



Christopher Bowen  
Managing Director and Chief Regulatory Counsel  
Legal Department

August 9, 2013

**VIA E-MAIL**

Ms. Melissa Jurgens  
Office of the Secretariat  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21st Street, N.W.  
Washington, DC 20581

**Re: Regulation 40.6(a) Self Certification: Amendments to KCBT Rulebook  
Chapter 25 to permit the listing of Short-Dated New Crop Options on KCBT  
Wheat Futures.  
KCBT Submission # 13-320**

Dear Ms. Jurgens:

The Board of Trade of Kansas City, Missouri, Inc. ("KCBT" or the "Exchange"), pursuant to Commodity Futures Trading Commission ("Commission") Regulation 40.6(a), hereby notifies the Commission that it is self-certifying amendments to KCBT Rule Chapter 25, to facilitate the listing of Short-dated New Crop Options on KCBT Wheat Futures contracts ("Short-dated Options"), and conforming rule revisions as specified in Appendix D for the listing of Short-dated Options and the addition of a new line item for the existing Wheat Weekly Options reportable level previously certified in KCBT Submission No. 13-250. The proposed amendments will be effective on Sunday, August 25, 2013, for trading date Monday, August 26, 2013.

The Short-dated Options exercise into July KCBT Wheat Futures contracts instead of nearby futures. The Short-dated Options also expire earlier than standard July options on KCBT Wheat Futures, resulting in less time value than standard new crop options. Lower time value will provide market participants a cost effective tool to hedge new crop wheat positions. In addition, these options will provide market participants increased hedging flexibility and additional trading opportunities such as the ability to trade high impact events that affect new crop markets in specific time frames; hedging positions in old crop/new crop Calendar Spread Options; and managing Greek sensitivity within an options book.

Other than different underlying futures and listing cycles, the Short-dated Options have the same contract specifications – American-style exercise; strike price ranges; strike price increments; minimum option premium increments; daily and final settlement – as standard KCBT Wheat options. More detailed contract specifications are shown in Appendix A. A detailed fee schedule for the Short-date Options is shown in Appendix B.

KCBT business staff and the legal department collectively reviewed the designated contract market core principles ("Core Principles") as set forth in the Commodity Exchange Act ("CEA"). During the review, KCBT staff identified that the proposed changes may impact the following Core Principles:

- Compliance with Rules – Trading in these contracts will be subject to the rules in KCBT Rulebook Chapter 14 which includes prohibitions against fraudulent, noncompetitive, unfair and abusive practices. Additionally, trading in these contracts will also be subject to the full range of trade practice rules. As with all products listed for trading on one of CME Group's designated

Ms. Melissa Jurgens  
August 9, 2013

contract markets, activity in the new products 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.

- Contracts not Readily Susceptible to Manipulation – The new products are not readily subject to manipulation due to the deep liquidity and robustness in the underlying futures market, which provides diverse participation and sufficient transactions to support the final settlement.
- Prevention of Market Disruption – Trading in these contracts will be subject to KCBT Rulebook Chapter 11 which includes prohibitions on manipulation, price distortion and disruptions of the delivery or cash-settlement process. As with all products listed for trading on one of CME Group's designated contract markets, activity in the new products will be subject to monitoring and surveillance by CME Group's Market Regulation Department.
- Position Limitations or Accountability – The contract specifications establish speculative position limits at the same level as specified for existing KCBT Wheat options contracts. In addition, positions in this new product will be aggregated with positions in existing standard and serial options contracts and the underlying KCBT Wheat futures contracts to ensure compliance with CFTC and/or Exchange speculative limits.
- Availability of General Information – The Exchange will publish information on the Short-dated Options' terms and conditions, trading rules and specifications on its website.
- Daily Publication of Trading Information – Trading volume, open interest and price information for the Short-date Options will be published daily on the CME Group website.
- Execution of Transactions – This product will be listed on the CBOT trading floor and CME Globex. This product is also listed on CME ClearPort so any similar OTC products can be exchanged for Exchange positions. The CBOT trading floor is available as a venue to provide for competitive and open execution of transactions. The CME Globex electronic trading platform provides for a competitive and open execution of transactions due to its advanced functionality, high reliability and global connectivity. CME ClearPort provides a competitive, open and efficient mechanism for novating transactions that are competitively executed by brokers.
- Trade Information – Trade information for this product will be collected and maintained in the same way as for other exchange-traded futures and options contracts. All required trade information is included in the audit trail and is sufficient for the Market Regulation Department to monitor for market abuse.
- Financial Integrity of Contracts – All contracts traded on the Exchange or submitted for clearing via CME ClearPort will be cleared by the CME Clearing House, which is a registered derivatives clearing organization with the Commission and is subject to all Commission regulations related thereto.
- Protection of Market Participants – The KCBT rulebook contains multiple prohibitions precluding intermediaries from disadvantaging their customers. These rules apply to trading on all of the Exchange's competitive trading venues and will be applicable to transactions in this product.
- Disciplinary Procedures – Chapter 14 of the KCBT Rulebook contains provisions that allow the Exchange to discipline, suspend or expel members or market participants that violate its rules. Trading in this contract will be subject to Chapter 14, and the Market Regulation Department has

Ms. Melissa Jurgens  
August 9, 2013

the authority to exercise its enforcement power in the event rule violations in this product are identified.

- Dispute Resolution – Disputes with respect to trading in this contract will be subject to the arbitration provisions set forth in Chapter 15 of the KCBT Rulebook.

The Exchange is not aware of any substantive opposing views to this proposal.

The Exchange certifies that these contract terms and conditions comply with the CEA and regulations thereunder. The Exchange certifies that this submission has been concurrently posted on the CME Group website at <http://www.cmegroup.com/market-regulation/rule-filings.html>.

If you require any additional information regarding this action, please contact me at 212-299-2200, or John McKinlay at 312-930-3028 or [JohnMcKinlay@cmegroup.com](mailto:JohnMcKinlay@cmegroup.com), and reference KCBT Submission 13-320 in any related correspondence.

Sincerely,

/s/ Christopher Bowen  
Managing Director and Chief Regulatory Counsel

Attachments: Appendix A: Contract Specifications for Short-dated Options  
Appendix B: Fee Schedule for Short-Dated Options  
Appendix C: Amendments to KCBT Rule Chapter 25  
Appendix D: Amended Trade Practice Rules  
Appendix E: Additions to Globex Non-reviewable trading ranges table at Rule 588.H

**Appendix A:  
Contract Specifications for Short-dated Options**

<b>Contract Name</b>	<b>Short Dated Options on New Crop KCBT Hard Red Winter Wheat Futures</b>
<b>Contract Unit</b>	One new crop KCBT Wheat futures contract (July) of 5,000 bushels
<b>Minimum Fluctuation</b>	1/8 of one cent per bushel (\$6.25 per contract)
<b>Strike Price Intervals</b>	Trading shall be conducted for put and call options with strike prices in integral multiples of five (5) cents per bushel. More details on strike price intervals are outlined in KCBT Rule 2511.01.
<b>Contract Months</b>	On the first trading day following the expiration of September option, list 3 contract months: December (Z), March (H), and May (K). Each of these options will exercise into the July futures contract that is nearest to the expiration of the option. A new listing cycle will begin on the first trading day following the expiration of the next September option.
<b>Daily Price Limit</b>	Same as the daily price limit applied to standard and serial options. There shall be no price limits on the last trading day.
<b>Last Trade Date</b>	Same as the last trade date of existing December, March, and May standard options.
<b>Exercise</b>	American-style. The buyer of a futures option may exercise the option on any business day prior to expiration by giving notice to the Clearing House by 6:00 p.m. Chicago time. Option exercise results in an underlying futures market position. Options in-the-money on the last day of trading are automatically exercised.
<b>Expiration</b>	Unexercised Wheat futures options shall expire at 7:00 p.m. on the last day of trading.
<b>Hours (All Times are Chicago Time/CT)</b>	<b>CME Clearport:</b> 5:00 pm CT Sunday through 4:15 pm CT Friday, with a 45-minute break between 4:15 pm and 5:00 pm on Mondays through Thursdays.
	<b>Open Outcry:</b> 8:30 am - 1:15 pm CT, Monday - Friday
	<b>Globex:</b> 7:00 pm - 1:15 pm CT, Sunday - Friday with a 45-minute break each day between 7:45 am and 8:30 am
<b>Product Ticker Symbols</b>	<b>Globex:</b> KWE
	<b>Open Outcry:</b> KWO
<b>Rulebook Chapter</b>	Chapter 25
	Note: Please insert following link and open in a new window.
	<a href="http://www.kcbt.com/20130604_kcbt_rules_clean.pdf">http://www.kcbt.com/20130604_kcbt_rules_clean.pdf</a>
<b>Exchange Rule</b>	These contracts are listed with, and subject to, the rules and regulations of KCBT.

## Appendix B Fee Schedule for Short-dated Options

### CBOT Member Firms and Individuals – KC Wheat SDNC Options – Exchange Fees

Level	CBOT Account Owner <sup>2</sup>	Execution Type	Platform	Exchange Fee
<b>Individual Member</b>				
<b>1</b>	Individual Members	Member Trading Own Account	Open Auction	\$0.00
			Electronic	\$0.14
	Individual Delegates	Delegate Trading Own Account	Open Auction	\$0.00
			Electronic	\$0.29
<b>Equity Members (Individual Equity members, Clearing Firms and Equity Firms)</b>				
<b>2</b>	Equity Members <sup>1</sup>	Member or Delegate	Open Auction	\$0.00
			Electronic	\$0.14
	Equity Members <sup>1</sup>	Non Member	Electronic	\$0.45
			(Exception) Rule 106.S. Family of Funds Equity Member Firms	Member, Delegate or Non Member
			Electronic	\$0.45

**1** - Clearing Closely Held Corporate Members & Sole Proprietors, Rule 106.J. Equity Closely Held Corporate Members & Rule 106.I. Affiliate Equity Member Firms, Individual Equity Members (other member/delegate executing), Clearing FCMs, Rule 106.J. Equity FCMs, Clearing Corporate Members, Rule 106.J. Equity Corporate Members & Rule 106.I. Affiliate Equity Member Firm (Affiliate of Clearing FCM, Clearing Corporate Member or Rule 106.J Equity FCM or Equity Corporate Member), Rule 106.I. Affiliate Membership Umbrella - Qualified Affiliate - Unlimited Number of Affiliates

Level	CBOT Account Owner <sup>2</sup>	Platform	Exchange Fee
<b>Trading Members (Individual Non-Equity Members and Non-Equity Member Firms)</b>			
<b>3</b>	Individual Non-Equity Members (other member/delegate executing); Rule 106.H. Corporate Trading Firms; Rule 106.H. Trading FCMs; & Rule 106.I. Affiliate Trading Member Firms	Open Auction	\$0.00
		Electronic	\$0.75
	Individual Delegates (Other Member or Delegate executing the trade) & Rule 106.I. Affiliate Trading Member Firms	Open Auction	\$0.00
		Electronic	\$0.90
	Rule 106.S. Family of Funds Equity Member Firms	Open Auction	\$0.00
		Electronic	\$0.75
<b>Electronic Corporate Member Firms</b>			
<b>4</b>	Electronic Corporate Members	Electronic	\$0.90

**2**— Product--Seat Division Eligibility

KC Wheat SDNC Options – Account Owners noted above must hold or lease a CBOT FULL, AM, or COM seat to be eligible for these reduced rates.

## CME Member Firms and Individuals - KC Wheat SDNC Options – Exchange Fees

Level	CME Account Owners <sup>1</sup>	Execution Type	Platform	Exchange Fee
<b>Individual Member</b>				
1	Individual Members	Member Trading Own Account	Open Auction	\$0.00
			Electronic	\$0.14
	Individual Delegates (Rule 106.D Lessees / Rule 106.F Employees)	Delegate Trading Own Account	Open Auction	\$0.00
			Electronic	\$0.29
<b>Clearing and Equity Firms</b>				
2	Clearing Member Firms,/ Rule 106.J Equity Member Firms/Rule 106.I Members/ 106.S Family of Hedge Funds	Member or Delegate	Open Auction	\$0.00
			Electronic	\$0.14
		Non Member	Electronic	\$0.45

Level	CME Account Owners <sup>1</sup>	Platform	Exchange Fee
<b>Individual Members - Not Trading For Own Account</b> ( <i>Execution not a Factor</i> )			
3	Individual Members	Open Auction	\$0.00
		Electronic	\$0.75
	Individual Delegates (Rule 106.D Lessees / Rule 106.F Employees)	Open Auction	\$0.00
		Electronic	\$0.90

<sup>1</sup> – Product--Seat Division Eligibility

HRW Options – Account Owners noted above must hold or lease a CME, IMM, or IOM seat to be eligible for these reduced rates.

## CME& CBOT Member Firms and Individuals - KC Wheat SDNC Options Clearing, EFR Surcharge and Non Trade Processing Fees

Other CBOT Processing Fees	Rate
Clearing Fee <sup>1</sup>	\$0.06
Ex-Pit Surcharge (EFR)	\$0.50
Exchange Fees for Non Trades ( <i>Exercise, Assignment, Delivery, Future from Exercise and Future from Assignment</i> )	\$0.05 Member \$0.20 Delegate
Exchange Fees for Expired Options	\$0.05
Brokerage (With or Without Discretion)	\$0.00 <sup>2</sup>

<sup>1</sup> Clearing Fee includes Pit Trades, Pit Spreads, Give Ups, Electronic Trades, Electronic Spreads, Exercise, Assignment and Delivery transaction types

<sup>2</sup> Brokerage Fees to be waived at this time for CBOT and CME Members.

## KCBT Permit Holders - KC Wheat SDNC Options

### Exchange Fees

Account Type	Platform	Wheat Options Exchange Fee
Individual Permit Holder	Open Auction	\$0.00
	Electronic	\$0.15
Other Permit Holder	Open Auction	\$0.00
	Electronic	\$0.50
Non-Permit Holder	Open Auction	\$0.55
	Electronic	\$1.70

### Clearing Fees

Account Type	Platform	Wheat Options Exchange Fee
Permit Holder	Open Auction	\$0.00
	Electronic	\$0.00
Non-Permit Holder	Open Auction	\$0.10
	Electronic	\$0.10
Surcharges	Trade Types	Open Auction
Exchange For Risk	All Trades	\$0.50
Delegate Permit Holder	CTI Type 1	\$0.20
	CTI Type 2,3&4	\$0.10

## Appendix C

### Amendments to KCBT Rule Chapter 25

(The proposed rule changes are attached with additions underlined and deletions ~~overstruck~~)

#### Chapter 25

#### OPTIONS ON CONTRACTS OF SALE ON HARD WINTER WHEAT FUTURES CONTRACTS

##### 2507.00 Option Trading Months.

Options shall be listed for trading in the following months:

- a. For options months in the ordinary cycle of the underlying futures contract (i.e., July, September, December, March and May), the number of months listed shall be the same as the underlying futures contract, provided, however, that a new option contract based on the ordinary cycle will be introduced the day after trading has commenced in the underlying futures pursuant to Rule 2511.02.
- b. For options months outside the ordinary cycle (i.e., August, October, November, January, February, April and June, hereinafter referred to as "serial" months), the number of months listed shall be established by the Exchange. However, no serial months shall be listed outside of the months listed pursuant to subsection (a) above.
- c. Weekly options expire on every Friday, except for those Fridays on which standard or serial options are scheduled to expire. A new weekly option will automatically be introduced the business day following the expiration of a weekly option so that three weekly options are always listed concurrently.
- d. For short-dated new crop options, on the first trading day following the expiration of the September option, list at least 3 contract months: December, March, and May. A new listing cycle will begin on the first trading day following the expiration of the next September option.

##### 2507.01 Underlying Futures Contract.

For options that expire in the ordinary cycle (i.e., July, September, December, March and May), the underlying futures contract is the futures contract corresponding to the option expiration month. For serial options (options outside the ordinary cycle), the underlying futures contract is the next futures contract in the ordinary cycle nearest the option expiration month. For example, the underlying futures contract for an option contract expiring in October or November is the December futures contract. For weekly options, the underlying futures contract is the nearby futures contract. However, if the nearby futures are still trading but the standard option on that futures has expired, then weekly options expire into the second-listed futures contract. For short-dated new crop options, the underlying futures contract is the July futures contract that is nearest to the expiration of the options.

##### 2511.01 Strike Price Interval.

At the commencement of trading a new standard option month, the following strike prices shall be listed: the strike price closest to the previous day's settlement price of the underlying futures contract (the at-the-money strike), and strikes in integral multiples of ten cents (10¢) per bushel in a range 50 percent above and below the at-the-money strike.

At the commencement of trading serial month options, weekly options and short-dated new crop options and for standard option months the business day they become the third listed month, the following strike



prices shall be listed: the strike price closest to the previous day's settlement price of the underlying futures contract (the at-the-money strike), and strikes in integral multiples of five cents (5¢) per bushel in a range 25 percent above and below the at-the-money strike.

If the previous day's settlement price is midway between two strike prices, the closest price shall be the larger of the two. (For example – if a new futures month contract closes at \$3.75, the closest price is \$3.80.) The Exchange may modify the procedures for the introduction of strikes as it deems appropriate in order to respond to market conditions.

#### **2511.02 New Options.**

A new option based on a futures month within the ordinary cycle will be introduced the day after trading has commenced in the underlying futures contract for that contract month, (for example — if on February 1, the December futures contract had traded for the first time, then on February 2, an option month for the December futures contract is listed, having strike prices as specified in Rule 2511.01). A new option based on a serial month (a month outside of the ordinary cycle) will automatically be introduced the day following the expiration of a serial month, so as to at all times have available for trading the number of serial months established by the Exchange for trading, (for example, if the Exchange has authorized the listing of three serial months, and those months currently traded are January, February and April, then the serial contract month of June will automatically be listed for trading the day following the expiration of the January contract month). A new weekly option will automatically be introduced the business day following the expiration of a weekly option so that three weekly options are always listed concurrently. Weekly options expire on every Friday, except for those Fridays on which standard or serial options are scheduled to expire. On the business day following the expiration of standard or serial options, no new weekly option will be introduced. For short-dated new crop options, on the first trading day following expiration of the September option, list at least 3 contract months: December, March, and May.

#### **2514.00 Last Day Of Trading And Expiration.**

- a. For options months in the ordinary cycle; no trades in options expiring in the current month shall be made after 1:15 p.m. on the last Friday which precedes by at least two (2) business days, the first notice day for the corresponding futures contract.
- b. For serial options months (months outside the ordinary cycle); no trades shall be made after 1:15 p.m. on the Friday which precedes by at least two (2) business days, the last business day of the calendar month immediately preceding the option serial month, (for example, for November serial options contracts, the last trading day is the Friday which precedes by at least two (2) business days, the last business day in October). If such Friday is not a business day, the last day of trading shall be the business day prior to such Friday. The option shall expire at 10:00 a.m. on the first Saturday following the option's last day of trading.
- c. For weekly options; no trades in weekly options shall be made after 1:15 p.m. on the Friday such a weekly option expires. If such Friday is not a business day, the last day of trading shall be the business day prior to such Friday. The option shall expire at 10:00 a.m. on the first Saturday following the option's last day of trading.
- d. For short-dated new crop options, the last day of trading in any option for expiry in a given month shall be the last Friday which precedes by at least two business days the last business day of the calendar month preceding such option's named expiry month. If such Friday is not a business day, then the last day of trading in such option shall be the business day prior to such Friday. On their last day of trading, short-dated new crop options shall cease trading at the same time that its corresponding futures contract ceases trading. The option shall expire at 10:00 a.m. on the first Saturday following the option's last day of trading.

#### **2521.00 Position Reporting Limits.**

Permit Holders shall comply with all applicable position limits adopted by the Exchange or by the CFTC. Positions in short-dated new crop and weekly options are equivalent to positions in standard and serial

options and all Rules in KCBT Rulebook Chapter 25 apply including Rule 2521.00 (Position Reporting Limits). Option positions are aggregated with futures positions with respect to KCBT Wheat futures speculative position limits, so Rule 2008.00 (Position Limits) also applies.

## Appendix D

### Amended Trade Practice Rules

(The proposed amendments to KCBT trade practice rules appear below, with additions double underscored. Please note that KCBT Submission No. 13-319, submitted on August 8, 2013, certified modifications to Rules 559.F and 561.B for effective date August 12, 2013. The modifications certified in Submission No. 13-319 are not affected by this Submission No. 13-320 and appear below with additions single underscored.

In addition, KCBT is inserting the current, unmodified reportable levels for Wheat weekly options as a separate line item in Rule 561.B in order to provide further clarity to market participants as the KCBT options suite expands.)

## Chapter 5

### Trading Qualifications and Practices

#### 559.F. Wheat Position Limits

No person may or control positions, separately or in combination, net long or net short, for the purchase or sale of commodity futures, AUD KC HRW Swaps, and options contracts, on a net equivalent futures position basis, in excess of the following:

1. Spot Month – 600 contracts
2. Single Month – 12,000 contracts
3. All Months Combined – 12,000 contracts

Positions in short-dated new crop and weekly options are equivalent to positions in standard and serial options and all Rules in KCBT Rulebook Chapter 25 apply including Rule 2521.00 (Position Reporting Limits). Option positions are aggregated with futures positions with respect to KCBT Wheat futures speculative position limits, so Rule 2008.00 (Position Limits) also applies.

4. Last Day of Clearing AUD KC HRW Swaps: 600 contracts, additional positions allowed provided they are offset with opposite positions in KCBT Wheat futures and/or options.

#### 561.B. Reportable Levels

Wheat futures – 150 contracts

Wheat futures options – 50 contracts

Wheat weekly options – 50 contracts

Wheat short-dated new crop options – 50 contracts

Wheat Calendar Swaps and AUD KC HRW Swaps (Cleared-Only) – 25 contracts

**Appendix E**  
**Additions to Globex Non-Reviewable Trading Ranges Table at Rule 588.H**

(additions underlined)

Instrument	Bid/Ask Reasonability	Non-Reviewable Range (NRR)
<u>KCBT Short-Dated New Crop Wheat Options</u>	<u>The greater of the delta times the underlying futures non-reviewable range or 20% of the fair value premium up to the underlying futures non- reviewable range with a minimum reasonability of \$.01</u>	<u>20% of premium up to ¼ of the underlying futures non-reviewable range with a minimum of 1 tick.</u>