

Convergence Monitoring Procedures

CFTC Agricultural Advisory Committee

December 9, 2014

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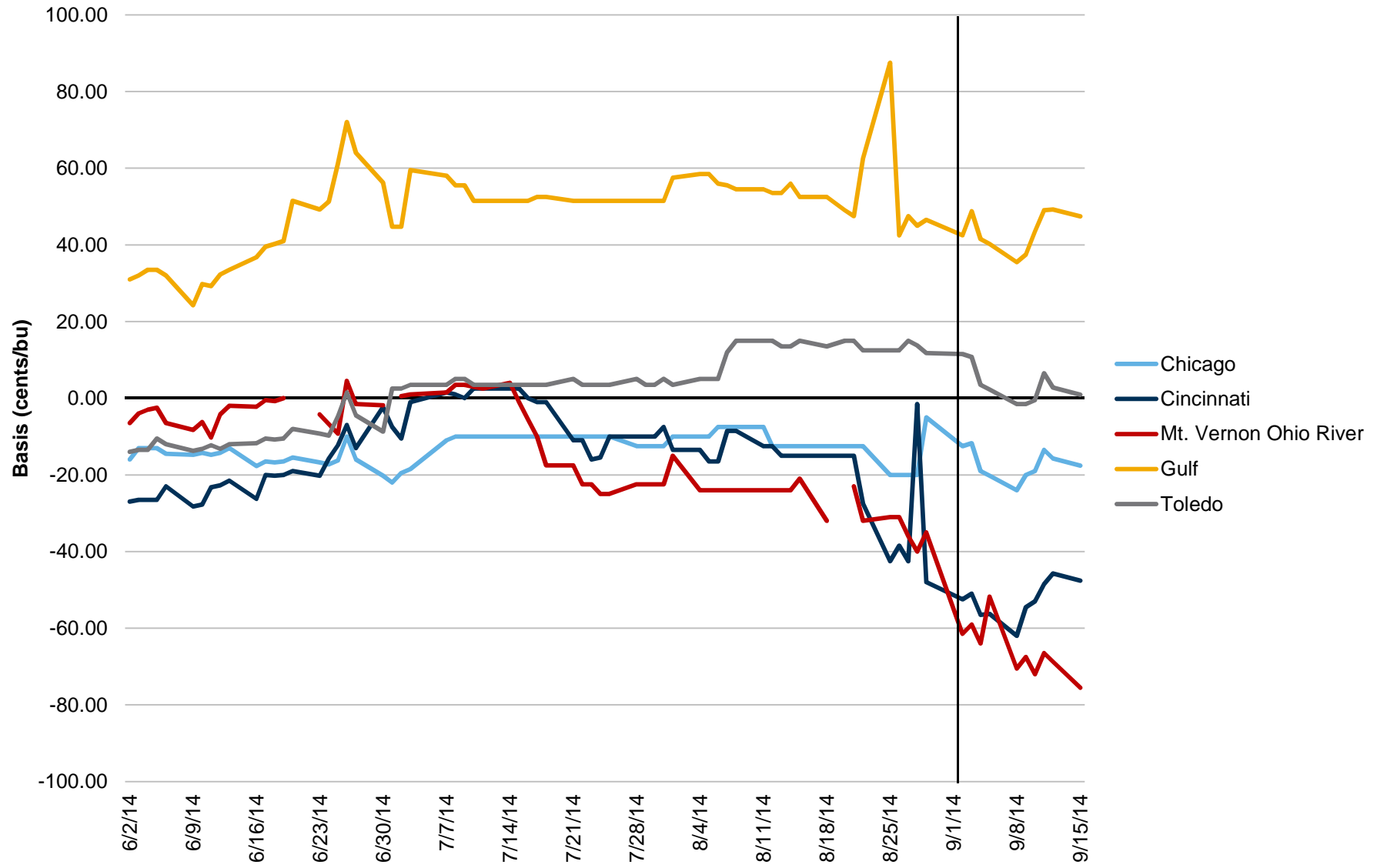
Overview

CME Group monitors physically delivered futures contracts that have open interest to assure cash and futures prices converge to levels consistent with historical norms as futures enter their delivery period or when futures expire.

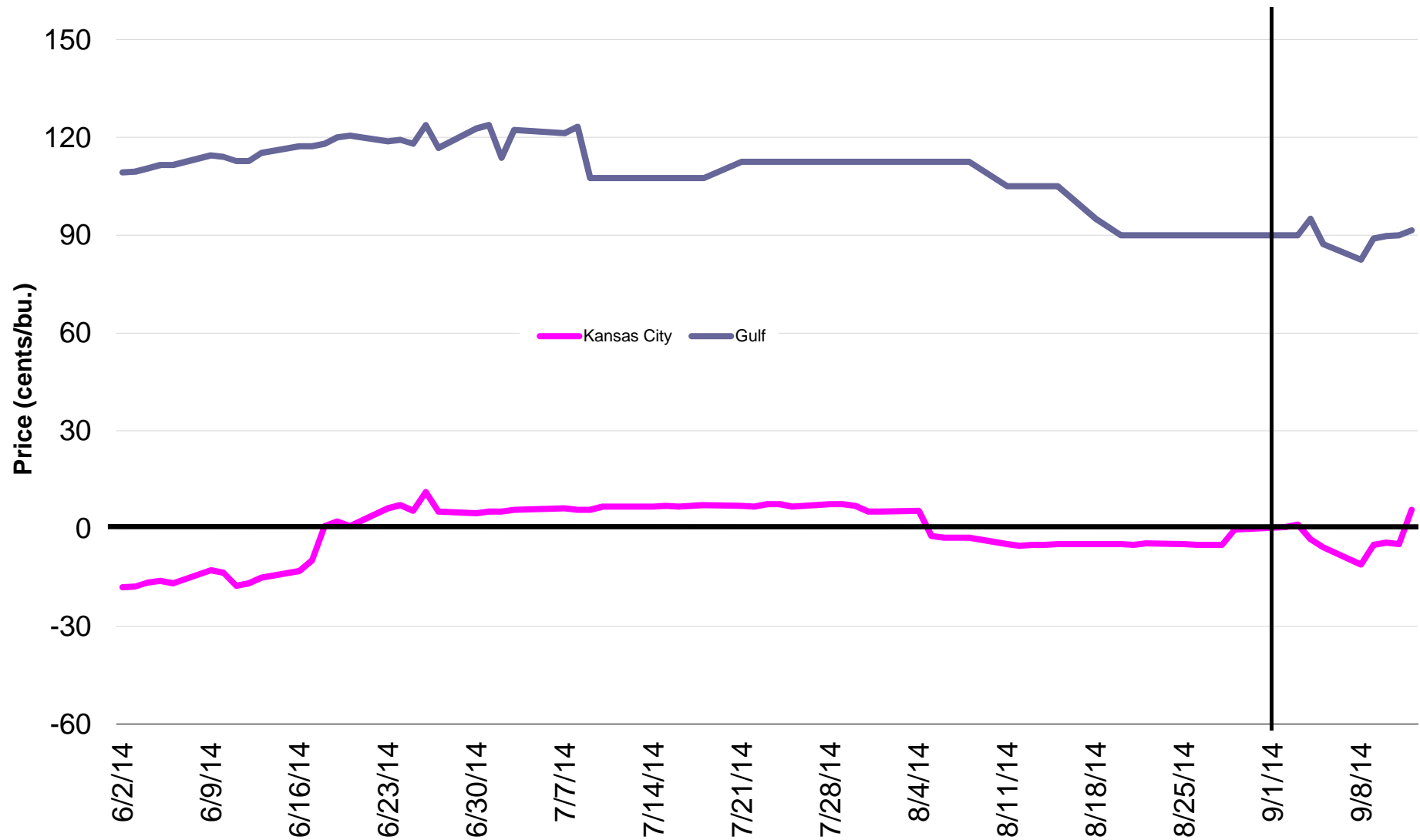
STEP 1

Cash price data and daily settlement prices for the expiring futures contract are collected and entered into a spreadsheet. Basis is calculated and plotted.

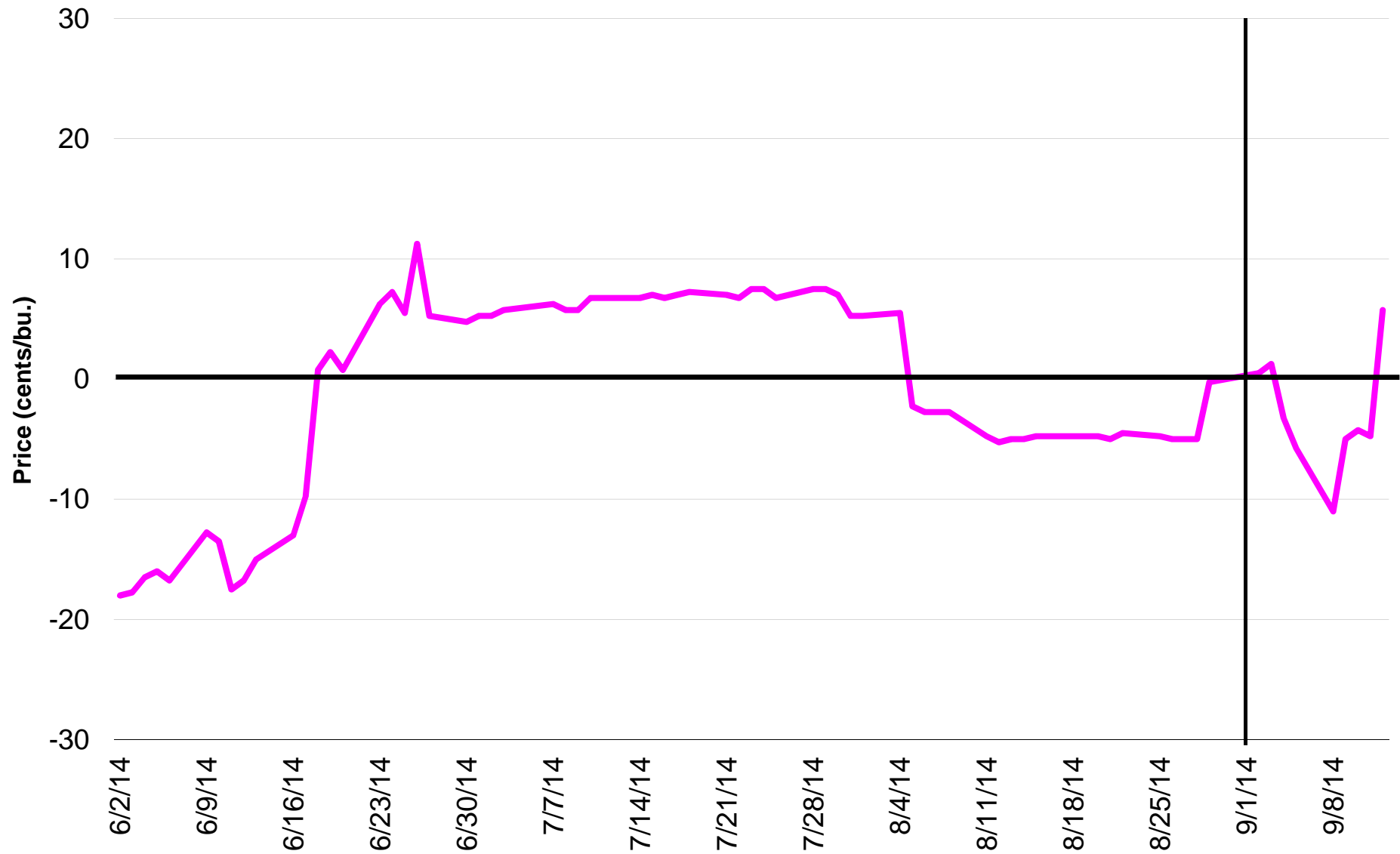
Basis Levels at Selected Locations 2014 September Wheat (CBOT)



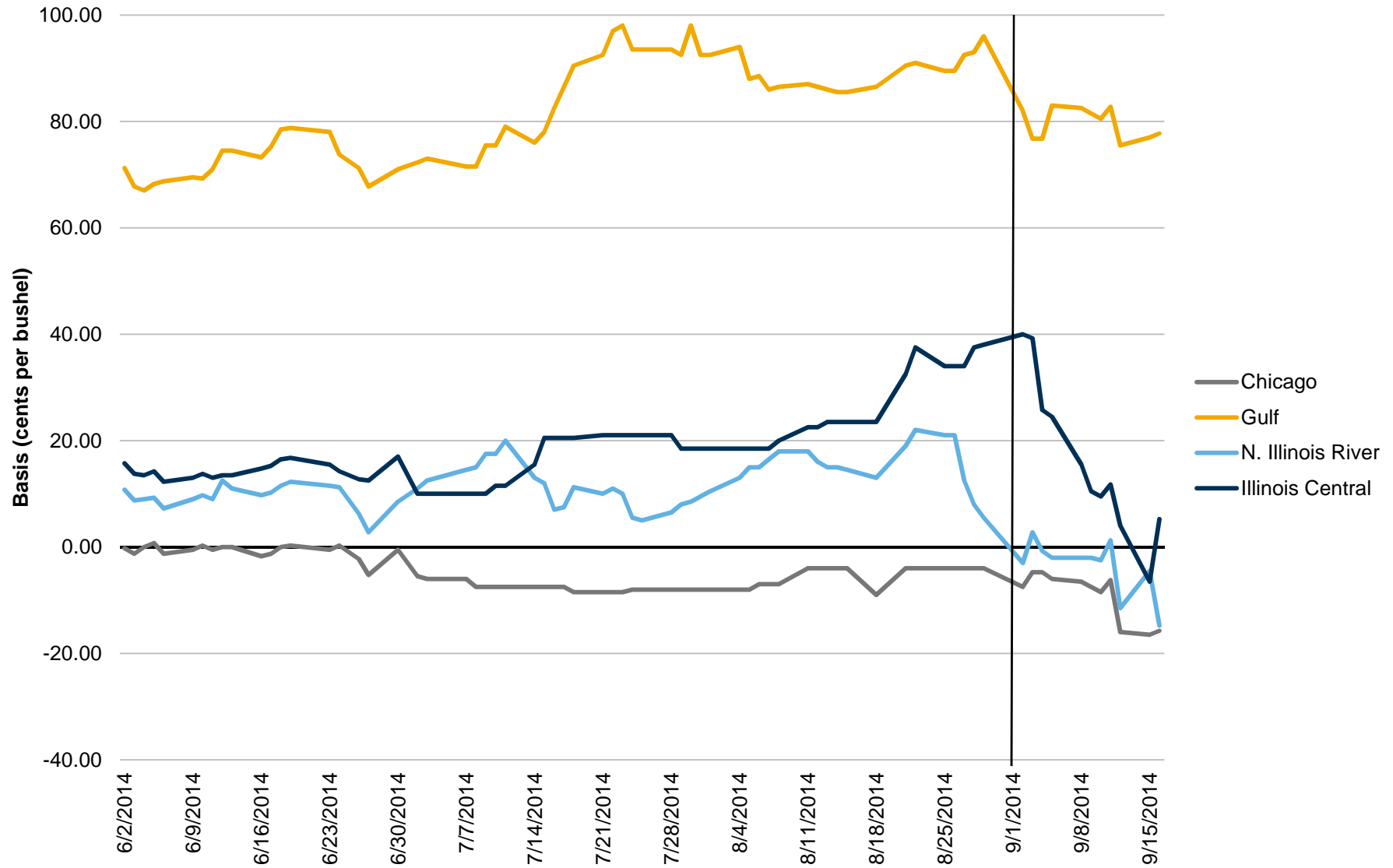
Basis Levels at Selected Locations 2014 Sep Wheat (KCBT)



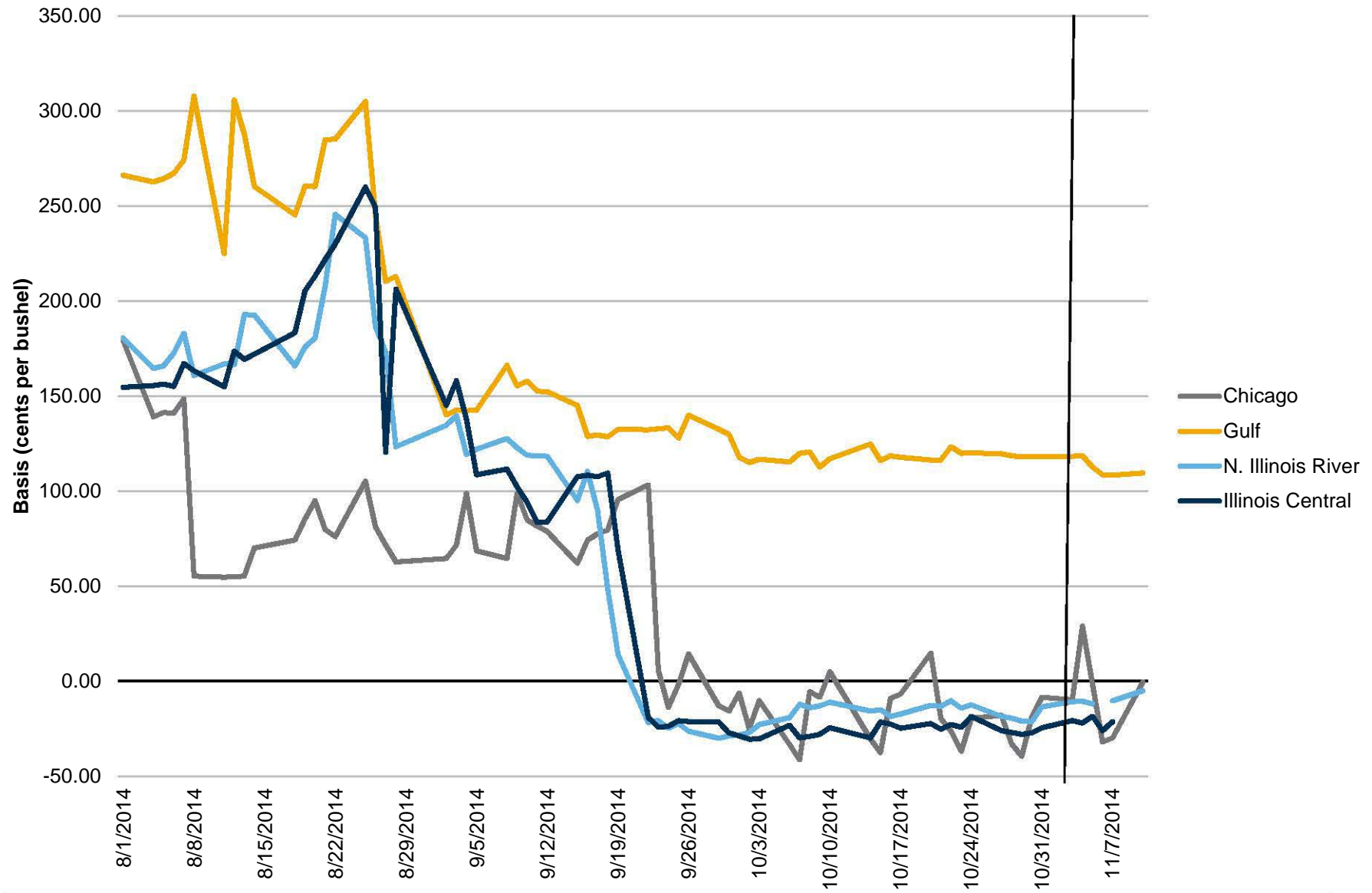
Kansas City Basis Levels 2014 Sep Wheat (KCBT)



Basis Levels at Selected Locations 2014 September Corn



Basis Levels at Selected Locations 2014 November Soybean



STEP 2

Basis is measured on First Delivery Day for each location, and compared to the historical average. Any basis value on FDD more than two standard deviations away from the historical average is considered a possible convergence issue.

STEP 2 Detail

- The mean & standard deviation for basis on FDD for each measured location is calculated. Data consists of the basis on FDD for each expiration since September 2011.
- A confidence interval two standard deviations above and below the mean is calculated.
- The basis on FDD for each measured location in the expiring contract is then compared to the confidence interval – inside the interval suggests satisfactory convergence while outside the interval suggests a possible convergence issue.

STEP 3

Should basis values for all monitored locations fall outside 2 standard deviations from historical average for **TWO** consecutive expirations, Market Regulation is informed of this observation.

STEP 4

Should basis values for all monitored locations fall outside 2 standard deviations from historical average for **THREE** consecutive expirations, 3 to 5 market participants are contacted for their view on market performance.

STEP 5

Should a majority of contacted market participants voice concerns about contract performance, the issue is escalated to a broader audience through survey, focus group, industry meeting, or some other means of reaching out to a wider cross-section of market participants.

STEP 6

Should a majority of contacted market participants **NOT** voice concerns about contract performance, the Exchange will closely monitor the next two contract expirations. If the basis continues to be inconsistent with its historical pattern, the issue is escalated as described in Step 5.

Corn Contract Review

- CME Group Periodically Reviews Agricultural Contracts through the Use of Focus Groups
- Focus Groups are made-up of a Broad Cross-Section of 10 to 20 Market Participants
- Exchange Holds Individual Confidential Calls with Each Focus Group Participant
- Exchange then Holds an all-inclusive Focus Group Meeting where the Agenda is a Summarization of the Individual Calls
- Any Potential Contract Changes Identified in the Calls and the Meeting are further Vetted through Additional Outreach
- The Exchange then Decides whether to Pursue any Contract Changes
- **Use of a Focus Group does not imply any Contract Changes**
 - Focus Groups are used to Review Contract Terms and Gather Feedback on Contract Performance

Corn Contract Focus Group

- Cross-Section of 20 Firms
 - Commercials, Brokers, Proprietary Trading Firms, Hedge Funds, and Index Funds
- Individual Calls held August - November
- Focus Group Meeting held November 19
- Focus Group Overall Very Satisfied with Corn Contract Performance
- Group Recommended Additional Review of Several Contract Terms to Maintain Consistency with Cash Market
- Feedback is Currently being Vetted Internally

