CME Group

Special Executive Report

DATE: **April 24, 2017**

SER#: **7872**

SUBJECT: **Implementation of Variable Storage Rate (VSR) Mechanism in the KC HRW Wheat Futures and Mini-Sized KC HRW Wheat Futures Contracts Effective with the 2018 March – May Spread**

Effective Sunday, March 18, 2018, and pending all CFTC regulatory review and approval periods, The Board of Trade of the City of Chicago, Inc. ("CBOT" or "Exchange") intends to implement a Variable Storage Rate (VSR) mechanism in its KC HRW Wheat futures (Rulebook Chapter 14H; Globex Code: KE; Commodity Code KW) and Mini-Sized KC HRW Wheat futures (Rulebook Chapter 14N; Globex Code and Commodity Code: MKC) contracts (the "Contracts"). The Exchange intends to implement the VSR mechanism in lieu of seasonal storage rates for the Contracts.

The VSR mechanism examines nearby calendar spreads to determine adjustments to the maximum storage charges by which regular warehouses can charge holders of its outstanding warehouse receipts. VSR provides a formula for triggering higher maximum allowable storage charges when futures spreads are at or near financial full carry, and lower maximum allowable storage charges when futures spreads are narrow or inverted. After an initial adjustment to harmonize base storage rate increments with the Exchange's SRW Wheat futures contracts, the mechanics of the VSR mechanism for the Contracts and the SRW Wheat futures contracts shall be identical.

The Exchange intends to implement the VSR mechanism with an initial observation period beginning on December 19, 2017 and ending on February 23, 2018 (the "Observation Period"), evaluating the **2018 March – May KC HRW Wheat calendar spread** relative to financial full carry with any changes to the storage rate effective on March 18, 2018. The maximum storage rate of 19.7/100s of one cent per bushel per day will be in effect during the Observation Period and will used when measuring the March-May spread relative to financial full carry. The Exchange will release the results via an SER in advance of the effective date. The results of the Observation Period shall be determined by the following standards:

1. A VSR result of 50 percent of financial full carry or less will result in the Contracts' maximum storage charge decreasing from 19.7/100s to 16.5/100s of one cent per bushel per day on March 18, 2018.

2. A VSR result between 50 and 80 percent of financial full carry will result in the Contracts' maximum storage charge remaining unchanged at 19.7/100s of one cent per bushel per day on March 18, 2018.

3. A VSR result of 80 percent of financial full carry or more will result in the Contracts' maximum storage charge increasing from 19.7/100s to 26.5/100s of one cent per bushel per day on March 18, 2018.

If the maximum storage charge of 19.7/100s of one cent per bushel per day remains unchanged on March 18, 2018, it will stay in place until a subsequent observation period where the VSR mechanism triggers that rate down to 16.5/100s or up to 26.5/100s of one cent per bushel per day. This will harmonize the storage rate increment of the Contracts with the Exchange's SRW Wheat futures contracts. Once triggered to either 16.5/100s or 26.5/100s, the VSR mechanism for all subsequent observation periods will be consistent with Exchange's SRW Wheat futures as follows:

1. A VSR result of 50 percent of financial full carry or less will result in the Contracts' maximum storage charge decreasing by 10/100s of one cent per bushel per day on the 18th calendar day of the nearby contract month.

2. A VSR result between 50 and 80 percent of financial full carry will result in the Contracts maximum storage charge remaining unchanged on the 18th calendar day of the nearby contract month.

3. A VSR result of 80 percent of financial full carry or more will result in the Contracts maximum storage charge increasing by 10/100s of one cent per bushel per day on the 18th calendar day of the nearby contract month.

The maximum storage rate will not be reduced below 16.5/100s of one cent per bushel per day. Financial full carry will be determined by the following formula:

$$\boldsymbol{N} * [\left(\frac{\boldsymbol{i}}{\mathbf{360}}\right) * \boldsymbol{FP} + \boldsymbol{P}]$$

Where:

N = Number of calendar days from the first delivery day in the nearby contract to the first delivery day in the contract that follows the nearby contract

i = 3-Month LIBOR rate + 200 basis points

FP = Settlement price for the nearby futures contract

P = Current daily premium charge

If you require any additional information, please contact Fred Seamon at 312-634-1587 or via e-mail at Fred.Seamon@cmegroup.com or Alison Coughlin at 312-338-7171 or via email at Alison.Coughlin@cmegroup.com.