CME Group

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May 24, 2012

VIA E-MAIL

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

RE: Regulation 40.6(a) Rule Certification: The Board of Trade of the City of Chicago, Inc.
Submission #12-150: New Settlement Methodology for CBOT Agricultural Futures

Dear Mr. Stawick:

The Board of Trade of the City of Chicago, Inc. ("CBOT" or "Exchange"), pursuant to Commodity Futures Trading Commission ("CFTC" or "Commission") Regulation 40.6(a), hereby notifies the Commission that it plans to implement a new settlement methodology for CBOT agricultural futures products beginning on June 25, 2012. The Exchange will notify the marketplace of the upcoming changes on May 25, 2012, via Special Executive Report ("SER") S-6245, a copy of which is attached as Exhibit 1.

As previously announced to the marketplace in SER S-6144 and discussed with the Commission, the Exchange is modifying the methodology used to establish settlement prices in CBOT Corn, Wheat, Oats, Rough Rice, Soybeans, Soybean Meal and Soybean Oil futures. CBOT's methodologies for determining settlement prices are designed to reliably capture the market value of each contract during the specified settlement period to ensure that open positions can be accurately marked to market, variation margin assessed and risk mitigated. The new methodology for CBOT agricultural futures, described in detail in the attached SER, will incorporate both Floor-based and Globex-based activity into the volume-weighted average price ("VWAP") calculations and, where applicable, the assessment of spread bids and offers, to determine settlement prices. Currently, Rough Rice, Oats and the first five months of Wheat settle to activity on the electronic platform, while Corn, the Soybean complex and the deferred Wheat contracts settle to activity in the open outcry venue. The fundamental approach of settling the designated lead month contract based upon the prices and volumes of outright transactions and settling the other contract months based upon spread relationships is broadly consistent with current practice, but now will be inclusive of activity on both the open outcry and electronic venues. Additionally, the new methodology will harmonize the times of the defined settlement periods for Soybeans, Soybean Meal and Soybean Oil which is expected to enhance the alignment of the settlement prices of the components of the Soybean crush.

The Exchange has reviewed the designated contract market core principles ("Core Principles") as set forth in the Commodity Exchange Act ("CEA") and has identified that the changes to the settlement procedures may have some bearing on the following Core Principles:

- <u>Contracts Not Readily Subject to Manipulation</u>: CME Group employs a variety of settlement methodologies across its product portfolio and has not observed that the execution venue from which the settlement price is derived impacts whether a contract is readily susceptible to manipulation. In CBOT agricultural futures, the current methodology of settling the designated lead month contract based upon the prices and volume of outright transactions and of settling the remaining contract

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months based upon the prices and volume of relevant spread transactions, or bid/offer data where transactions have not occurred, has proven to yield reliable settlement prices, whether the methodology is based on activity in the electronic venue or activity in the open outcry venue. The changes to the settlement methodology for CBOT agricultural futures will incorporate activity from both venues into the settlement price calculations for each of the futures contracts, thereby increasing the number and volume of transactions, as well as the number of participants, informing the settlement price determination.

- Prevention of Market Disruption: The Global Command Center, the CME Group Settlement team and the Market Regulation Department each have the capacity to identify abnormal price movements during the settlement period and to take remedial actions as appropriate relative to their respective functions. CBOT has settled certain agricultural futures contracts based on open outcry activity and others based on electronic activity, and in either case the methodology has not impeded the Exchange's ability to effectively monitor trading and mitigate the potential for market disruptions. Incorporating activity from both venues into the settlement price determination will not diminish the Exchange's ability in this regard.

- Availability of General Information: The change to the settlement procedures constitutes a change to the terms and conditions of the identified contracts. The Exchange will release the attached SER, providing the marketplace with a detailed description of the changes to the settlement procedures and the effective date of the new settlement methodology. Additionally, the publicly available CME Group Settlement Procedures document on the CME Group website will be modified to reflect the changes to the settlement procedures and the revised document will be posted upon the effective date.

- Daily Publication of Trading Information: CBOT will continue to publish daily settlement prices in CBOT agricultural futures products without interruption.

The Exchange certifies that the changes to the settlement procedures comply with the CEA and regulations thereunder. The Exchange has discussed these changes with market participants. Diverse views have been expressed regarding the efficacy of moving to a hybrid settlement methodology and the Exchange has considered the substantive opposing views set forth below in determining to implement the new procedures:

- Pursuant to Article IV, Section D 2(e) of the Amended and Restated Certificate of Incorporation ("Charter"), the CBOT Directors Committee filed an Initial Rejection Notice of staff's proposal to modify the settlement methodology, finding that the proposed change would materially impair the business of the Corporation or materially impair the business opportunities of the Class B Memberships. The CBOT Directors Committee made this determination based upon feedback from some market participants that incorporating activity from the electronic platform into the determination of settlement prices for those contracts presently settling to activity in the open outcry venue would potentially result in settlement prices less representative of fair market value. In accordance with the Charter, the Initial Rejection Notice was submitted to a Committee of the Board of Directors (the "Rule Change Committee"), which also determined not to approve the proposed settlement changes. Under the Charter, the CBOT Directors Committee and the Rule Change Committee expired on May 23, 2012, and the proposed changes to the settlement methodology were approved for implementation, with an effective date of June 25, 2012, by the Approving Officers pursuant to Rule 230(j).

- Certain market participants have expressed concerns that incorporating trading activity from the electronic platform in the derivation of settlement prices in Corn and the Soybean complex will increase volatility and exacerbate the risk of price distortions during the settlement period, potentially resulting in settlement prices that are less representative of fair market value. CME Group exchanges have effectively relied upon activity executed on the electronic platform to determine settlement prices in numerous products, including certain commodity products, and have not observed that doing so has increased the risk of price distortions or otherwise negatively impacted the quality of settlement prices. Significant liquidity is provided on the electronic venue in CBOT agricultural futures products during the settlement period as evidenced by the volume of trading activity, order flow and the number and diversity of market participants; this liquidity, implied spread functionality and arbitrage between the venues all work to mitigate the potential for excessive volatility to undermine the efficacy of the settlement procedures being adopted.

Additionally, CME Group employs a variety of automated volatility and risk mitigation controls at the match engine, such as price banding, market and stop order protection points, maximum order size protections and stop logic functionality, which mitigate the potential for market disruptions. Moreover, the CME Group settlement staff, in its sole discretion, is authorized to establish an alternative settlement price in the event that the prescribed settlement methodology yields a result that is not representative of the fair value of the contract during the settlement period.

- Certain market participants have expressed concerns that a hybrid methodology will increase the difficulty of hedging settlement price risk. The settlement procedures are transparent to all market participants and made available on the CBOT website. The objective of the settlement methodology is to effectively determine the contract's representative fair value during the settlement period in order that open positions can be accurately marked to market. The new settlement methodology is based upon the prices and volume executed, and, as applicable, the prices bid or offered, in the open outcry and electronic venues, and, as explained above, this methodology is expected to reliably yield representative settlement values.

- Concerns have been expressed that a hybrid methodology will create an incentive for business to migrate from open outcry to the electronic trading platform and result in a reduction in the number of liquidity providers who provide liquidity to both venues, thereby impairing overall contract liquidity. The hybrid settlement methodology is venue agnostic and ensures that executions in either venue are equally incorporated on a volume-weighted basis according to a transparent methodology. No incentives are being created to direct business to either venue, and, consistent with other parts of the trading day, customers will choose to execute their business during the settlement period in the venue that best meets their execution objectives.

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.

A copy of the SER is attached as Exhibit 1.

If you have any questions regarding this submission, please contact the undersigned at 312.930.8167 or via email at Sean.Downey@cmegroup.com. Please reference CBOT Submission No. 12-150 in any related correspondence.

Sincerely,

/s/Sean Downey
Director & Assistant General Counsel

Attachment: Exhibit 1 – SER-6245

EXHIBIT 1

CME Group

Special Executive Report

S-6245 **May 25, 2012**

<u>New Settlement Methodology for CBOT Agricultural Futures</u>
Effective June 25, 2012

As previously announced in SER-6144, CME Group is modifying the methodology used to establish settlement prices in the following CBOT agricultural futures: Corn, Wheat, Oats, Rough Rice, Soybeans, Soybean Meal and Soybean Oil. The new methodology, described in further detail below, will incorporate both Floor-based and Globex-based activity into the volume-weighted price calculations that are used to determine settlement prices. Pending all relevant regulatory review periods, the new methodology will be implemented on June 25, 2012.

<u>Settlement Procedures</u>

- The designated lead month will be settled to the volume-weighted average price ("VWAP") of all outright trades executed in the pit and on Globex from 13:14:00-13:15:00 Central Time ("CT").

- In the event a settlement calculation yields a value that is the midpoint between two ticks, the settlement price will be rounded to the tick closer to the prior day's settlement price.

- All months other than the designated lead month will settle chronologically based upon the VWAP of calendar spread transactions executed in the pit and on Globex from 13:14:00-13:15:00. For example:

  In a March, May, July listing cycle in which the March contract is the designated lead month, the May contract will settle based on the VWAP of the March/May spreads and the July contract will settle based on the VWAPs of the March/July and May/July spreads.

  In a July, September, December listing cycle in which the December contract has become the designated lead month, the July contract will settle based on the VWAP of the July/December spreads, and the September contract will settle based on the VWAP of the July/September and September/December spreads.

- In the absence of relevant calendar spread trades, the midpoint of the calendar spreads' best bid/ask on the Floor and on Globex will be used to value the spread, provided that the width of the bid/ask is no greater than the pre-defined bid/ask width threshold established for that product.

- In the absence of relevant calendar spread markets that meet the bid/ask threshold, the net change of the previous contract month will be applied to determine the contract's settlement price. However, if a contract is initially settled to the net change of the previous month and there are posted markets at 13:15 in one or more calendar spreads with that contract as the nearby leg, then the settlement price will be adjusted on a subsequent iteration based upon the midpoint of the bid/ask of those calendar spreads, provided they meet the bid/ask threshold.

- Expiration Procedures: On the last trading day of an expiring contract, the settlement period for the expiring contract will be 12:00:00-12:01:00, and the contract's final settlement price will be the VWAP of all outright trades executed in the pit and on Globex during that period. In the absence of trading during the settlement period, the contract will settle to the last trade or a subsequent standing better bid or offer.

- Notwithstanding the foregoing, in the event that the aforementioned calculations cannot be made or if designated CME Group settlement staff, in their sole discretion, determine that the calculations yield results that are not representative of the fair value of the contract, staff shall establish an alternative settlement price.

Additional Notes Regarding Settlement Protocols

- The designated lead month in each product shall be determined by the Exchange. As is presently the case, the designated lead month for a product is generally the most active month and will shift as open interest and volume migrate during the contract lifecycle. Advance notification of changes to the designated lead month will be provided to the marketplace.

- Soybean Oil and Soybean Meal presently close on a month-by-month rotation that begins after 13:15. Beginning June 25, the settlement period for Soybean Oil and Soybean Meal will be 13:14:00-13:15:00, and only trades and bid/ask information during that period will be used in the calculation of daily settlements. There will continue to be a closing rotation after 13:15 for outright contract months other than the designated lead month, and outright market on close orders in those contract months that are entered for execution in the open outcry venue will continue to be executed during the rotation. However, activity during the rotation will not impact the determination of settlement prices.

- Consistent with current practice, on option expiration days (including Crush option expiration days), when the designated lead month futures contract is not the expiring month, both the lead month and the expiring month will settle based on the VWAP of outright activity during the settlement period from 13:14:00-13:15:00. The settlements will be based upon the VWAP of both outright pit activity and outright Globex activity during that period.

- As noted above, a bid/ask width threshold has been established for each product that will determine, based on the bid/ask in the pit and on Globex at 13:15, whether a specific calendar spread may be used in the derivation of settlements in the absence of transactions. The table below details the designated bid/ask thresholds.

Product	Maximum Spread Bid/Ask	Product	Maximum Spread Bid/Ask
Corn	12 ticks	Soybeans	20 ticks
Wheat	20 ticks	Soybean Meal	30 ticks
Rice	40 ticks	Soybean Oil	30 ticks
Oats	40 ticks		

CME Group settlement staff reserves the right, in its sole discretion, to ignore bids or offers that are not transparently exposed for a sufficient period of time prior to 13:15.

- There will continue to be a three-minute post close session in the open-outcry venue that will begin as soon as practicable following the conclusion of regular trading hours. During the post close session, trades may be executed at any price within the daily price limits for the contract. Spread transactions executed during the post close session also may occur at any price, provided that all legs of the spread are priced within the daily price limits. Activity during the post close session will not impact the determination of settlement prices.

An example of the application of the new settlement methodology appears on the following pages.

Questions regarding this Special Executive Report may be directed to the CME Global Command Center at 312.456.2391 or in Europe at 44.207.623.4708.

For media inquiries concerning this Special Executive Report, please contact CME Group Corporate Communications at 312.930.3434 or news@cmegroup.com.

Example of New CBOT Agricultural Futures Settlement Methodology

Lead Month – March 2012

Settled based on outright trades on the Floor and CME Globex (blended VWAP)

Floor VWAP: 400 contracts trade at a VWAP of $6.75½

Globex VWAP: 1000 contracts trade at a VWAP of $6.76

March 2012 settlement: $6.75¾ ((400 x $6.75½) + (1,000 x $6.76))/1400

Second Month – May 2012

Settled based on March/May trades on the Floor and CME Globex (blended VWAP)

Floor VWAP: 600 spreads trade at a VWAP of -12¾ cents

Globex VWAP: 300 spreads trade at a VWAP of -13 cents

Blended VWAP: -12¾ cents = ((600 x -12¾) + (300 x -13))/900

May 2012 settlement: $6.88½ $6.75¾ - (-12¾)

Third month – July 2012 (Initial)

Assume no March/July or May/July spreads were executed between 13:14 and 13:15, and that there was no bid/ask in those spreads less than or equal to the 12 tick bid/ask threshold applicable to Corn.

Initial settlement is therefore based on the net change of the previous month, May 2012, which is applied to the prior day's July settlement.

May 2012 Net Change = +1¼

July 2012 Prior Day's Settlement = $7.00

Initial July 2012 settlement: $7.01¼ $7.00 + 1¼

Fourth month – September 2012

Settled based on the blended VWAP of Mar/Sep, May/Sep and Jul/Sep trades on the Floor and CME Globex

Floor Mar/Sep VWAP: 40 spreads trade at a VWAP of -55¼ cents

Globex Mar/Sep VWAP: 10 spreads trade at a VWAP of -55½ cents

Blended Mar/Sep VWAP: -55¼ cents = ((40 x -55¼) + (10 x -55½))/50

Implied Sep price from Mar/Sep spread: $7.31 = $6.75¾ - (-55¼)

Floor May/Sep VWAP: 15 spreads trade at a VWAP of -42½ cents

Globex May/Sep VWAP: 15 spreads trade at a VWAP of -43 cents

Blended May/Sep VWAP: -42¾ cents = ((15 x -42½) + (15 x -43))/30

Implied Sep price from May/Sep spread: 7.31¼ = $6.88½ - (-42 ¾)

No July/Sep spreads traded on the Floor or on CME Globex

September 2012 settlement: $7.31 ((50 x $7.31) + (30 x $7.31¼))/80 = 7.31

Reassessment of July 2012 Settlement

Because the July 2012 contract initially settled to the net change of the May 2012, a second review is performed which examines the bid/ask in spreads in which July was the nearby leg of the spread.

Globex July/Sep spread bid/ask at 13:14:59.999: -32/-30¾

Floor July/Sep spread bid/ask at 13:15: -32¼/-31

Best Bid/Ask: -32/-31

Sep 2012 settled $7.31. Midpoint of July/Sep spread market is -31½.

July 2012 settlement revised from $7.01¼ to $6.99½: 7.31 – 31½

The balance of the listed months would follow the methodology outlined above.