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September 22, 2003

Ms. Jean A. Webb  
Secretary  
Commodity Futures Trading Commission  
Three Lafayette Center  
1155 21<sup>st</sup> Street, N.W.  
Washington, D.C. 20581

Reference File #2363.01  
Rule Certification

Dear Ms. Webb:

Pursuant to Commission Rule 40.6, the Chicago Board of Trade (CBOT<sup>®</sup>) hereby submits the following:

- **Amended Regulations 1181.01 and 1185.01 (applicable to Soybean Oil regular facilities), 1291.01 and 1295.01 (applicable to Soybean Meal regular facilities), and 3704.01 (applicable to Rough Rice regular facilities), new Rulebook Appendices "Letter of Credit Standards" and "Bond Standards", and amended Rulebook Appendices 4E and 37D per the attached texts (additions underlined; deletions bracketed).**

These changes are designed to strengthen the financial safeguards applicable to firms which are regular for delivery against CBOT futures contracts. Specifically, these provisions will:

- Amend bonding requirements to include the option of submitting a letter of credit in lieu of a bond;
- Establish standards for acceptable letters of credit and bonds;
- Standardize the frequency of required financial filings; and
- Codify the definition of "current assets" when computing working capital.

The CBOT intends to implement these provisions no sooner than one day after the Commission's receipt of this filing.

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There were no opposing views among the CBOT's Board of Directors concerning these provisions.

The CBOT certifies that these provisions comply with the Commodity Exchange Act and the rules thereunder.

Sincerely,

Paul J. Draths  
Vice President and Secretary

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## Attachment A

**Additions- underlined**

**Deletions-[bracketed]**

### **Regulation 1181.01, Conditions of Regularity (in part)**

The Exchange may establish such requirements and conditions for approval of regularity as it deems necessary. The following shall constitute the minimum requirements and conditions for regularity of Soybean Oil warehouses:

- (3) The operator or manager of such warehouse shall be in good financial standing and credit, and shall meet the minimum financial requirements and financial reporting requirements set forth in Appendix 4E. No warehouse shall be declared regular until the person operating the same files a bond and/or designated letter of credit with sufficient sureties in such sum and subject to such conditions as the Exchange may require.

### **Regulation 1185.01, Application for Declaration of Regularity (in part)**

#### Conditions of Regularity

Such declaration of regularity, if granted, shall be cancelable by the Exchange whenever the following conditions shall not be observed:

1. The Warehouseman must:

- (1) give such bonds or letters of credit to the Exchange as it may require.

### **Regulation 1291.01, Conditions of Regularity (in part)**

The Exchange may establish such requirements and conditions for approval of regularity as it deems necessary. The following shall constitute the minimum requirements and conditions of regularity for Soybean Meal shipping plants:

The operator or manager of such shipping plant shall be in good financial standing and credit, and shall meet the minimum financial requirements and financial reporting requirements set forth in Appendix 4E. No shipping plant shall be declared regular until the person operating the same files a bond and/or designated letter of credit with sufficient sureties in such sum and subject to such conditions as the Exchange may require.

## Attachment A

### **Regulation 1295.01, Application for Declaration of Regularity (in part)**

#### Conditions of Regularity

Such declaration of regularity, if granted, shall be cancelable by the Exchange whenever the following conditions shall not be observed:

1. The Shipper must:

(1) give such bonds or letters of credit to the Exchange as it may require.

### **Regulation 3704.01, Conditions of Regularity for Warehouses (in part)**

The following shall constitute the minimum requirements and conditions for regularity of Rough Rice warehouses:

D. It shall be in good financial standing and credit, and shall meet the minimum financial requirements and financial reporting requirements set forth in Appendix 37D. [It shall file] No warehouse shall be declared regular until the person operating the warehouse files a bond and/or designated letter of credit with sufficient sureties in such sum and subject to such conditions as the Exchange may require. [The Exchange may, at its option, waive bond requirements.]

**Attachment B**

**LETTER OF CREDIT STANDARDS**

For Agricultural Products except Corn and Soybeans

CBOT Regulation 1081.01, and the proposed amended Regulations 1181.01, 1291.01, and 3704.01 require, as a condition for regularity, that Warehousemen must “file a bond and/or designated letter of credit with sufficient sureties in such sum and subject to such conditions as the Exchange may require.”

The following is a list of the recommended conditions with respect to a firm obtaining a letter of credit to meet the financial requirements of regularity:

- a. The regular firm is required to secure a letter of credit, naming the Chicago Board of Trade as its beneficiary, for such sum and subject to such conditions the Exchange may require.
- b. The Exchange will accept letters of credit only from banks with a Moody’s Investors Service counterparty credit rating of A or above or a Standard and Poor’s short-term counterparty rating not lower than A-2.
- c. The letter of credit must be irrevocable, must provide for payment within the time specified by the Exchange, and must be able to be drawn upon unconditionally.
- d. The letter of credit must be in the form approved by the Exchange.
- e. The expiration date of a letter of credit may not occur during any relevant futures delivery cycle.

**Attachment C**

**BOND STANDARDS**

For Agricultural Products except Corn and Soybeans

CBOT Regulation 1081.01, and the proposed amended Regulations 1181.01, 1291.01, and 3704.01 require, as a condition for regularity, that Warehousemen must “file a bond and/or designated letter of credit with sufficient sureties in such sum and subject to such conditions as the Exchange may require.”

The following is a list of the recommended conditions with respect to a firm obtaining a bond to meet the financial requirements of regularity:

- a. The regular firm is required to secure a bond naming the Chicago Board of Trade as its beneficiary for such sum and subject to such conditions the Exchange may require.
- b. The bond must be in the form approved by the Exchange.
- c. The Exchange will accept bonds only from insurance companies that have been rated by two of the following rating agencies: AM Best, Standard & Poor’s, or Moody’s Investors Service. The following are the minimum credit ratings acceptable.
  1. AM Best: B++
  2. Standard & Poor’s: A-
  3. Moody’s Investor Service: A3

## Attachment D

Additions are underlined  
Deletions are [bracketed]

### **Appendix 4E- Minimum Financial Requirements for Agricultural Regularity**

The minimum financial requirements for firms which are regular to deliver agricultural products are:

1. Working Capital- (current assets excluding current receivables from affiliates/parent company less current liabilities)) must be greater than or equal to \$2,000,000. All current assets must be readily marketable. Firms which do not have \$2,000,000 in Working Capital must deposit with the Exchange \$5,000 per contract which it is regular to deliver, up to a maximum of \$2,000,000, less SEC haircuts, as specified in SEC Rule 15c3-1(c)(2)(vi), (vii), and (viii) plus 3% in the event of liquidation.
2. Net Worth- (Total assets less total liabilities) divided by the firm's allowable capacity (measured in contracts) must be greater than \$5,000[;]. The net worth of a firm regular to deliver corn or soybeans must be greater than or equal to \$5,000,000. The operator of a warehouse/shipping station issuing corn or soybean shipping certificates may only issue new shipping certificates when the total value of all [outstanding] registered shipping certificates and the new shipping certificates, at the time of issuance of the new shipping certificates, does not exceed 25%.
3. Each firm which is regular to deliver agricultural products is required to file a yearly certified financial statement within 90 days of the firm's year-end. Each [such] firm is also required to file within 45 days of the statement date [an] unaudited quarterly [semi-annual] financial statements for each of the three quarters which do not end on the firm's year-end. [However, each operator of a shipping station issuing corn and soybean shipping certificates is required to file within 45 days of the statement dates unaudited quarterly financial statements for each of the three quarters which do not end of such firm's year-end.] In addition, the Exchange may request additional financial information as it deems appropriate.
4. A Letter of Attestation must accompany all unaudited financial statements. The Letter of Attestation must be signed by the Chief Financial Officer or if there is none, a general partner, executive officer, or managerial employee who has the authority to sign financial statements on behalf of the firm and to attest to their correctness and completeness.
5. For the requirements for notification of capital reductions, see Regulation 285.03.

**Attachment D**

6. Any change in organizational structure of a firm that is regular for delivery requires that the firm notify the Exchange prior to such change. Changes in organizational structure
7. shall include, but not be limited to, a corporation, limited liability company, general partnership, limited partnership, or sole proprietorship that changes to another form. Prior to any such change occurring, the firm is also required to notify the Exchange in writing of any name change.

## Attachment D

### Appendix 37D-Minimum Financial Requirements for Rough Rice Regularity

The minimum financial requirements for firms which are regular to deliver Rough Rice are:

1. Working Capital- (current assets excluding current receivables from affiliates/parent company less current liabilities)) must be greater than or equal to \$1,000,000. All current assets must be readily marketable. Firms which do not have \$1,000,000 in Working Capital must deposit with the Exchange \$5,000 per contract which it is regular to deliver, up to a maximum of \$1,000,000, less SEC haircuts, as specified in SEC Rule 15c3-1(c)(2)(vi), (vii), and (viii) plus 3% in the event of liquidation.
2. Net Worth- (Total assets less total liabilities) divided by the firm's allowable capacity (measured in contracts) must be greater than \$5,000.
3. Each firm, which is regular to deliver rough rice, is required to file a yearly certified financial statement within 90 days of the firm's year-end. Each [such] firm is also required to file within [90] 45 days of the statement date [an] unaudited quarterly [semi-annual] financial statements for each of the three quarters which do not end on the firm's year-end. In addition, the Exchange may request additional financial information as it deems appropriate.
4. A Letter of Attestation must accompany all unaudited financial statements. The Letter of Attestation must be signed by the Chief Financial Officer or if there is none, a general partner, executive officer, or managerial employee who has the authority to sign financial statements on behalf of the firm and to attest to their correctness and completeness.
5. For the requirements for notification of capital reductions, see Regulation 285.03.
6. Any change in organizational structure of a firm that is regular for delivery requires that the firm notify the Exchange prior to such change. Changes in organizational structure shall include, but not be limited to, a corporation, limited liability company, general partnership, limited partnership, or sole proprietorship that changes to another form. Prior to any such change occurring, the firm is also required to notify the Exchange in writing of any name change.