



June 27, 2006

SENT VIA E-MAIL

Ms. Eileen A. Donovan
Secretary of the Commission
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, D.C. 20581

Re: Submission pursuant to Commission Regulation 40.5

Dear Ms. Donovan:

- I. **Submission.** The Kansas City Board of Trade ("KCBT") hereby submits for Commission review and approval, pursuant to Commission Regulation Section 40.5, proposed Rule 2008.00 setting forth position limits for KCBT wheat futures and options contracts. The Board of Directors, in a regular meeting held on June 27, 2006, acting pursuant to authority granted them under Rule 233.01(o), approved Rule 2008.00. In the opinion of KCBT, while this new Rule eliminates the hedge exemption for certain market participants during the spot month and restricts speculative position holders from accumulating positions in excess of the spot month limit by means of participation in spot month deliveries, the rights of open position holders are not significantly altered (see explanation under the "Operation, Purpose and Effect" section below).
- II. **Date of Implementation.** In order to provide the marketplace with sufficient notice, Rule 2008.00 shall be effective as of the close of business prior to the first notice day for the September 2006 wheat futures contract month (August 30, 2006). This proposed effective date is contingent upon Commission approval pursuant to Regulation Section 40.5.
- III. **Substantive Opposing Views.** To the knowledge of the Board of Directors and staff, no substantive opposing views were expressed by members or others regarding the amendments.

IV. Text of Proposed Rule. The text of Rule 2008.00 is shown as follows:

Chapter 20 Wheat Futures

2008.00 Position Limits.

a. **Definitions:**

1. **Spot Month** means the futures contract month next to expire during that period of time beginning at the close of trading on the second business day prior to the first delivery day of such contract month.
2. **Single Month** means each separate futures contract month, other than the spot month contract.
3. **All Months** means the sum of all futures contract months including the spot month contract.
4. **Net Equivalent Futures Position** means the combined futures and options positions, adjusted by the prior day's delta factor for each option series as published by the KCBT Clearing Corporation. Long futures contracts have a delta of +1 and short futures contracts have a delta of -1. Long call options and short put options have positive delta factors and short call options and long put options have negative delta factors.

b. **Position Limits** – No person may own or control positions, separately or in combination, net long or net short, for the purchase or sale of commodity futures and options contracts, on a Net Equivalent Futures Position basis, in excess of the following:

1. Spot Month – 600 contracts
2. Single Month – 5,000 contracts
3. All Months – 6,500 contracts

c. **Exemptions** – The position limits set forth in Section (b) of this Rule may be exceeded to the extent such positions are:

1. Bona fide hedging transactions as defined by Commodity Futures Trading Commission Regulation 1.3(z); provided however, that positions established for purposes of hedging cash commodity index exposure, commodity swaps exposure or any other exposure not involving the production, merchandising or processing of the underlying cash commodity are not allowed to exceed the Spot Month limit.
2. Spread or arbitrage positions between Single Months of a futures or options contract, on a Net Equivalent Futures Position basis, outside of the Spot Month, in the same crop year (for KCBT wheat, a crop year begins with the contract month of July and ends with the contract month of May); provided however, that such spread or arbitrage positions, when combined with any other net positions in the Single Month, do not exceed the All Months limit set forth in Section (b) of this Rule.
3. Positions carried for eligible entities as set forth in Commodity Futures Trading Commission Regulation 150.3(a)(4).

d. **Aggregation** – In determining whether any person has exceeded the position limits specified in Section (b) of this Rule, such person shall aggregate positions in accounts as set forth in Commodity Futures Trading Commission Regulation 150.4.

e. **Spot Month Position Accumulation Restriction** – In calculating a Spot Month position, the number of contracts against which delivery notices have been stopped (issued) during that delivery month minus the number of contracts against which delivery notices have been issued (stopped) during that delivery month shall be added to that Spot Month's long (short) futures position. As an example, if a person goes into a Spot Month with the maximum position of 600 net long contracts and takes delivery of warehouse receipts in satisfaction of 500 of such long contracts and does not establish a short position in that same Spot Month for purposes of redelivering such warehouse receipts, such person may not have a Spot Month futures position in excess of 100 net long contracts.

- f. **Orderly Liquidation of Spot Month Positions** - All persons carrying open positions into the Spot Month shall liquidate such positions in accordance with reasonable and sound economic commercial practices and be prepared to justify such to the exchange Compliance Department upon request.

- V. **Operation, Purpose & Effect of Proposed Rule.** The exchange wheat contract committee met on March 30 and May 15, 2006 and addressed two matters involving spot month position limits. After discussion of the matters (detailed below), the committee voted unanimously to recommend that the exchange adopt its own position limit regulations (as set forth in proposed Rule 2008.00) and that such Rule be approved by the Board.

First, the committee examined the issue non-traditional hedgers, meaning entities that receive CFTC speculative position limit exemptions for hedging commodity index or swaps exposure or any other exposure not involving the production, merchandising or processing of the underlying cash commodity. Even though the exchange is not aware of any instances where these types of position holders have carried such positions into the spot month, the committee is concerned that doing so might adversely impact the delivery month market dynamics and convergence process experienced during an orderly liquidation of the expiring contract month. The committee therefore thought it prudent to address this matter in advance of any such occurrence by limiting non-traditional hedge positions going into the spot month. Therefore, the language contained in Rule 2008.00(c)(1) requires that non-traditional hedgers adhere to the exchange's spot month position limit. Since non-traditional hedgers have traditionally liquidated or rolled their positions in advance of the spot month, the implementation of this rule provision should not adversely impact market participants and their current market positions. This action is similar to a notice issued by the Chicago Board of Trade on April 15, 2005 (and re-issued February 10, 2006) pertaining to CBOT Rule 425.02.

The second matter discussed by the committee was the accumulation of positions during the spot month period by speculative and non-traditional hedge position holders. The committee is concerned that adding to spot month market positions following the making/taking of deliveries involving such market positions is contrary to the spirit and intent of spot month position limits. It is the committee's opinion that spot month position limits are intended to limit the amount of the underlying commodity held in exchange delivery locations that can be owned or controlled by an entity not involved in the production, merchandising or processing of the underlying cash commodity. However, current CFTC regulations pertaining to spot month speculative position limits do not preclude a market participant from making/taking delivery of positions carried into the spot month and accumulating additional market positions as deliveries are made/taken. Even though the exchange is not aware of any instances where this practice has ever occurred, the committee believes it prudent to take action to prevent accumulations of spot month positions in advance of such an occurrence. Therefore, Section (e) of Rule 2008.00 restricts the accumulation of spot month positions as the result of deliveries. Because the exchange is not aware of this ever having occurred, the implementation of this rule provision should not adversely impact market participants and their current market positions. This provision is very similar to COMEX Rule 104.47(c)(3).

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VII. **Closing.** Any questions regarding this submission should be directed to the undersigned at 816-753-7500.

Sincerely,



Jeff C. Borchardt
President

Cc: Rick Shilts – CFTC Washington
Tom Bloom – CFTC Kansas City
Jim Lammle – CFTC Kansas City