

## APPENDIX C

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### **Chapter 14L** **Options on ~~Contracts of Sale on~~ KC HRW Hard Red Winter Wheat Futures** **Contracts**

#### **14L00. SCOPE OF CHAPTER**

~~This chapter is limited in application to put and call options on KC HRW Wheat futures contracts. In addition to the rules of this chapter, transactions in options on KC HRW Wheat futures shall be subject to the general rules of the Exchange insofar as applicable.~~

~~This chapter is limited in application to trading "put" and/or "call" options on the KC Hard Red Winter (HRW) Wheat Futures Contracts traded on the Exchange. The procedures for exchange government, rule enforcement, trading and other rights with privileges and obligations for trading options hereunder, and the procedures for trading, clearing, delivery, and settlement and all other matters not specifically covered herein shall be governed by and be subject to the general rules, regulations and resolutions of the Exchange. Whenever the rules of other chapters use words such as "grain," "wheat," or "commodity," those rules shall be deemed to refer to this Contract as well, if and as the context indicates. However, if there is any conflict between this chapter and the general rules and regulations of the Exchange, the provisions of this chapter shall take precedence.~~

~~The Exchange has the authority to adopt additional rules and regulations, and alter existing rules and regulations, including the rules of this chapter, on ten (10) hours' notice, subject to CFTC approval, if required. Changes which materially alter the rights of the parties with open contracts must be delayed until there are no open contracts, except in the event of a market emergency.~~

~~Options may be written and traded in the "KC HRW Wheat Futures Contract" pursuant to Chapter 14H of the Rules as they exist or are amended from time to time.~~

~~Options shall not be transferred, assigned or otherwise disposed of other than on or subject to the rules of the Exchange, the Commodity Exchange Act and the rules and regulations of the CFTC.~~

~~No person shall solicit or accept orders (other than in a clerical capacity) for the purchase or sale of the option contract, or to supervise any person so engaged, unless that individual meets the requirements of 17 C.F.R. 33.3 (b) (1).~~

~~Permit Holders who are FCMs (or others who may trade the option contract pursuant to this rule) are prohibited from accepting customer orders from another FCM or introducing broker which does not qualify to trade the option contract as prescribed in this rule.~~

~~Each Clearing Member and each FCM Permit Holder that has customers trading options shall provide such information as the Exchange shall require to comply with the requirements that the CFTC may require of the Exchange pursuant to Part 16 of the Regulations of the CFTC.~~

~~The margin requirements will be set by the Exchange.~~

~~An Exchange contract fee will be set by the Exchange to cover its expenses. The Exchange may change the fee at any time on at least thirty (30) days' notice, such changes to be effective on the first of a month.~~

#### **14L01. OPTIONS CHARACTERISTICS**

##### **14L01.A. Contract Months**

Options shall be listed for trading in the following months:

a. For options months in the ordinary cycle of the underlying futures contract (i.e., July, September, December, March and May), the number of months listed shall be the same as the underlying futures contract, provided, however, that a new option contract based on the ordinary cycle will be introduced the day after trading has commenced in the underlying futures pursuant to Rule 14L01.A.

b. For options months outside the ordinary cycle (i.e., August, October, November, January, February, April and June, hereinafter referred to as "serial" months), the number of months listed shall be established by the Exchange. However, no serial months shall be listed outside of the months listed pursuant to subsection (a) above.

c. Weekly options expire on every Friday, except for those Fridays on which standard or serial options are scheduled to expire. A new weekly option will automatically be introduced the business day following the expiration of a weekly option so that three weekly options are always listed concurrently.

d. For short-dated new crop options, on the first trading day following the expiration of the September option, list at least 3 contract months: December, March, and May. A new listing cycle will begin on the first trading day following the expiration of the next September option.

For options that expire in the ordinary cycle (i.e., July, September, December, March and May), the underlying futures contract is the futures contract corresponding to the option expiration month. For serial options (options outside the ordinary cycle), the underlying futures contract is the next futures contract in the ordinary cycle nearest the option expiration month. For example, the underlying futures contract for an option contract expiring in October or November is the December futures contract. For weekly options, the underlying futures contract is the nearby futures contract. However, if the nearby futures are still trading but the standard option on that futures has expired, then weekly options expire into the second-listed futures contract. For short-dated new crop options, the underlying futures contract is the July futures contract that is nearest to the expiration of the options.

A new option based on a futures month within the ordinary cycle will be introduced the day after trading has commenced in the underlying futures contract for that contract month, (for example — if on February 1, the December futures contract had traded for the first time, then on February 2, an option month for the December futures contract is listed, having strike prices as specified in Rule 14L01.E). A new option based on a serial month (a month outside of the ordinary cycle) will automatically be introduced the day following the expiration of a serial month, so as to at all times have available for trading the number of serial months established by the Exchange for trading, (for example, if the Exchange has authorized the listing of three serial months, and those months currently traded are January, February and April, then the serial contract month of June will automatically be listed for trading the day following the expiration of the January contract month). A new weekly option will automatically be introduced the business day following the expiration of a weekly option so that three weekly options are always listed concurrently. Weekly options expire on every Friday, except for those Fridays on which standard or serial options are scheduled to expire. On the business day following the expiration of standard or serial options, no new weekly option will be introduced. For short-dated new crop options, on the first trading day following expiration of the September option, list at least 3 contract months: December, March, and May.

#### **14L01.B. Trading Unit**

The size of the unit of trading in the options contract shall be five thousand (5,000) bushels, the same size as the underlying futures contract.

#### **14L01.C. Minimum Fluctuations**

Bids and offers for options shall be measured and expressed in increments of one-eighth of one cent (1/8¢) per bushel. However, for options valued at less than one-eighth of one cent (1/8¢), the option premium may range from \$1.00 to \$5.00 in \$1.00 increments per option contract.

#### **14L01.D. Trading Hours**

[The hours of trading for options on KC HRW Wheat futures contracts shall be determined by the Exchange. KC HRW Wheat futures options shall be opened and closed for all months and strike prices simultaneously or in such other manner as determined by the Exchange. The trading hours shall be determined by the Exchange.](#)

[Trading will occur on the trading floor of the Exchange and on the electronic trading platform.](#)

#### **14L01.E. Exercise Prices**

At the commencement of trading a new standard option month, the following strike prices shall be listed: the strike price closest to the previous day's settlement price of the underlying futures contract (the at-the-money strike), and strikes in integral multiples of ten cents (10¢) per bushel in a range 50 percent above and below the at-the-money strike.

At the commencement of trading serial month options, weekly options and short-dated new crop options and for standard option months the business day they become the third listed month, the following strike prices shall be listed: the strike price closest to the previous day's settlement price of the underlying futures contract (the at-the-money strike), and strikes in integral multiples of five cents (5¢) per bushel in a range 25 percent above and below the at-the-money strike.

If the previous day's settlement price is midway between two strike prices, the closest price shall be the larger of the two. (For example — if a new futures month contract closes at \$3.75, the closest price is \$3.80.) The Exchange may modify the procedures for the introduction of strikes as it deems appropriate in order to respond to market conditions.

Any close which causes there to be less than the range of strike prices prescribed by Rule 14L01.E will cause new strike prices to be added the next day in order to have at least the range of strike prices pursuant to Rule 14L01.E available for trading. Upon demand and at the discretion of the Exchange, new out-of-current-range strike prices at regularly defined intervals may be added for trading on as soon as

possible basis. The Exchange may modify the procedures for the introduction of strikes as it deems appropriate in order to respond to market conditions.

~~As new strike prices are added, existing strikes outside the newly determined strike ranges without open interest may be de-listed. An option having a particular strike price outside the latest strike ranges prescribed by Rule 2511.01 and without open interest may be delisted.~~

~~Any strike price which has been delisted under Rule 14L01.E shall thereafter be relisted at any time any such option has a strike price required by Rule 14L01.E.~~

#### **14L01.F. Position Limits, Exemptions, Position Accountability and Reportable Levels**

The applicable position limits and/or accountability levels, in addition to the reportable levels, are set forth in the Position Limit, Position Accountability and Reportable Level Table in the Interpretations & Special Notices Section of Chapter 5.

A Person seeking an exemption from position limits for bona fide commercial purposes shall apply to the Market Regulation Department on forms provided by the Exchange, and the Market Regulation Department may grant qualified exemptions in its sole discretion.

Refer to Rule 559 for requirements concerning the aggregation of positions and allowable exemptions from the specified position limits.

#### **14L01.G. ~~Reserved~~Price Display and Dissemination**

~~Each series of options and prices opened for trading shall be displayed on the price display system on the Exchange floor and disseminated in such other manner as deemed appropriate by the Board.~~

#### **14L01.H. Nature of Options on KC HRW Wheat Futures**

The "option premium" shall be the sum paid to the writer of a call option who agrees to deliver the underlying futures contracts against payment of the exercise price upon being assigned an exercise notice. The premium with respect to the writer of a put option is the sum paid to the writer of the put option who agrees to purchase the underlying futures contract on which the put is written at the exercise price upon being assigned an exercise notice. Both put options and call options may be written.

The Clearing House must receive from each of its Clearing Members, and each Clearing Member must receive from each other party for whom it clears commodity option transactions, and each FCM must receive from each of its option customers, the full amount of each option premium at the time the option is purchased, or within a reasonable time thereafter.

The strike price is the price at which a party may purchase or sell the underlying futures contract upon exercise of an option. The strike price will be determined in accordance with the following Rules.

#### **14L01.I. Termination of Trading**

a. For options months in the ordinary cycle; no trades in options expiring in the current month shall be made after the close of the electronic trading system on the last Friday which precedes by at least two (2) business days, the first notice day for the corresponding futures contract.

b. For serial options months (months outside the ordinary cycle); no trades shall be made after the close of the electronic trading session on the Friday which precedes by at least two (2) business days, the last business day of the calendar month immediately preceding the option serial month, (for example, for November serial options contracts, the last trading day is the Friday which precedes by at least two (2) business days, the last business day in October). If such Friday is not a business day, the last day of trading shall be the business day prior to such Friday. Unexercised options shall expire at 7:00 p.m. on the last day of trading.

c. For weekly options; no trades in weekly options shall be made after the close of the electronic trading system on the Friday such a weekly option expires. If such Friday is not a business day, the last day of trading shall be the business day prior to such Friday. Unexercised options shall expire at 7:00 p.m. on the last day of trading.

d. For short-dated new crop options, the last day of trading in any option for expiry in a given month shall be the last Friday which precedes by at least two business days the last business day of the calendar month preceding such option's named expiry month. If such Friday is not a business day, then the last day of trading in such option shall be the business day prior to such Friday. On their last day of trading, short-dated new crop options shall cease trading at the same time that its corresponding futures contract ceases trading. Unexercised options shall expire at 7:00 p.m. on the last day of trading.

#### **14L01.J. Settlement of Trades**

Trades made in put and call options shall be settled at the end of each day's trading. Positions in the underlying futures contracts as a result of the exercise of options shall be made by book entry in the books of the Clearing House.

#### **14L01.K. Deep-Out-Of-The-Money Options**

1. A deep out-of-the-money option is defined as an out-of-the-money option whose strike price is more than X strike prices distant from the strike price closest to the settlement price of the underlying futures contract, where X equals two (2) plus the number of calendar months remaining until option expiration;
2. However, the Exchange Board may impose additional criteria as appropriate;
3. No Permit Holder who is a FCM shall accept an order for a deep out-of-the-money option without providing the customer with an explanation of the nature and the risks of the option prior to the transaction.

#### **14L02. EXERCISE AND ASSIGNMENT**

In addition to the applicable procedures and requirements of [Chapter 7 KC HRW Wheat futures deliveries](#), the following shall apply to the exercise and assignment of KC HRW Wheat Options.

##### **14L02.A. Exercise of Option**

The buyer of a KC HRW Wheat futures option may exercise the option on any business day prior to expiration by giving notice of exercise to the Clearing House by 6:00 p.m., or by such other time designated by the Exchange, on such day.

After the close on the last day of trading, all in-the-money options shall be automatically exercised, unless notice to cancel automatic exercise is given to the Clearing House. Notice to cancel automatic exercise shall be given to the Clearing House by 6:00 p.m., or by such other time designated by the Exchange, on the last day of trading. Unexercised KC HRW Wheat futures options shall expire at 7:00 p.m. on the last day of trading.

##### **14L02.B. Assignment**

Exercise notices accepted by the Clearing House shall be assigned through a process of random selection to clearing members' open short positions in the same series. A clearing member to which an exercise notice is assigned shall be notified thereof as soon as practicable after such notice is assigned by the Clearing House.

The clearing member assigned an exercise notice shall be assigned a short position in the underlying futures contract if a call is exercised or a long position if a put is exercised. The clearing member representing the option buyer shall be assigned a long position in the underlying futures contract if a call is exercised and a short position if a put is exercised.

All such futures positions shall be assigned at a price equal to the exercise price of the option and shall be marked to market in accordance with Rule 814 on the trading day of acceptance by the Clearing House of the Exercise Notice.

#### **14L03. [RESERVED]**

#### **14L04. CORRECTIONS TO OPTIONS EXERCISES**

Corrections to option exercises, including automatic exercises, may be accepted by the Clearing House after the 6:00 p.m. deadline and up to the beginning of final option expiration processing provided that such corrections are necessary due to: (1) a bona fide clerical error, (2) an un-reconciled Exchange option transaction(s), or (3) an extraordinary circumstance where the clearing firm and customer are unable to communicate final option exercise instructions prior to the deadline. The decision as to whether a correction is acceptable will be made by the President of the Clearing House, or the President's designee, and such decision will be final.

#### **14L05. OPTION PREMIUM LIMITS**

There are no option premium limits during any day for options on KC HRW Wheat futures.

#### **14L06. PAYMENT OF OPTION PREMIUM**

The option premium must be paid in full by each clearing member to the Clearing House and by each option customer to his futures commission merchant at the time that the option is purchased, or within a reasonable time after the option is purchased.

#### **14L07. FAILURE TO PERFORM**

~~If the Clearing Member with a delivery commitment fails to perform all acts required by this chapter, then that Clearing Member shall be deemed in default, which may be punishable as a major violation. In the event of default, any defaulting party shall be liable for damages and any loss sustained as a result of the default, if any, by the Clearing House, an FCM, or any other FCM or customer thereof, plus a penalty of not less than \$500 per defaulted contract. An additional fee or penalty may also be imposed through Exchange disciplinary procedures.~~

~~The defaulting party may petition the Exchange for reconsideration of any penalty so assessed. Whenever, in the judgment of the Exchange, upon consideration, the default was not due to the fault of~~

the appealing party, or for other good cause shown, the Exchange may, in its discretion, waive or reduce the penalty.

#### **14L08. PROCEDURE FOR CUSTOMER COMPLAINTS**

Each FCM who is a Permit Holder and engages in the offer or sale of commodity options shall, with respect to all written option customer complaints, comply with Rules 14L08.A through 14L08.C.

##### **14L08.A. Complaints**

Retain all such written complaints.

##### **14L08.B. Records**

Make and retain a record of the date the complaint was received, the associated person who serviced the account, or the introducing broker who introduced the account, and a general description of the matter complained of, and what, if any, action was taken by the FCM in regard to the complaint; and

##### **14L08.C. Copies**

Immediately send a copy of any such complaint to the FCM's "Designated Self-Regulatory Organization" (DSRO) and, upon final disposition thereof, immediately send a copy of the record of such disposition to the DSRO.

#### **14L09. FUTURES COMMISSION MERCHANTS**

Each FCM who is eligible to trade options pursuant to Rule 14L00 shall comply with the following:

##### **14L09.A. Written Procedures**

Adopt and enforce written procedures pursuant to which it will be able to supervise adequately each option customer's account, including but not limited to the solicitation of any such account, provided that "option customer" does not include another FCM; and

##### **14L09.B. Written Record**

Immediately upon the receipt of a customer's order, prepare a written record of the order. Said order shall be dated and time stamped to the nearest minute when the order is received and shall show the account designation. In addition, such written record also shall show the time to the nearest minute the order is transmitted for execution; and

##### **14L09.C. Notification**

Give immediate written notification to the FCM's DSRO of any disciplinary action taken against the FCM or any of its associated persons by the commission or by another self-regulatory organization; and

##### **14L09.D. Disclosure**

Each Permit Holder FCM which engages in the offer or sale of commodity options shall enforce the disclosure requirements set forth in CFTC Regulation Section 33.7.

##### **14L09.E. Option Promotional Material**

Each FCM which engages in the offer or sale of option contracts traded on this Exchange shall submit promptly to the Permit Holder's DSRO all promotional material pertaining to trading in such options. For the purposes of this rule, the term "promotional material" shall include those items described in CFTC Regulations 33.1 (b).

##### **14L09.F. Discretionary Accounts**

With respect to option customer accounts for which discretion is given for option trading:

(i) Provide the option customer with an explanation of the nature and risks of the strategy or strategies to be used in connection with the option customer's account; and

(ii) Require an officer, general partner, sole proprietor, or branch office manager of the FCM (other than any individual authorized to exercise discretion in trading the account) to approve, in writing, the discretionary authority prior to any trading for the account involved; and

(iii) Identify as discretionary each order for a discretionary account on the order at the time of entry and an officer, general partner, sole proprietor, or branch office manager of the FCM (other than any individual authorized to exercise discretion in trading the account) must approve, initial, and date all orders for a discretionary account; and Review frequently discretionary accounts pursuant to CFTC rules and regulations.

The provisions of Rule 14L09.F shall not apply to any option customer account: (A) of a commodity pool, the operator of which is registered with the Commission as a commodity pool operator; (B) where the person who has the discretionary authority is the spouse, parent, or child of the option customer, or (C) which is an omnibus account of another FCM.

##### **14L09.G. Prohibition**

Shall not engage in fraudulent or high pressure sales communications relating to the offer or sale of option contracts.

**14L09.H. Sales Practice Audits**

Comply with Exchange procedures and permit the Exchange or its agent to conduct sales practice audits of Permit Holder FCMs which engage in the offer or sale of the options contracts. The sales practice audits with which FCM must comply will be those in effect by the Exchange from time to time as adopted by the Exchange.

**14L09.I. Applicable CFTC Rules**

Comply with all applicable regulations and rules of the CFTC, and the National Futures Association applicable from time to time to trading in the options governed by this contract.

**14L10. ADVERTISING GUIDELINES**

Advertising, market letters, and similar information issued by the Exchange, its Permit Holders, and their associates should not be false or misleading.

**14L10.A. File Copies**

All Permit Holders, Clearing Members, commodity representatives, and other employees of Permit Holders must file within seven (7) days after publication copies of all promotional material including prepared radio or television scripts, prepared lectures, mail solicitations, and market letters relating to commodities traded on the Exchange with the Exchange.

**14L11. INTRODUCING BROKERS – OPTIONS SALES PRACTICES**

Each Rule pertaining to the options sales practices of Permit Holders or their employees shall apply with equal force and in effect to the options sales practices of introducing brokers who are operating pursuant to a guarantee agreement with a Permit Holder FCM and such Permit Holder FCM shall be fully responsible therefore until otherwise rescinded by the Exchange, or until such time as the National Futures Association or other registered futures association adopts rules which are approved by the CFTC to govern the commodity option related activity of such guaranteed introducing brokers.

## Chapter 14F

### KC HRW-CBOT Wheat Intercommodity Spread Options

#### 14F100. SCOPE OF CHAPTER

This chapter is limited in application to put and call options on KC HRW-CBOT Wheat Intercommodity spreads. In addition to the rules of this chapter, transactions in KC HRW-CBOT wheat spread options shall be subject to the general rules of the Exchange insofar as applicable.

#### 14F101. OPTIONS CHARACTERISTICS

##### 14F101.A. Contract Months

Trading in KC HRW-CBOT Wheat Intercommodity spread options may be scheduled in such months as determined by the Exchange.

##### 14F101.B. Trading Unit

One KC HRW-CBOT Wheat Intercommodity spread option reflects the difference between the settlement price of one (1) KC HRW Wheat futures (CBOT Rulebook Chapter 14H) contract of a specified contract month, and one (1) Wheat futures (CBOT Rulebook Chapter 14) contract of a specified contract month.

The KC HRW-CBOT Wheat Intercommodity spread is calculated in cents/bushel as:

KC HRW Wheat futures price in cents/bu – CBOT Wheat futures price in cents/bu.

##### 14F101.C. Minimum Fluctuations

The premium for KC HRW-CBOT Wheat Intercommodity spread options shall be in multiples of one-eighth (1/8) of one cent per bushel, or six dollars and twenty five cents (\$6.250) per contract.

However, a position may be initiated or liquidated in KC HRW-CBOT Wheat Intercommodity spread options at premiums ranging from \$1.00 to \$6.00, in \$1.00 increments per option contract.

##### 14F101.D. Trading Hours

The hours for trading of KC HRW-CBOT Wheat Intercommodity spread options contracts shall be determined by the Exchange. KC HRW-CBOT Wheat Intercommodity spread options shall be opened and closed for all months and strike prices simultaneously.

##### 14F101.E. Exercise Prices

Trading shall be conducted for put and call options with strike prices in integral multiples of five cents per bushel per KC HRW-CBOT Wheat Intercommodity spread option. At the commencement of trading for such option contracts, the following strike prices shall be listed: one with a strike price closest to the difference between the previous day's specified KC HRW-CBOT Wheat settlement prices (the at-the-money strike); the next ten consecutive higher and the next ten consecutive lower strike prices from the at-the-money strike. If the difference between the previous day's settlement prices is midway between two strike prices, the closest price shall be the larger of the two. New strike prices will be added through time to assure ten strikes above and below the at the money strike. When a new strike price is added for an option contract month, the same strike price will be added to all option contract months for which that strike price is not already listed.

All strikes will be listed prior to the opening of trading on the following business day. Upon demand and at the discretion of the Exchange, new out-of-current-range strike prices at regularly defined intervals may be added for trading on as soon as possible basis.

The Exchange may modify the procedures for the introduction of strikes as it deems appropriate in order to respond to market conditions.

##### 14F101.F. Position Limits, Exemptions, Position Accountability and Reportable Levels

The applicable position limits and/or accountability levels, in addition to the reportable levels, are set forth in the Position Limit, Position Accountability and Reportable Level Table in the Interpretations & Special Notices Section of Chapter 5.

A Person seeking an exemption from position limits for bona fide commercial purposes shall apply to the Market Regulation Department on forms provided by the Exchange, and the Market Regulation Department may grant qualified exemptions in its sole discretion.

Refer to Rule 559 for requirements concerning the aggregation of positions and allowable exemptions from the specified position limits.

##### 14F101.G. Reserved

##### 14F101.H. Reserved

#### **14F101.I. Termination of Trading**

Subject to the provisions of rule 14F01.D no trades in KC HRW-CBOT Wheat Intercommodity spread options expiring in the current month shall be made after the close of trading of the electronic trading session on the day identical to the expiration of standard CBOT Wheat options and standard KC HRW wheat options. Therefore, expiration will occur on the last Friday which precedes by at least two business days, the last business day of the month preceding the option month. If such Friday is not a business day, the last day of trading shall be the business day prior to such Friday. For example, the July KC HRW-CBOT Wheat Intercommodity spread option (July KC HRW wheat minus July CBOT wheat) will expire on the last Friday which precedes by at least two business days the last business day of June; the December-December KC HRW-CBOT Wheat Intercommodity spread option (December KC HRW wheat minus December CBOT wheat) will expire on the last Friday which precedes by at least two business days the last business day of November.

#### **14F101.J. Contract Modification**

Specifications shall be fixed as of the first day of trading of a contract except that all options must conform to government regulations in force at the time of exercise. If the U.S. government, an agency, or duly constituted body thereof issues an order, ruling, directive, or law inconsistent with these rules, such order, ruling, directive, or law shall be construed to become part of the rules and all open and new options contracts shall be subject to such government orders.

#### **14F102. EXERCISE**

KC HRW-CBOT Wheat Intercommodity spread options will be cash settled on expiration day.

KC HRW-CBOT Wheat Intercommodity spread options cannot be exercised at any time during the life of the option.

#### ~~14F103. ACTS OF GOVERNMENT, ACTS OF GOD AND OTHER EMERGENCIES~~

~~(Refer to Rule 701.)~~

#### **14F103. - 14F104. RESERVED**

#### **14F105. OPTION PREMIUM FLUCTUATION LIMITS**

There are no option premium limits during any day for KC HRW-CBOT Wheat Intercommodity Spread options.

#### **14F106. PAYMENT OF OPTION PREMIUM**

The option premium must be paid in full by each clearing member to the Clearing House and by each option customer to his futures commission merchant at the time that the option is purchased, or within a reasonable time after the option is purchased.