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CFTC approves CBOT non-commercial delivery limits

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In the latest sign of heightened Commodity Futures Trading Commission (CFTC) concern over grain trading activities, the CFTC announced Friday that it has approved a request by the Chicago Board of Trade (CBOT) to limit the number of delivery instruments an entity can hold for non-commercial purposes. This limit applies to warehouse receipts or shipping certificates for the Exchange's Corn, Mini-sized Corn, Wheat, Mini-sized Wheat, Oat, Rough Rice, Soybean, Mini-sized Soybean, Soybean Oil and Soybean Meal contracts and limits the number of certificates/receipts anyone can hold to an amount equal to the spot month speculative position limit.

The amendments are intended to reduce the potential for the significant accumulation of delivery instruments by participants employing strategies not directly related to commercial activities and which might negatively impact contract performance. The Exchange will provide for exemptions for bona fide commercial purposes administered under existing hedge exemption procedures. Financial arrangements in which the certificates are held as collateral but under the effective control of a third party will also be eligible for exemption. The CBOT intends to implement the amendments on February 17, 2009, such that persons owning or controlling more than the specified limit of certificates or receipts as of that date will have until May 31, 2009, to come into full compliance with the limits on Corn, Wheat, Oat, Rough Rice, Soybean, and Soybean Meal. For Soybean Oil. Persons holding certificates in excess of the new limits will have until September 25, 2009, to come into full compliance.

Commenting on the new limits, CFTC Acting Chairman Michael Dunn stated: "While we remain concerned about problems with convergence in the grain markets, I commend the CBOT for recognizing the seriousness of the situation and actively taking steps to address it. We will monitor the effectiveness of this and other grain contract changes to see if convergence remains an issue requiring further action."

CFTC staff reviewed the CBOT proposal and found that it did not violate the Commodity Exchange Act (Act) and the Commission's regulations, including Core Principle 5 of the Act, which states "To reduce the potential threat of market manipulation or congestion, especially during trading in the delivery month, the board of trade shall adopt position

limitations, or position accountability for speculators, where necessary and appropriate.” Nevertheless, in approving the changes, the CFTC reaffirms its concern over grain contract performance and that it will continue to closely monitor trading of these contracts.

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