

04-06
NC2



April 27, 2004

Ms. Jean A. Webb
Office of the Secretariat
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, D.C. 20581

Re: Petition to amend CFTC Regulation Section 150.2

Dear Ms. Webb:

The Board of Trade of Kansas City, Missouri, Inc. ("KCBT") hereby petitions, pursuant to Commodity Futures Trading Commission ("Commission") Regulation 13.2, that the Commission amends its Regulation 150.2 (Position Limits). In that regard, KCBT herein requests that the spot month, single month and all-months speculative position limits be eliminated from CFTC Regulation 150.2 for KCBT commodities. Currently, those limits pertaining to KCBT are as follows:

Contract	Spot Month	Single Month	All Months
Wheat	600	3,000	4,000

Core Principle 5 of Section 5(d) of the Commodity Exchange Act, as amended, requires contract markets to adopt position limits or position accountability for speculators to reduce the potential threat of market manipulation or congestion, especially during trading in the delivery month, where necessary and appropriate. In Appendix B to Part 38 of its Regulations, the Commission discussed certain acceptable practices that would satisfy Core Principle 5. The Commission notes the level of the spot limit for physical-delivery markets should be based upon an analysis of deliverable supplies and the history of spot month liquidations.

An analysis of the deliverable supplies indicates more than adequate supplies of wheat in deliverable position to make it increasingly difficult for speculative manipulation. Reportable commercial traders continue to hold the majority of open interest in agricultural commodities. That, as well as the large size of deliverable supply, reduces the degree to which speculators can control the market. Specific to our market, hard red winter wheat comprised over 45% of the U.S. wheat production in 2003. Because hard red winter wheat comprises a large share of the U.S. wheat production, the potential

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supply of delivery wheat minimizes the potential for manipulation or price distortion when compared with other commodities that have "more limited deliverable supplies".

During each delivery period, KCBT staff conducts a heightened surveillance of spot month liquidations. KCBT staff routinely review large trader information and conduct an intensive review of large trader information prior to and during each delivery period. Prior to and during each delivery period, KCBT staff contact clearing members and other position holders with large speculative positions to determine the intentions of the position holder. The staff also performs economic justification calculations throughout this time to help ensure orderly liquidations. An analysis of the history of KCBT spot month liquidations reveals an orderly liquidation of positions.

For these reasons stated above, KCBT is of the opinion that the Commission would be justified in eliminating all spot month, single month and all-months combined speculative position limits for KCBT commodities. If however, the Commission chooses to retain speculative position limit authority then it is imperative that parity be maintained across wheat exchanges, as has been done by the Commission historically. To do otherwise would threaten the KCBT's ability to compete with other exchanges for speculative interest.

Historically, the size of the cash commodity underlying the KCBT wheat contract has often been twice or more that of other wheat contracts and stocks in deliverable position for the Kansas City contract have typically exceeded those of other markets. The potential supply of delivery wheat in Kansas City is much larger than that of other markets due to the hard red winter wheat being the dominant class of wheat produced in the U.S. The larger deliverable supply would make it comparatively more difficult for speculative manipulation in Kansas City than in other markets.

A significant portion of our trading volume is generated from the arbitrage opportunities that exist between our markets. Different position limits between exchanges could dramatically affect the growth potential for intermarket spread volume.

Trading volume and open interest in our hard red winter wheat futures and options contracts have increased since the Commission last revised its position limits in 1999. KCBT wheat and wheat option combined volume have increased 7.34%, 5.49%, 34.25% and 25.65% in 2000, 2001, 2002 and 2003 respectively when compared to 1999. The average month-end futures and futures equivalent open interest (0.5 delta) has increased 8.11%, 17.55%, 20.26% and 3.08% in 2000, 2001, 2002 and 2003 respectively when compared to 1999. It is our opinion that these increases would not have occurred if wheat speculative position limit parity had not been maintained in 1999. The increased volume and open interest since 1999 has also attracted fund business to our market. Fund

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traders are typically looking to trade in contracts that are very liquid in which they can enter and exit the market with minimum price disturbance. If parity is not maintained, fund business could be lost to other markets if they are afforded higher limits. Appendix A reflects a chart that Exchange staff has compiled from the CFTC Commitment of Traders Reports. In particular, the chart reflects an increase in the number of large traders and the percentage of open interest that is held by large noncommercial traders in KCBT wheat between 1999 and 2003.

Reportable commercial traders continue to hold the majority of open interest. Commercial traders are able to use our market to hedge their risk due to the liquidity provided by our noncommercial traders. Increasing the speculative position limits would aid in increased speculative trading which in turn would increase the liquidity of the market to allow commercial users to hedge their risks more effectively.

In conclusion, the KCBT requests that the Commission consider eliminating the spot month, single month and all-months combined speculative position limits from CFTC Regulation 150.2 as discussed above. If the Commission does not eliminate the speculative limits, then the KCBT requests that parity be maintained across markets.

The filing of this petition was recommended by the Executive Committee and subsequently approved by the Board of Directors in a regularly scheduled meeting on this date. To the knowledge of the Board of Directors and staff of the KCBT, no opposing views have been expressed by members or others to this petition.

If you have any questions pertaining to this petition, please contact either the undersigned or Joseph Ott; Vice President – Compliance at 816-753-7500.

Sincerely,

Jeffrey C. Borchardt
President

Cc: Rick Shilts, Director – CFTC Division of Product Review & Analysis
Fred Linse, CFTC – Washington, D.C.
Jim Lammler – CFTC – Kansas City
William Kokontis, CFTC – Chicago
Marshall Horn, CFTC – New York

APPENDIX A

YEAR	Average Open Interest*	Reportable Noncommercial Average % of Long Open Interest	Reportable Noncommercial Average % of Short Open Interest	Reportable Commercial Average % of Long Open Interest	Reportable Commercial Average % of Short Open Interest	Average # of Long Noncommercial ReportableTraders	Average # of Short Noncommercial ReportableTraders	Average # of Long Commercial ReportableTraders	Average # of Short Commercial ReportableTraders
1999	76162	17	22	63	58	44	42	60	57
2000	80721	22	19	53	64	67	49	64	63
2001	84997	24	25	47	59	67	53	65	54
2002	87397	26	24	49	58	66	50	61	57
2003	75503	26	25	56	57	51	47	64	61

* Average month-end futures and futures-equivalent open interest (0.5 delta)