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## Chapter 20

# Wheat

**Note: Trading Months:** By custom and usage, the delivery/trading months for grain futures are March, May, July, September, and December. These have not been set by Board action or the By-laws insofar as existing records indicate. It is assumed that they could be changed by action of the Board of Directors. Also by custom, until recently the members could trade in any distant month without any official Board approval or action to "open" such months. However, since late 1978, due to concern about changing freight rates and laws, the Board has adopted the policy of permitting trade only in specifically authorized months (generally one year ahead). This serves to focus the Board's attention to such matters and also prevents trades in months in which contract terms could be changed, if required by changed conditions.

### Contracts

**2000.00 Contract Grades; Hard Winter Wheat.** Contracts for the delivery of Hard Winter Wheat shall be understood as for "Contract" Hard Winter Wheat, and the following grades may be tendered on contract at the premiums or discounts indicated:

No. 1 Hard Red Winter Wheat with eleven percent (11%) protein level or higher deliverable at 1-1/2 cents per bushel over contract price

No. 2 Hard Red Winter Wheat with eleven percent (11%) protein level or higher deliverable at contract price

All above grades are deliverable at protein levels equal to or greater than 10.5% but less than 11% at a ten cent (10¢) per bushel discount to contract price. Protein levels of less than 10.5% are not deliverable on the contract.

Deliveries of the above grades may be made in such proportions as may be convenient to the seller; subject however, to the provisions of Rules 1206.00 and 1210.00.

**2000.01 Change Of Grades.** In the event of a change in United States Grain Standards, contracts for future delivery maturing after the effective date of such change shall be made on the basis of the standards as changed; provided, that this shall not be construed to prevent the closing of trades made prior to the effective date of such change.

**2000.02 Contract Size.** Contracts and deliveries on wheat futures shall be in units of 5,000 (five thousand) bushels.

**2000.03 Delivery Locations.** Regular elevators or warehouses shall be located in the switching limits of:

- 1.) Kansas City, Missouri/Kansas,
- 2.) Hutchinson, Kansas,
- 3.) Salina/Abilene, Kansas, or
- 4.) Wichita, Kansas.

**2000.04 Contract Fee.** A KCBT contract fee will be set by resolution of the Board of Directors to cover KCBT expenses. The Board of Directors may change the fee at any time on at least thirty (30) days notice, such change to be effective on the first of a month.

**2000.05 United States Origin Only.** A futures contract for the sale of wheat shall be performed on the basis of United States origin only upon written request by a taker of delivery at the time load-out instructions are submitted. (See also Rule 1215.01)

**2000.06 Location Differentials.** Deliveries in satisfaction of Hard Red Winter Wheat futures contracts may be made by warehouse receipt issued by a regular elevator at any of the locations prescribed by Rule 2000.03 at the following prescribed premiums/discounts (differentials):

Kansas City, Missouri/Kansas	contract price
Wichita, Kansas	at 6 cents per bushel under contract price
Hutchinson, Kansas	at 9 cents per bushel under contract price
Salina/Abilene, Kansas	at 12 cents per bushel under contract price

### **Time And Place**

**2001.00 Time Of Trading.** The hours for futures trading shall be between 9:30 A.M. and 1:15 P.M. local time on all regular trading days.

**2002.00 Place Of Trading.** The place of wheat futures trading shall be the wheat futures trading pit on the KCBT floor.

**2003.00 Change Of Time and Place.** The time and place of trading may be changed by resolution of the Board of Directors.

**2004.00 Prohibition; Exceptions.** Futures trades at places and hours other than set forth in these rules are prohibited except that the time and place limitations shall not apply to exchange of futures for cash, Rule 1128.00, and transfer trades, Rule 1127.00, so long as they are transacted in accordance with these rules.

### **Opening And Close**

**2005.00 Opening.** See Rules 1111.00 and 1111.01

**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 as reflected in the information reported to the pit reporter and Committee in accordance with subpart "a" of this Rule.
- c. The remaining contract months shall be settled based on spread price relationships, considering spread trades reported during the close. If individual spreads trade at multiple prices during the close, the Committee shall use the weighted average of spread prices 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.
- e. If any settlement price is not consistent with market information known to the Wheat Pit Committee supervising the 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.

### Trading Conditions

**2006.00 Limitation On Fluctuation Of Prices.** The Board of Directors may at any time, upon ten (10) hours' notice, by resolution, provide that there shall be no trading in any specified contract for delivery in any specified month at prices more than a fixed limit above or below the official closing price of the preceding business day. Any member who enters into any contracts under the rules of the Board of Trade in violation of such resolution shall be subject to disciplinary action pursuant to Chapter 14.

**Note:** Pursuant to a Resolution of the Board of Directors on March 5, 2008, there shall be no trading in wheat futures at a price more than \$0.60 per bushel (\$3,000 per contract) above or below the previous day's settlement price. Should two or more wheat futures contract months within the first five listed non-spot contracts (or the remaining contract month in a crop year) close at limit bid or limit offer, the daily price limits for all contract months shall increase to \$0.90 per bushel the next business day. Should two or more wheat futures contract months within the first five listed non-spot contracts (or the remaining contract month in a crop year) close at limit bid or limit offer while price limits are \$0.90 per bushel, daily price limits for all contract months shall increase to \$1.35 per bushel the next business day. If price limits are \$1.35 per bushel and no wheat futures contract month closes limit bid or limit offer, daily price limits for all contract months shall revert back to \$0.90 per bushel the next business day. If price limits are \$0.90 per bushel and no wheat futures contract month closes limit bid or limit offer, daily price limits for all contract months shall revert back to \$0.60 per bushel the next business day. There shall be no price limits on the current month contract on or after the second business day preceding the first day of the delivery month.

**2006.01† Minimum Price Fluctuation.** The minimum price fluctuation is one-quarter of a cent (1/4¢), (as adopted by Board of Directors' Resolution, October 30, 1973. See page 67 of the Board of Director's minutes).

**2007.00 Last Trading Day.** No trade in futures contracts deliverable in a current month shall be made after the business day preceding the fifteenth (15<sup>th</sup>) calendar day of that month, except that outstanding futures contracts for such delivery may be liquidated by means of a bona fide exchange of such current futures for the actual cash commodity.

Note: The Board of Directors, pursuant to Rule 233.01 f, may alter the number of days trading is prohibited during the delivery month to conform with federal law and regulations. The seven (7) days come from a CFTC (former CEA) Regulation.

**2008.00 Position Limits.**

a. **Definitions:**

1. **Spot Month** means the futures contract month next to expire during that period of time beginning at the close of trading on the second business day prior to the first delivery day of such contract month.
2. **Single Month** means each separate futures contract month, other than the spot month contract.
3. **All Months** means the sum of all futures contract months including the spot month contract.
4. **Net Equivalent Futures Position** means the combined futures and options positions, adjusted by the prior day's delta factor for each option series as published by the KCBT Clearing Corporation. Long futures contracts have a delta of +1 and short futures contracts have a delta of -1. Long call options and short put options have positive delta factors and short call options and long put options have negative delta factors.

b. **Position Limits** – No person may own or control positions, separately or in combination, net long or net short, for the purchase or sale of commodity futures 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 – 12,000 contracts

c. **Exemptions** – The Compliance Department may grant exemptions from the position limits set forth in Section (b) of this Rule to the extent such positions are exemption eligible as follows:

1. Bona fide hedging transactions as defined by Commodity Futures Trading Commission Regulation 1.3(z)(1); provided however, that positions established for purposes of hedging cash commodity index exposure, commodity swaps exposure or any other exposure not involving the production, merchandising or processing of the underlying cash commodity are not allowed to exceed the Spot Month limit.
2. Spread or arbitrage positions between Single Months of a futures or options contract, on a Net Equivalent Futures Position basis, outside of the Spot Month, in the same crop year (for KCBT wheat, a crop year begins with the contract month of July and ends with the contract month of May); provided however, that such spread or arbitrage positions, when combined with any other net positions in the Single Month, do not exceed the All Months limit set forth in Section (b) of this Rule.
3. Positions carried for eligible entities as set forth in Commodity Futures Trading Commission Regulation 150.3(a)(4).
4. Enumerated Hedging Transactions as defined by CFTC Regulation 1.3(z)(2). Any person who wishes to avail himself of the provisions of CFTC Regulation 1.3(z)(2)(i)(B) or (ii)(C) to make sales or purchases for future delivery in any commodity in excess of trading and position limits then in effect pursuant to section 4a of the Act for the purposes of bona fide hedging shall file statement with the Exchange in conformity with the requirements of CFTC Regulation 1.48.
5. Non-enumerated Hedging Transactions as defined by CFTC Regulation 1.3(z)(3). Any person who wishes to avail himself of the provisions of CFTC Regulation 1.3(z)(3) and to make purchases or sales of any commodity for future delivery in any commodity in excess of trading and position limits then in effect pursuant to section 4a of the Act shall file statement with the Exchange in conformity with the requirements of CFTC Regulation 1.47.

- d. **Exemption Procedures** - Any person seeking a first-time or supplemental exemption or a continuation of a previously approved exemption from the position limits set forth in paragraph (b) of this Rule must apply to the Compliance Department using the Application to Exceed Speculative Position Limits in Futures form prescribed by the Exchange prior to exceeding such limits. However, a person who establishes an exemption-eligible position in excess of position limits and files the required application with the Compliance Department shall not be in violation of this rule provided the filing occurs within one (1) business day after assuming the position. In the event the positions in excess of the limits are not deemed to be exemption-eligible, the applicant and clearing firm will be in violation of speculative limits for the period of time in which the excess positions remained open.

The Compliance Department shall, on the basis of the application and any requested supplemental information, determine whether an exemption from position limits shall be granted. The Compliance Department may approve, deny, condition or limit any exemption request based on factors deemed by the Department to be relevant, including, but not limited to, the applicant's business needs, financial status and whether the positions can be established and liquidated in an orderly manner in the market for which the exemption is being sought. Nothing in this Rule shall in any way limit the authority of the Exchange to take emergency action, or the Compliance Department to review at any time the positions owned or controlled by any person and to direct that such position be reduced to the position limit provided for in paragraph (b) of this Rule. Any person who has received written authorization from the Compliance Department to exceed position limits must file an annual updated application within 31 calendar days following the end of each calendar year using the form prescribed by the Exchange. Failure to file an updated application will result in expiration of the exemption.

- e. **Aggregation** – In determining whether any person has exceeded the position limits specified in Section (b) of this Rule, such person shall aggregate positions in accounts as set forth in Commodity Futures Trading Commission Regulation 150.4.
- f. **Spot Month Position Accumulation Restriction** – In calculating a Spot Month position, the number of contracts against which delivery notices have been stopped (issued) during that delivery month minus the number of contracts against which delivery notices have been issued (stopped) during that delivery month shall be added to that Spot Month's long (short) futures position. As an example, if a person goes into a Spot Month with the maximum position of 600 net long contracts and takes delivery of warehouse receipts in satisfaction of 500 of such long contracts and does not establish a short position in that same Spot Month for purposes of redelivering such warehouse receipts, such person may not have a Spot Month futures position in excess of 100 net long contracts.
- g. **Orderly Liquidation of Spot Month Positions** - All persons carrying open positions into the Spot Month shall liquidate such positions in accordance with reasonable and sound economic commercial practices and be prepared to justify such to the exchange Compliance Department upon request.

## Resolutions

### **RES 20-2000.00-1 Futures Trading; Directors To Establish Margins**

#### **Margin Requirements; Grain In Store**

RESOLVED, that pursuant to 1160.00, if a customer of a member, on receipt of a margin call, requests the member to apply the customer's grain in store against the call and evidence of the stored grain (elevator scale tickets or warehouse receipts) are held by the member operating the facility, such transaction shall be considered a cash advance to the customer using the stored grain as collateral and the money credited to the customer's futures account. The application of the grain as collateral for the advance is to be evidenced in writing, and advances made to margin futures trading accounts shall not exceed ninety percent (90%) of the collateral utilized (November 26, 1978).

### **Resolution 20-2000.00-2 Contract Grades; Requirements**

#### **Upgrade Period and Fee – Protein Requirements**

RESOLVED, that during the five (5) business days preceding the first intention day of the September 2011 wheat futures contract month (August 24 to August 30, 2011), warehouse receipts issued and registered with the exchange prior to such time may be presented to the issuing warehouse by the holder and upgraded to reflect a deliverable protein level on such receipts. The issuing elevator must comply with such request and shall, in its sole discretion, make the determination as to the minimum protein level to designate on receipts presented for upgrading. The issuing elevator may charge the holder twelve cents (12¢) per bushel to upgrade the receipt with a designation of 11% minimum protein, or two cents (2¢) per bushel to upgrade the receipt with a designation of 10.5% minimum protein. Warehouse receipts not upgraded pursuant to this Resolution shall not be deliverable against futures contracts from September 2011 forward.

### **RES 20-2005.00-1 Futures Trading; Change Of Grades**

#### **Maximum Moisture; Wheat**

RESOLVED, that effective July 9, 1976, as to futures contracts for wheat for delivery in July, 1977, and thereafter, the maximum allowable moisture will be 13.5% (Board of Directors' action June 29, 1976; CFTC approval July 9, 1976).

## Interpretations

### **INTRP 20-2009.00-1 Futures Trading; Non-Clearing Member**

#### **Margin Requirements**

Question: Can a clearing member carry the account of a non-clearing member without margins of any kind if the account is in a deficit position?

Answer: Rule 2009.00 is interpreted to mean that a non-clearing member may carry a net position of 25,000 bushels for not more than thirty (30) days without both initial and maintenance margins; provided however, that all trades involved be taken to the market each night to eliminate any deficit that might exist (November 19, 1968).