



July 31, 2012

SENT VIA E-MAIL

Mr. David Stawick  
Secretary of the Commission  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21<sup>st</sup> Street, N.W.  
Washington, D.C. 20581

Re: Submission Pursuant to CFTC Regulation Section 40.6(a)  
"Non-Material Agricultural Rule Change"

Dear Mr. Stawick:

- I. **Certification.** The Kansas City Board of Trade ("KCBT") hereby gives notification to the Commission pursuant to Commission Regulation Section 40.6(a), of its intention to amend Rule 2005.01 pertaining to its wheat futures settlement procedures. Although CFTC Regulation Section 40.4(a) requires submission for prior approval under the procedures of Section 40.5 for any rule changes that "materially" change an enumerated agricultural product term or condition as defined in Section 40.1(j), and procedures for the establishment of settlement prices are included as a term or condition pursuant to Section 40.1(j)(1)(vi), KCBT contends that amended Rule 2005.01 does not materially change the settlement process, as the resulting settlement prices established under the proposed amended rule will not be materially different from current practice. For this reason, pursuant to CFTC Regulation Section 40.4(b)(5), KCBT is submitting this amended rule pursuant to Section 40.6(a) and labeling such as a "Non-Material Agricultural Rule Change".

The KCBT Board of Directors, in a regular meeting held on this date and acting pursuant to authority granted them under Rule 233.01(o), unanimously approved the aforementioned amendments. KCBT certifies to the Commission that to the best of its knowledge, the amendments to Rule 2005.01 are in compliance with the Commodity Exchange Act and the regulations thereunder.

- II. **Date of Implementation.** KCBT intends to make amended Rule 2005.01 effective Monday, August 20, 2012, which is at least ten business days following Commission receipt of this submission.
- III. **Substantive Opposing Views.** To the knowledge of the Board of Directors and staff, the only substantive opposing views expressed by members or others regarding amended Rule 2005.01 are as follows:

Concerns have been expressed that a blended settlement process could adversely impact the exchange should trade during the closing period migrate from open outcry to the electronic trading platform (pit to screen). The potential adverse impacts expressed include: 1) The potential loss of floor-based clearing member firms and support staff, who serve an important role in customer communication and customer facilitation of open outcry trade; 2) The potential loss of experienced floor brokers who execute customer floor orders as agent, resulting from a loss of floor-based clearing member firms; and 3) The potential loss of liquidity resulting from the migration of business from pit to screen, given that arbitrage between the two venues enhances overall liquidity.

Despite these concerns, the blended settlement procedure will result in the equal representation of all contracts traded during the closing period in determining the weighted average settlement price. As such, neither venue will have an advantage in determining the settlement, as all market participant activity will be treated equally in the determination of the settlement price, regardless of execution venue.

IV. **Text of Amended Rule.** The text of amended Rule 2005.01 is as follows, with additions underlined (in bold) and deletions lined out:

~~2005.01~~ **Official Close; Settlement Price.** ~~Under the provisions of Rule 1111.00, the pit reporter is instructed to ring the bell before the closing period of the session and immediately after the final bell, call out the highest and lowest quotations made during the closing period. Those quotations shall constitute the official closing range of the market.~~ The settlement price shall be determined in the following manner:

- a. Immediately following the closing bell, all brokers and traders in the pit shall report to the pit reporter and the Wheat Pit Committee all outright trades, bids and offers and all spread trades, bids and offers made in the closing period that are relevant in determining settlement prices in accordance with Sections (b), (c) & (d) below.
- b. The settlement price of the lead contract month (determined by the Wheat Pit Committee based on criteria such as volume, open interest and historical experience) shall be determined by the weighted average method of the trades in the closing period **executed both on the Electronic Trading System and in the pit** ~~as reflected in the information reported to the pit reporter and Committee in accordance with subpart "a" of this Rule,~~ **rounded to the nearest price tick**.
- c. The remaining contract months shall be settled based on spread price relationships, considering spread trades **executed both on the Electronic Trading System and in the pit** reported during the close **closing period**. If individual spreads trade at multiple prices during the close, the Committee shall use the weighted average of spread prices, **rounded to the nearest price tick**, in determining the settlement. The lead contract month settlement price shall serve as the initial spread relationship basing point for adjacent contract months, whose settlement can then be used in chronology to determine deferred month settlements.
- d. If no spreads involving a particular contract month traded during the close, the Committee shall take into consideration other market information available to the Committee that is pertinent to such contract month, including but not limited to, spread bids and offers, the latest quoted spread trade, the latest outright trades, bids or offers and the settlement price differentials that existed on the previous day in order to determine a settlement price that most accurately reflects the relationship between such month and surrounding contract months.

Mr. David Stawick  
July 31, 2012  
Page 3 of 3

- e. If any settlement price is not consistent with market information known to the Wheat Pit Committee supervising the settlement process closing, or if trading is terminated without a closing period, then the Committee may establish a settlement price at a level consistent with such market information and shall cause to be prepared a written record setting forth the basis for such settlement price.

Note: It is possible that the settlement prices established as a result of spread price relationships could result in settlement prices that violate either open outright contract month or spread orders. No such orders shall be elected and brokers shall not be held liable on orders violated as a result of such settlement price procedure.

- V. **Rationale for Action Taken.** The current settlement process for wheat futures only takes into consideration the pit (floor) trading activity transacted during the closing period. As stated above, the intent of amended Rule 2005.01 is to implement a blended settlement procedure that will result in the equal representation of all contracts traded during the closing period in determining the weighted average settlement price. As such, neither venue will have an advantage in determining the settlement, as all market participant activity will be treated equally in the determination of the settlement price, regardless of execution venue.

KCBT certifies that amended Rule 2005.01 is in compliance with the Commodity Exchange Act and regulations thereunder, including core principles and Commission regulations thereunder.

KCBT further certifies that concurrent with the filing of this submission with the Commission, it has posted a notice of pending certification with the Commission and a copy of this submission on its website:

[http://www.kcbt.com/histdata/rule\\_book/KCBT\\_pending\\_certif.html](http://www.kcbt.com/histdata/rule_book/KCBT_pending_certif.html)

- VI. **Closing.** Any questions regarding this submission should be directed to Joe Ott, KCBT Vice President-Compliance at 816-753-7500 or [jott@kcbt.com](mailto:jott@kcbt.com).

Sincerely,

  
Jeff C. Borchardt  
President