



## Special Executive Report

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S- 6260

June 1, 2012

### Launch of CBOT Black Sea Wheat Futures

Pending CFTC review, CME Group plans to launch CBOT Black Sea Wheat (BSW) futures for trade date June 6, 2012. The first contract expiration will be the September 2012 contract, which will expire on August 31, 2012. BSW futures are the culmination of over a year of work and hundreds of interactions with regional specific commercial grain firms, brokers, traders and government officials.

As global demand for wheat continues to rise, the world increasingly has turned to the Black Sea region to fulfill those needs. In 2011-12, wheat produced in the Black Sea region accounted for more than 20 percent of the global wheat export market. By 2021, the U.S. Department of Agriculture projects that number could increase to as much as 29 percent of the market. The region's resurgence as a major player in the world wheat trade – along with recent price volatility from regional weather events resulting in highly variable yields – has underscored a need that has been underserved to date: A truly representative pricing tool tied to the Black Sea wheat cash market.

The BSW futures contract will be for 136 metric tons, which is approximately 5,000 bushels for easy spread trade with CBOT Wheat futures. The contract will be priced in U.S. dollars and cents per metric ton, again facilitating easy spread trade with CBOT Wheat. The contract has FOB based physical delivery at designated ports in Russia, Ukraine, and Romania. Like other CBOT agricultural futures contracts, the BSW futures contract is designed to be predominately a risk management and price discovery tool. While the contract contains efficient delivery procedures consistent with cash market practices, the contract is not intended as a replacement or substitute for the cash market.

Trading hours will be 1:00 a.m. to 1:15 p.m. CT Sunday through Friday, which equates to approximately 9:00 a.m. to 9:15 p.m. in the Black Sea region depending on location. The BSW contract will trade exclusively on CME Globex and will be cleared by CME Clearing.

Attached are the BSW contract specifications. Additional information is available at <http://www.cmegroup.com/bsw>.

Please direct additional questions to Fred Seamon (312.634.1587 or [Fred.Seamon@cmegroup.com](mailto:Fred.Seamon@cmegroup.com)) in Chicago, Jeffrey Kuijpers (011 (44) 203-379-3729 or [Jeffrey.Kuijpers@cmegroup.com](mailto:Jeffrey.Kuijpers@cmegroup.com)) in London, or Alex Bobylov (011 (44) 203-379-3734 or [Alexandre.Bobylov@cmegroup.com](mailto:Alexandre.Bobylov@cmegroup.com)) with questions in Russian or Ukrainian.

## Chapter 33

### Black Sea Wheat Futures<sup>1</sup>

#### 33100. SCOPE OF CHAPTER

This chapter is limited in application to Black Sea Wheat futures. The procedures for trading, clearing, inspection, delivery and settlement not specifically covered herein or in Chapter 7 shall be governed by the general rules of the Exchange.

#### 33101. CONTRACT SPECIFICATIONS

The contract grade for delivery on futures contracts made under these Rules shall be bulk milling wheat which conforms to the following specifications:

Test Weight	minimum 76.0 kg/hl (as per ISO 7971-3)
Protein	minimum 11.5% (on DM basis as per ISO 20483)
Wet Gluten	minimum 23% (as per ISO 21415-2)
Falling Number	minimum 230 sec. (as per ISO 3093)
Moisture	maximum 14% (as per ISO 712)
Grain Impurities	maximum 8% (as per EN 15587)
Misc Impurities	maximum 2% (as per EN 15587)
Bug Damage (incl bug ridden grains)	maximum 1.5% (as per EC 1272/2009)

Testing methods shall be in the edition current on the last trading day.

#### 33102. TRADING SPECIFICATIONS

##### 33102.A. Trading Schedule

Futures contracts shall be scheduled for trading during such hours and delivery in such months as determined by the Exchange.

##### 33102.B. Trading Unit

The unit of trading shall be 136 metric tons. Trading shall be in U.S. Dollars per metric ton Free On Board (FOB).

##### 33102.C. Price Increments

The minimum fluctuation shall be ten cents (\$.10) per metric ton (\$13.60 per contract).

##### 33102.D. Daily Price Limits

There shall be no trading at a price more than \$22 per metric ton above or below the previous day's settlement price. There shall be no price limits on the current month contract during the last two trading days (i.e., on or after the second business day preceding the first day of the delivery month).

##### 33102.E. Position Limits

In accordance with Rule 559., Position Limits and Exemptions, no person shall own or control positions in excess of:

- 1,000 contracts net long or net short in the spot month, which is the month prior to the contract month. For example, spot month position limits for a July contract would go into effect at the close of trade on the first business day in June.
- 1,000 futures-equivalent contracts net long or net short in any single month or in all months combined.

The foregoing position limits shall not apply to bona fide hedging positions meeting the requirements of

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<sup>1</sup> Pending CFTC Review

the CFTC and the rules of the Exchange and shall not apply to other positions exempted pursuant to Rule 559.

**33102.F. Accumulation of Positions**

For the purposes of this rule, the positions of all accounts directly or indirectly owned or controlled by a person or persons, and the positions of all accounts of a person or persons acting pursuant to an expressed or implied agreement or understanding, and the position of all accounts in which a person or persons have a propriety or beneficial interest, shall be cumulated.

**33102.G. Termination of Trading**

Trading shall terminate on the last business day of the month preceding the delivery month.

Sellers shall have a three-day secured nominated loading slot, for any period of three consecutive days between the 15<sup>th</sup> calendar day of the delivery month and the last calendar day of the delivery month, issued by an approved delivery port, before holding a short position in an expiring contract.

Clearing members' responsibility for assessing account owner's ability to make or take delivery shall be governed by the provisions of Rule 716.

Delivery offsets shall be permitted as governed by the provisions of Rule 770.

Exchange for Related Position (EFRP) transactions shall be governed by the provisions of Rule 538. EFRP transactions may be permitted after the termination of trading until 12 Noon Chicago time on the first business day of the contract month. EFRP transactions conducted after the termination of trading shall not establish new positions.

**33101.H. Contract Modifications**

Specifications shall be fixed as of the first day of trading of a contract except that all deliveries must conform to government regulations in force at the time of delivery. If any applicable governmental agency issues an order, ruling, directive, or law that conflicts with the requirements of these rules, such order, directive or law shall be construed to take precedence and shall become part of these rules and all open and new contracts shall be subject to such government orders.

**33103. WEIGHING**

The Grain and Feed Trade Association (GAFTA; [www.gafta.com](http://www.gafta.com)) Weighing Rules No. 123, in the edition current on the last trading day, shall apply. Final at loading as per certificates issued by a GAFTA registered superintendent at Seller's choice and expense. Buyers have the right to attend at loading. A loading tolerance of two percent (2%) above or below the deliverable quantity is permitted at contract price.

**33104. OFFICIAL SUPERVISION AND ANALYSIS**

From the GAFTA Register of Superintendents, and unless otherwise agreed, from the GAFTA Register of Analysts.

**33105. SAMPLING, ANALYSIS AND CERTIFICATES OF ANALYSIS**

GAFTA Sampling Contract No. 124, in edition current on the last trading day, shall apply. Samples shall be taken at the time and place of loading.

**33106. DELIVERY PORTS**

Delivery shall be at one of the following Ports:

**Ukraine**

Port of Illichivsk

Port of Odessa

Port of Sevastopol

Port of Yuzhny

Port of Nikolaev

**Russia**

Port of Novorossiysk

Port of Tuapse  
Port of Taman

**Romania**

Port of Constanta

Sellers shall guarantee the ability to load handy vessels and allow sailing for vessels with maximum draft of 10.3 meters.

The Exchange may declare additional delivery ports that shall apply on all contracts outstanding or made thereafter.

**33107. PROCEDURES FOR INTENTION AND ASSIGNMENT OF DELIVERY**

**33107.A. Delivery Intention**

Clearing members representing short position holders (Short Clearing Firm) shall enter delivery intentions into the Clearing Delivery System by 12:00 Noon Chicago time on the business day following the last trade date. Delivery intentions shall include delivery quantity (number of contracts), port designation, three-day delivery window, and customer making delivery. The delivery window shall be any three-consecutive-day period between the 15<sup>th</sup> calendar day and the last calendar day of the contract month.

Customers with open short positions at contract expiration must have short positions of at least 75 contracts of like Port and like three-day loading period.

All clearing members shall be able to see all the short intentions entered into the system after 12:00 Noon Chicago time on the business day following the last trade date.

By 2:00 PM Chicago time on the business day following the last trade date, clearing members representing long position holders (Long Clearing Firms) shall enter their intentions to take delivery consisting of quantity (number of contracts) and customer taking delivery. Long Clearing Firms may also request assignment to a specific port designation and delivery window based on the intents to deliver entered by the Short Clearing Firms. In order to request an assignment, the Long Clearing Firm shall select a port designation and delivery window combination entered by the Short Clearing Firms, as well as the date the customer's long positions were initiated.

**33107.B. Delivery Assignment**

The Clearing House shall assign delivery between Long and Short Clearing Firms and notify all Long Clearing Firms on the day of the assignment. The assignment process will occur after 2:00 PM Chicago time on the business day following the last trade date.

Buyers and sellers will be matched as follows:

1. Deliveries will be assigned first to the Long Clearing Firm(s) that entered requests in their intentions to take delivery. If two or more firms have requested the same port designation and delivery window, the delivery shall be allocated to the Long Clearing Firm with the largest requested quantity. If firms have the same requested quantity, the delivery shall be allocated to the Long Clearing Firm with the oldest trade date (oldest long position). If firms have the same trade date, the delivery shall be allocated to the Long Clearing Firm with the oldest entry time for their intentions to take delivery.
2. After requests are assigned, any remaining positions will be assigned when possible based on size such that firms with large quantities are assigned prior to smaller quantities.

**33107.C Delivery Margins**

On the business day following the last trade date, both Buyers' and Sellers' Clearing Firms shall obtain margin equal to the full value of the product to be delivered. Such margin shall consist of cash,

securities issued by the United States Treasury Department maturing within ten (10) years from the date of deposit and guaranteed as to principal and interest by the United States Government or a standby letter of credit. Any Treasury securities so deposited shall be valued at ninety percent (90%) of the par value of such instruments. Any standby letter of credit so deposited shall be in a form approved by the Exchange, shall be issued or confirmed by an Exchange approved original margin depository, and shall be drawn in favor of the Exchange.

## **33108. LOAD-OUT**

### **33108.A. Load-Out Requirement and Alternative Delivery Procedures**

Buyers must load-out all deliveries assigned, even if the buyer is assigned more than one Port and/or 3-day loading period.

A seller or buyer may agree with the buyer or seller with which it has been assigned by the Clearing House under Rule 33107.B. to make and take delivery under terms or conditions which differ from the terms and conditions described by this Chapter. In such case, both Short and Long Clearing Firms shall execute an Alternate Notice of Intention to Deliver on the form prescribed by the Exchange and shall deliver a completed executed copy of such Notice to the Exchange. The delivery of an executed Alternative Notice of Intention to Deliver to the Exchange shall release both Short and Long Clearing Firms, the Clearing House, and the Exchange from their respective obligations under the Exchange contracts.

In executing such Notice, Short and Long Clearing Firms shall indemnify the Exchange against any liability, cost, or expense it may incur for any reason as a result of the execution, delivery, or performance of such contracts or such agreement, or any breach thereof or default thereunder. Upon receipt of an executed Alternative Notice of Intention to Deliver, the Clearing House will return to the Clearing Members all margin monies held for the account of each with respect to the contracts involved.

### **33108.B. Delivery Prohibitions, Force Majeure, and Failure to Perform**

1. Definitions
  - a) "Delivery Prohibitions" shall mean delivery delays or cancellations in case of prohibition of export, blockade, or hostilities or in case of any executive or legislative act done by or on behalf of the government of the country of origin of the commodity, or of the country from which the goods are to be shipped, restricting export, whether partially or otherwise.
  - b) "Failure to Perform" means the failure of a buyer or seller to complete a material act with respect to a delivery obligation prior to the expiration of the period allowed for the late performance of such act.
  - c) "Party" means a buyer or seller and "Other Party" means the corresponding buyer when the seller is late in performance or has failed to perform and the corresponding seller when the buyer is late in performance or has failed to perform.
2. Responsibilities of Parties to the Delivery
  - a) The parties to a delivery shall make commercially reasonable efforts to perform their respective delivery obligations at all times until a party has failed to perform.
  - b) A party which has failed to perform its obligations may no longer perform such obligations.
  - c) In the event that a Party has failed to perform, the Other Party shall be responsible to provide written notification to the Exchange.
3. Declaration of Delivery Prohibitions, Force Majeure, and Failure to Perform
  - a) Declarations of Force Majeure and actions taken with respect to such declarations will be governed by the provisions of Rule 701.
  - b) Declarations of Delivery Prohibitions and Failures to Perform and actions taken with respect to such declarations will be governed by a panel of three (3) Exchange staff members appointed by the Chief Regulatory Officer.
  - c) When a long position holder or a short position holder has failed to perform, the clearing firm representing the long position holder or the short position holder, as applicable, through which the delivery is affected, shall be liable to the Other Party for any damages awarded pursuant to Exchange panel, arbitration, and/or disciplinary procedures.

**33108.C****Load-Out**

Dates and times for Load-out rules in this section shall be the local time in the port of loading.

For the purpose of these rules, delivery is between the Buyer's Clearing Firm and the Seller's Clearing Firm. However, Buyers and Sellers should also communicate and exchange documentation as per cash market custom.

The Buyer shall give nomination of vessel with not less than 10 consecutive day's notice before the vessel's ETA to the Seller. Nomination shall include name, flag, draft, tonnage, dimensions, owner, registration number, estimated arrival time, demurrage rate, planned intake, and vessel draft on planned intake. After nomination is issued, the Buyer's Clearing Firm shall enter into the Clearing Delivery System that the nomination has been issued.

The Seller's Clearing Firm shall confirm or reject the nomination with indication of unacceptable parameters within 24 hours after the Buyer's Clearing Firm issued the nomination into the Clearing Delivery System. Confirmation or rejection shall be issued directly to the Buyer and also by the Seller's Clearing Firm into the Clearing Delivery System.

Upon the Seller's request, the buyer shall provide a copy of its charter party agreement.

At least two calendar days prior to the delivery period, the Seller's Clearing Firm shall inform the Buyer's Clearing Firm what port berth will be used in the delivery through the Clearing Delivery System.

Notice of Readiness shall be on-time if the Notice of Readiness date, defined below, is before the end to the three-day loading period.

Notice of Readiness to be tendered at the office of the Seller or its agent at the load port before 17:00 hours local time Monday through Friday, or before 11:00 hours local time on Saturdays, Sundays, and holidays excepted; WIPON/WIFPON/WICCON/WIBON. Any Notice of Readiness received after these times shall be deemed to have been received on the following calendar day. The Notice of Readiness date is the calendar day that the valid Notice of Readiness was tendered at the office of the Seller. Buyer and Seller shall share dated copies of this valid Notice of Readiness with their respective Clearing Firms.

The vessel's holds shall be clean, dry, odorless and in all respects ready to receive cargo for the Notice of Readiness to be valid. In case of dispute over the vessel's readiness to receive cargo, the Buyer's GAFTA approved independent surveyor shall decide the vessel's readiness to load. If the independent surveyor determines the vessel ready to load, then the original Notice of Readiness shall be valid. If rejection of Notice of Readiness is undisputed or confirmed by the independent surveyor, a new Notice of Readiness shall be tendered on the business day after the vessel has passed re-inspection.

If the Notice of Readiness date is not before the end of the three-day loading period, the Seller will nominate another three-day loading period as close as possible to the Notice of Readiness date, but at the Seller's discretion and subject to the decision of the stevedores/port authorities. All time lost as well as any vessel charges while waiting for her next turn for berthing to be for the Buyer's time and account.

If the Notice of Readiness date is not before the end of the three-day loading period, the Buyer shall pay a daily storage charge of \$0.20 per metric ton from the calendar day following the original three-day loading period until load-out is complete. Load-out is complete when the Buyer's Clearing Firm issues Delivery Confirmation in the Clearing Delivery System per Rule 33110.

If the Buyer fails to present a vessel and issue a Notice of Readiness within 10 consecutive days after the end of the delivery month, the Seller's Clearing Firm shall have the option of providing notification to the Exchange of a failure to perform under Rule 33108.B(2)(c). If the Seller fails to load a constructively placed vessel within 10 consecutive days after the end of the delivery month with no force majeure or export restrictions in place, the Buyer's Clearing Firm shall have the option of providing notification to the Exchange of a failure to perform under Rule 33108.B(2)(c).

Load-out may occur at any time during the three-day loading period or when free berth becomes available, whichever comes later. Seller guarantees to load the tonnage represented by the number of delivery contracts matched between the Seller and Buyer, with an allowable two percent tolerance (2%), at not less than 10,000 metric tons per day. Seller shall pay demurrage, as per the demurrage rate specified in the vessel nomination if loading is slower than the guaranteed loading rate. Lay-time shall commence counting at 08:00 a.m. on the calendar day following the Notice of Readiness date or the first day of the three-day loading period, whichever is later. Lay-time shall count for each weather running day of 24 consecutive hours. New Year's Day (1 January) from Midnight until 18:00 excluded, even if used. Time for mooring/unmooring operations between berths, if any, shall not count.

Should delivery or loading be prevented at any time during the delivery month by reason of ice at the port of loading or elsewhere preventing the forwarding of goods to such port, Clause 15 of GAFTA Contract No. 49, in edition current on the last trading day, shall apply.

Standard surface fumigation consistent with standards of fumigation in the country of shipment and re-circulation, if required, shall be for the Seller's account.

Loading shall be in accordance with the custom of the port of loading.

**33108.D License, Duties, and Insurance**

Sellers shall be responsible for obtaining all necessary export and customs licenses and shall make any associated payments, including but not limited to export duties, customs excise taxes, taxes, levies, and all other governmental or regulatory fees or charges in present or in the future. Furthermore, Sellers shall pay and be liable for any fines or penalties resulting from or in connection with the delayed or unpaid amounts thereof and keep the Other Party harmless and fully indemnified in the event the Other Party has to make a payment to satisfy with this respect.

All import duties, taxes, levies, etc, in present or in the future shall be for the Buyer.

Insurance to be covered by the Buyer at their own risk and cost from the moment goods are on board the vessel. The Seller may request a copy of the insurance policy from the Buyer, who is obligated to provide a copy.

**33108.E Arbitration**

Any disputes outside of delivery prohibitions, force majeure, and failure to perform covered under Rule 33108.B that arises out or under this contract shall be settled in accordance with Exchange arbitration and/or disciplinary procedures.

**33108.F. Documentation**

Seller must prepare all required documents. Buyer's instruction shall dictate.

**33110. PAYMENT**

Upon completed loading, the Seller's Clearing Firm shall confirm in the Clearing Delivery System that loading is complete. The Buyer's Clearing Firm shall present the Seller's Clearing Firm with copies of one full set of Clean on Board Bills of Lading, issued "TO ORDER" within 24 hours after the Bills of Lading are

originated. The Buyer's Clearing Firm shall then confirm in the Clearing Delivery System that loading is complete. Upon receipt of the Bills of Lading, the Seller's Clearing Firm shall confirm receipt in the Clearing Delivery System and delivery shall be considered complete. Delivery confirmations received after 3 p.m. Chicago Time or on weekends and holidays shall be dated the next business day.

The Seller's Clearing Firm shall issue an invoice to the Buyer's Clearing Firm detailing payment due based on the tonnage delivered under Rule 33108.C. plus any adjustments that occurred during the load-out that should be for the Buyer's account (for example, storage charges, overfills, etc.) or for the Seller's account (for example, demurrage charges, underfills, etc.). All adjustments must be fully documented. The invoice must be issued by 12:00 noon Chicago Time on the business day after the Buyer's Delivery Confirmation date.

The Buyer's Clearing Firm shall pay the Seller's Clearing Firm the invoice amount by certified check at the office of the Seller's Clearing Firm or by federal funds money wire by 12:00 noon Chicago Time two business days following the Buyer's Delivery Confirmation date. If the Buyer's Clearing Firm disputes the Seller's Clearing Firm's invoice amount, the Buyer's Clearing Firm shall pay the Seller's Clearing Firm the value of the contracted quantity of wheat documented in the Clearing Delivery System and claim arbitration under Rule 33108.E. to settle adjustments that occurred during load-out.

Immediately upon receipt of payment, the Seller's Clearing Firm shall confirm in the Clearing Delivery System that payment is complete. Upon the Seller's Clearing Firm's payment confirmation, the Clearing House will return to the involved Clearing Members all margin monies held for the account of each with respect to the contracts involved.

In the event the Seller's Clearing Firm does not receive payment, it shall advise the Exchange in writing. On the following business day, if indeed payment is not made by the Buyer's Clearing Firm, the Exchange shall liquidate the margins held and, when the liquidation is complete, shall pay the Seller's Clearing Firm.