facility will be required to increase the collateral deposit to 110% of full value.

New Rule 703.D. and the revised interpretation to letter of credit standards appear below with additions in bold and underscored and deletions overstruck.

Questions may be directed to Joe Hawrysz in Market Regulation (212-299-2920 or Joe.Hawrysz@CMEGroup.com) or Anne Bagan in the Audit Department (312-930-3140 or Anne.Bagan@CMEGroup.com).

703.D. Failure to Load Out

In the event a regular facility fails to fulfill its specific load out requirements pursuant to Rule 703 C. the Exchange shall guarantee that the affected party receives the full current market value of the failed load out in the form of cash or USDA Warehouse receipts. In the event the failed party receives cash, full market value will be defined by the front future contract month settlement price on the day of failure of load out. In the event the failed party receives USDA warehouse receipts, the party will receive equivalent quantity of grain.

Notwithstanding any provision of the rules, the Exchange has no obligation to any party relating to a failure to fulfill a delivery obligation unless it is notified by the party that a failure occurred, as soon as possible, but in no event later than the business day following the day the delivery obligation was to have been fulfilled according to the rules of the CBOT.

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1. LETTER OF CREDIT STANDARDS FOR CORN, OATS, WHEAT, SOYBEANS, DISTILLERS' DRIED GRAINS AND ETHANOL

CBOT Rule 703 and other CBOT rules require, as a condition for regularity, that issuers of shipping certificates for certain commodities must file a bond and/or designated letter of credit with sufficient sureties in such sum and subject to such conditions as the Exchange may require. The Exchange has determined that the following requirements shall apply to such letters of credit.

a. The regular firm is required to secure a letter of credit, naming the Board of Trade of the City of Chicago, Inc. as its beneficiary, for ~~100%~~ **110%** of the current market value of the shipping certificates issued. The address of the primary office for the presentation of demand must be located in the United States.

b. The regular firm is required to monitor the value of the outstanding certificates issued using the futures front month settlement price. Whenever the amount of the letter of credit falls below ~~80%~~ **100%** of the current market value for certificates issued, the regular firm must increase the amount of the letter of credit, or obtain a new letter of credit, for an amount equal to ~~100%~~ **110%** of the current market value of outstanding certificates, by 5:00 p.m. (Chicago Time) on the first business day following the relevant futures settlement.