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Timothy R. Elliott
Director and Associate General Counsel
Legal Department

January 4, 2012

VIA E-MAIL

Mr. David Stawick
Office of the Secretariat
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington DC 20581

Re: Regulations 40.4(b)(5) and 40.6(a) - Non-Material Agricultural Rule Change. Exchange Certification of Standard Freight Rate for Live Cattle Futures Deliveries. CME Submission No. 12-002

Dear Mr. Stawick:

The Standard Freight Rate is used in carcass graded deliveries of Live Cattle to compensate the seller when the buyer requests delivery at a packing plant that is farther from the feedyard than the delivery point stockyards. In accordance with Live Cattle Rule 10103.C.8., this rate is set annually by the Exchange. For 2011, the rate was $4.00 per mile per contract, up 25 cents from 2010.

Results from a survey of livestock trucking firms show that freight rates have increased due to a steep rise in prices for diesel fuel. Based on these results, the Standard Freight Rate for 2012 for deliveries on the 2012 Live Cattle futures contracts will increase to $4.50 per mile per contract. This action was approved by the Exchange on December 9, 2011.

The Exchange believes this adjustment is non-material for the following reasons. First, this annual adjustment is consistent with the provisions of Live Cattle Rule 10103.C.8. (emphasis added):

10103. SETTLEMENT PROCEDURES

10103.C. Carcass Graded Deliveries

8. Cost of Grading, Weighing, and Transportation.

Death loss, feed and yardage, and all other costs are the responsibility of the seller until the cattle are delivered to the slaughter plant selected by the buyer. **The buyer will be assessed a standard freight rate per mile for each additional mile the cattle are hauled over and above the distance between the feedlot and the stockyards to which the seller originally tendered the cattle, and this freight assessment will be paid to the seller. The standard freight rate per mile will be established annually by the Exchange.** The seller shall be responsible for the cost of visual inspection and weighing upon arrival at the slaughter plant. Any additional costs of carcass grading shall be borne by the buyer.

Second, the Standard Freight Rate is used only in deliveries, and more specifically only in carcass-graded deliveries. Therefore, it does not affect market participants who do not participate in the delivery process, nor does it affect market participants involved in live-graded deliveries.

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Third, the purpose of the Standard Freight Rate is to compensate the seller for the additional cost of transporting cattle to the slaughter plant selected by the buyer. This additional amount is charged to the buyer, and represents a reimbursement of expenses incurred by the seller. Fourth, this is the eighth time that the Standard Freight Rate has been adjusted since this provision was implemented in 1995. In each of the seven previous adjustments the Commission deemed the change to be nonmaterial, and the Exchange believes this latest adjustment should not be treated any differently.

The Commodity Product Development and Legal Departments collectively reviewed the designated contract market ("DCM") core principles ("Core Principles") as set forth in the Commodity Exchange Act ("CEA"). During the review, we identified that the revisions that are the subject of this submission may have some bearing on the following Core Principle:

- **Contracts Not Readily Subject to Manipulation**. It is essential that the terms and conditions accurately reflect all aspects of contracts traded on a contract market, including current freight rates to facilitate cash-futures convergence and prevent uneconomic deliveries. In addition, trading in this (these) contract(s) will be subject to the rules in Rulebook Chapter 4 which includes prohibitions against fraudulent, noncompetitive, unfair and abusive practices. Additionally, trading in this (these) contract(s) will also be subject to the full panoply of trade practice rules, the majority of which are contained in Chapter 5 and Chapter 8 of the Rulebook. As with all products listed for trading on one of CME Group's designated contract markets, activity in the new product(s) will be subject to extensive monitoring and surveillance by CME Group's Market Regulation Department. The Market Regulation Department has the authority to exercise its investigatory and enforcement power where potential rule violations are identified.

The Exchange certifies that the revisions that are the subject of this submission comply with the CEA and regulations thereunder. There were no substantive opposing views to this proposal. The amendments will become effective on Friday, February 3 for the February 2012 delivery period that commences on Monday, February 6, 2012.

The Exchange certifies that this submission has been concurrently posted on the Exchange's website at: http://www.cmegroup.com/market-regulation/rule-filings.html.

If you have any questions regarding this submission, please contact me at (312) 466-7478 or via e-mail at tim.elliott@cmegroup.com .

Sincerely,

/s/Timothy Elliott
Director and Associate General Counsel