

**SUBMISSION COVER SHEET**

**IMPORTANT:** Check box if Confidential Treatment is requested

Registered Entity Identifier Code (optional): 22-248 (1 of 2)

Organization: Chicago Mercantile Exchange Inc. ("CME")

Filing as a:  DCM  SEF  DCO  SDR

Please note - only ONE choice allowed.

Filing Date (mm/dd/yy): 07/21/22 Filing Description: Initial Listing of the Lumber Futures and Options on Lumber Futures Contracts

**SPECIFY FILING TYPE**

Please note only ONE choice allowed per Submission.

**Organization Rules and Rule Amendments**

- Certification § 40.6(a)
- Approval § 40.5(a)
- Notification § 40.6(d)
- Advance Notice of SIDCO Rule Change § 40.10(a)
- SIDCO Emergency Rule Change § 40.10(h)

**Rule Numbers:**

**New Product**

Please note only ONE product per Submission.

- Certification § 40.2(a)
- Certification Security Futures § 41.23(a)
- Certification Swap Class § 40.2(d)
- Approval § 40.3(a)
- Approval Security Futures § 41.23(b)
- Novel Derivative Product Notification § 40.12(a)
- Swap Submission § 39.5

**Product Terms and Conditions (product related Rules and Rule Amendments)**

- Certification § 40.6(a)
- Certification Made Available to Trade Determination § 40.6(a)
- Certification Security Futures § 41.24(a)
- Delisting (No Open Interest) § 40.6(a)
- Approval § 40.5(a)
- Approval Made Available to Trade Determination § 40.5(a)
- Approval Security Futures § 41.24(c)
- Approval Amendments to enumerated agricultural products § 40.4(a), § 40.5(a)
- "Non-Material Agricultural Rule Change" § 40.4(b)(5)
- Notification § 40.6(d)

**Official Name(s) of Product(s) Affected:**

**Rule Numbers:**



Christopher Bowen  
 Managing Director and Chief Regulatory Counsel  
 Legal Department

July 21, 2022

**VIA ELECTRONIC PORTAL**

Mr. Christopher J. Kirkpatrick  
 Office of the Secretariat  
 Commodity Future Trading Commission  
 Three Lafayette Centre  
 1155 21st Street, N.W.  
 Washington, DC 20581

**Re: CFTC Regulation 40.2(a) Certification. Initial Listing of the Lumber Futures and Options on Lumber Futures Contracts.  
 CME Submission No. 22-248 (1 of 2)**

Dear Mr. Kirkpatrick:

Chicago Mercantile Exchange Inc. (“CME” or the “Exchange”) certifies to the Commodity Futures Trading Commission (“CFTC” or “Commission”) the initial listing of the Lumber Futures and Options on Lumber Futures contracts (the “Contracts”) for trading on the CME Globex electronic trading platform (“CME Globex”) and for submission for clearing via CME ClearPort effective Sunday, August 7, 2022 for trade date Monday, August 8, 2022, as more specifically described below.

<b>Contract Title</b>	<b>Lumber Futures</b>	<b>Options on Lumber Futures</b>
Contract Size	27,500 board feet	
Price Quotation	U.S. dollars and cents per thousand board feet (mbf)	
Minimum Price Fluctuation	\$0.50 per mbf (\$13.75 per contract)	\$0.10 per mbf (\$2.75 per contract)
Listing Schedule	Seven (7) listed contract months in the January, March, May, July, September, November cycle	Five (5) listed contract months in the January, March, May, July, September, and November cycle and one contract in the February, April, June, August, October, and December cycle
Initial Listing	September 2022, November 2022, January 2023, March 2023, May 2023, July 2023, September 2023	September 2022, October 2022, November 2022, January 2023, March 2023, May 2023
Commodity Code	LBR	
Rulebook Chapter	63	63A
Trading and Clearing Hours	CME Globex Pre-Open: Monday – Friday: 6:00 a.m. – 9:00 a.m. Central Time/CT CME Globex: Monday – Friday: 9:00 a.m. – 3:05 p.m. CT CME ClearPort: Sunday 5:00 p.m. - Friday 5:45 p.m. CT with no reporting Monday - Thursday from 5:45 p.m. – 6:00 p.m. CT	
Daily Settlement Time	3:00 p.m. CT	

CME Globex Match Algorithm	First-In, First-Out (FIFO)	
Block Trade Minimum Threshold	20 contracts – subject to a 15-minute reporting window	40 contracts – subject to a 15-minute reporting window
Settlement Method	Physically delivered	Physically delivered into underlying futures
Deliverable Details	Random Lengths #2 and Better 2 by 4s of deliverable grades (SPF (stamped SPF), Douglas Fir, Fir Larch, and Hem Fir) delivered to Chicago	
Termination of Trading	Business Day prior to the 16th calendar day of the contract month	Last Business Day of the month prior to the contract month
Last Day to EFP	Two (2) Business Days prior to the 26 <sup>th</sup> calendar day of the contract month	
Single Position, Intent, and Notice Day	Business Day prior to the 26 <sup>th</sup> calendar day of the contract month	
Strike Price Increments		Listed at 50% up and down of prior settlement price in \$10 increments, eligible for dynamic strike price listing
Option Exercise Style and Characteristics		American Style/Contrary Instructions Permitted

The Exchange is also certifying to the Commission a minimum block threshold of 20 contracts for Lumber Futures and 40 contracts for Options on Lumber Futures, which is aligned with the minimum block threshold of CME's existing lumber futures and options contracts.

The Exchange reviewed the designated contract market core principles ("Core Principles") as set forth in the Commodity Exchange Act ("CEA" or the "Act") and identified that the following Core Principles may be impacted by this initiative as follows:

- **Compliance with Rules:** Trading in the Contracts shall be subject to CME Rulebook Chapter 4, which includes prohibitions against fraudulent, noncompetitive, unfair, and abusive practices. Additionally, trading in this Contract shall be subject to the Exchange's trade practice rules, the majority of which are contained in Chapter 5 and Chapter 8 of the Rulebook. Trading activity in this Contracts shall be subject to monitoring and surveillance by CME Group's Market Regulation Department, which has the authority to exercise its investigatory and enforcement power where potential rule violations are identified.
- **Contracts not Readily Susceptible to Manipulation:** The Contracts are not readily subject to manipulation because of their structural attributes, active underlying market and reliance on physical delivery.
- **Prevention of Market Disruption:** Trading in the Contracts will be subject to the rules of the Exchange, which include prohibitions on manipulation, price distortion, and disruption to the cash settlement process. As with any new product listed for trading on a CME Group designated contract market, trading activity in the contract proposed herein will be subject to monitoring and surveillance by CME Group's Market Regulation Department.

- **Position Limits or Accountability:** The speculative position limits for the Contracts as demonstrated in this submission are consistent with the Commission’s guidance.
- **Emergency Authority:** As with all CME Group futures and options products, the Exchange shall have full authority to act appropriately and as necessary in emergency situations.
- **Availability of General Information:** The Exchange will publish on its website information in regard to contract specifications, terms, and conditions, as well as daily trading volume, open interest, and price information for the Contracts. The Exchange will issue a Special Executive Report (“SER”) regarding the launch of the Contracts.
- **Daily Publication of Trade Information:** The Exchange will publish contract trading volumes, open interest levels, and price information daily on its website and through quote vendors for the Contracts.
- **Execution of Transactions:** The Contracts will be listed for trading on the CME Globex electronic trading platform and for clearing through the CME ClearPort platform. The CME Globex trading venue provides for competitive and open execution of transactions. CME Globex affords the benefits of reliability and global connectivity. The CME ClearPort platform provides a competitive, open and efficient mechanism for the novation of transactions that are competitively executed by brokers.
- **Trade Information:** All requisite trade information for the Contracts will be included in the audit trail and is sufficient for the Market Regulation Department to monitor for market abuse.
- **Financial Integrity of Contracts:** The Contracts will be cleared by the CME Clearing House, a derivatives clearing organization registered with the Commodity Futures Trading Commission and subject to all CFTC regulations related thereto.
- **Protection of Market Participants:** Chapters 4 and 5 in the CME Rulebook set forth multiple prohibitions that preclude intermediaries from disadvantaging their customers. These rules apply to trading in all of the Exchange’s competitive trading venues.
- **Disciplinary Procedures:** Chapter 4 of the CME Rulebook contains provisions that allow the Exchange to discipline, suspend or expel members or market participants that violate the Rulebook. Trading in the Contracts will be subject to Chapter 4, and the Market Regulation Department has the authority to exercise its enforcement power in the event rule violations in this product is identified.
- **Dispute Resolution:** Disputes with respect to trading in the Contracts will be subject to the arbitration provisions set forth in Chapter 6 of the CME Rulebook. Chapter 6 allows all non-members to submit a claim for financial losses resulting from transactions on the Exchange to arbitration. A member named as a respondent in a claim submitted by a non-member is required to participate in the arbitration pursuant to Chapter 6. Additionally, the Exchange requires that members resolve all disputes concerning transactions on the Exchange via arbitration. Pursuant to Section 5c(c) of the Act and CFTC Regulation 40.6(a), the Exchange hereby certifies that Rule Amendments comply with the Act, including all regulations under the Act.

The Exchange certifies that this submission has been concurrently posted on the Exchange’s website at <http://www.cmegroup.com/market-regulation/rule-filings.html>.

Should you have any questions concerning the above, please contact the undersigned at (212) 299-2200 or e-mail [CMEGSubmissionInquiry@cmegroup.com](mailto:CMEGSubmissionInquiry@cmegroup.com).

Sincerely,

/s/Christopher Bowen  
Managing Director and Chief Regulatory Counsel

Attachments: Exhibit A: CME Rulebook Chapter 63  
Exhibit B: CME Rulebook Chapter 63A  
Exhibit C: Position Limits, Position Accountability and Reportable Level Table in Chapter 5 of the CME Rulebook (attached under separate cover)  
Exhibit D: Exchange Fees  
Exhibit E: CME Rule 588.H. – (“Globex Non-Reviewable Trading Ranges”) Table  
Exhibit F: CME Rule 589. – Special Price Fluctuation Limits and Daily Price Limits Table  
Exhibit G: Cash Market Overview and Analysis of Deliverable Supply

## **Exhibit A**

### **CME Rulebook Chapter 63 Lumber Futures**

#### **6300. SCOPE OF CHAPTER**

This chapter is limited in application to Lumber Futures. In addition to this chapter, Lumber Futures shall be subject to the general rules and regulations of the Exchange insofar as applicable.

The terms “seller” and “buyer” shall mean the seller of the physical product and the buyer of the physical product, respectively. The terms “reload” and “transload” shall mean any facility able to receive railcars where multiple entities have unloading and storage capabilities.

For purposes of these rules, unless otherwise specified, times referred to herein shall refer to and indicate Central Prevailing Time (CPT).

#### **6301. CONTRACT SPECIFICATIONS**

Each delivery unit shall consist of nominal 2x4's of random lengths from 8 feet to 20 feet. Each delivery unit shall consist of and be grade stamped #1 or #2 and Better. Each delivery unit shall contain lumber produced from and grade stamped Hem Fir (HF), Douglas Fir (DF), Fir Larch (FL), or Spruce Pine Fir (SPF).

#### **6302. TRADING SPECIFICATIONS**

##### **6302.A. Trading Schedule**

Futures contract shall be scheduled for trading and delivery during such hours and in such months as may be determined by the Exchange.

##### **6302.B. Trading Unit**

The unit of trading shall be 27,500 board feet.

##### **6302.C. Price Increments**

Minimum price fluctuations shall be in multiples of \$0.50 per thousand board feet (mbf).

##### **6302.D. Special Price Fluctuation Limits**

At the commencement of each trading day, the contract shall be subject to special price fluctuation limits and daily price limits as set forth in Rule 589 and in the Special Price Fluctuation and Daily Limits Table in the Interpretations & Special Notices Section of Chapter 5.

There shall be no price limit in the expiring month contract beginning on the first Business Day of the contract month.

##### **6302.E. 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.

##### **6302.F. Termination of Trading**

Trading shall terminate on the Business Day immediately preceding the 16th calendar day of the contract month. Any contracts remaining open after the last day of trading must be either:

- (a) Settled by delivery; or
- (b) Liquidated by means of a bona fide Exchange for Related Positions pursuant to CME Rule 538, no later than 5:45 p.m. CPT two Business Days prior to the 26th calendar day of the contract

month.

**6302.G. Transfers of Cash for Lumber**

The cash merchandise transferred for Lumber Futures after termination of trading may only be deliverable species dimension lumber with variances for grade/size and tally; provided, however, that the quantities transferred both before and after termination of trading are comparable to the quantities specified in the futures contract and provided further, that there is an unconditional transfer of title to the buyer of the cash and the seller of the futures contract evidenced by, at a minimum, payment for the cash merchandise.

The shipment or transfer of the cash merchandise should be delivered to a destination normally used by the buyer or one that is common to the cash market. The buyer must retain ownership of the transferred product for personal use or resale to his customers and may not resell the product either directly or indirectly to the original seller.

**6303. SETTLEMENT PROCEDURES**

In addition to the procedures and requirements of Chapter 7, the following shall specifically apply to the delivery of Lumber Futures.

**6303.A. Delivery**

All remaining open positions on two (2) Business Days prior to the 26th calendar day of the contract month will be matched for Exchange delivery on the Business Day prior to the 26th calendar day of the contract month.

Delivery shall be made in a railcar by a producing mill and delivered to a location within the Chicago Switching District. Title to each delivered unit of lumber shall pass to the buyer upon buyer's receipt of documentation supplied at the final destination within the Chicago Switching District.

The delivery will be considered complete when delivery and any final payments are completed.

Exchange delivery shall be made in increments of four (4) contracts by both sellers and buyers. Any final positions going into delivery in an increment different from four (4) contracts will be assessed a penalty of \$5,000 per party (seller or buyer) payable to the Clearing House.

**6303.B. Responsibilities of Clearing Members**

1. Notice of Intention to Accept  
Clearing Members having open long positions shall provide the Clearing House with a Notice of Intention to Accept delivery by 12:00 p.m. the Business Day prior to the 26<sup>th</sup> of the contract month providing number of contracts, customer and any other information required by the Exchange.
2. Notice of Intention to Deliver  
Clearing Members having open short positions shall provide the Clearing House with a Notice of Intention to Deliver by 12:00 p.m. the Business Day prior to the 26<sup>th</sup> of the contract month providing number of contracts, lumber species, customer and any other information required by the Exchange.
3. Initial Payment  
The buyer's Clearing Member, on behalf of the buyer, shall deposit with the Clearing House no later than 10:00 a.m. on the Business Day following assignment initial funds in an amount equal to 27.5 times the settlement price on the last day of trading in the contract month.
4. Delivery Destination  
Upon receipt from the Exchange to Clearing Members of an assignment notice, Buying or Selling Clearing Members shall obtain from buyers or sellers delivery instructions and submit to the Clearing House by 4:00 p.m. two (2) Business Days following receipt of an assignment notice in a form as prescribed by the Clearing House.
5. Tally and Delivery Information  
By 4:00 p.m., within one (1) Business Day after acceptance by the railroad, the seller's Clearing Member shall receive from the seller and submit to the Clearing House a uniform straight bill of lading (or a copy thereof), tallies and any other documentation specifying grade, car number, piece count by length, unit size, total board footage, date of acceptance and any other information required by the Exchange. The date of acceptance by the railroad is the date of the bill of lading, signed and/or stamped by the originating carrier, except when determined otherwise by the Clearing House.

6. Delivery Notice and Confirmation

By 4:00 p.m., within one (1) Business Day of buyer's receipt of lumber, the buyer's Clearing Member shall receive from the buyer and submit to the Clearing House in a form prescribed by the Exchange the delivery (received) date and any amendments to tally details along with final documentation specifying the lumber species received, car number, final tallies including piece count by length, unit size, total board footage and any other information required by the Exchange.

7. Payment

Final payment will be made on the basis of the exact quantity delivered. Any additional funds due from buyers and sellers once delivery has been completed shall be due to the Clearing House no later than 10:00 a.m. on the Business Day following delivery confirmation.

**6303.C. Seller's Duties**

1. Delivery Destination

If the delivery between a buyer and seller is not in increments of four (4) contracts on each side, the seller will designate a transload or reload facility within the Chicago Switching District and provide delivery destination details to the buyer and to the Clearing House by 4:00 p.m. within two (2) Business Days of the receipt of Notice of Intent. The seller's Clearing Member shall receive from the seller and submit to the Clearing House, within two (2) Business Days of receipt of the Notice of Intent, shipping instructions to include the full address of the transload or reload facility within the Chicago Switching District, contact name, telephone number, rail line and any other information required by the Exchange.

The seller shall ensure their designated facility within the Chicago Switching District has all information required by the facility.

Amendments to delivery destination details are allowed prior to shipment and upon mutual agreement between the buyer and seller.

2. Shipment

The seller shall follow the shipping instructions within ten (10) Business Days after receipt of such instructions.

3. Tally and Delivery Information

By 4:00 p.m., within one (1) Business Day after acceptance by the railroad the seller must provide to their Clearing Member a uniform straight bill of lading (or a copy thereof), tallies and any other documentation specifying grade, car number, piece count by length, unit size, total board footage, date of acceptance and any other information required by the Exchange. The date of acceptance by the railroad is the date of the bill of lading, signed and/or stamped by the originating carrier, except when determined otherwise by the Clearing House.

If the seller fails to fulfill any of the aforementioned duties within the prescribed time, penalties will be assessed by the Clearing House in accordance with the current penalty schedule.

The delivery shall reach the destination within the Chicago Switching District by the last Business Day of the calendar month following the contract month.

**6303.D. Buyer's Duties**

1. Initial Payment

On behalf of buyer(s) assigned a notice of intent, the buyer's Clearing Member shall deposit with the Clearing House no later than 10:00 a.m. on the Business Day following assignment initial funds in an amount equal to 27.5 times the settlement price on the last day of trading in the contract month.

2. Delivery Destination

If the delivery is assigned between a buyer and seller and is in increments of four (4) contracts on each side, the buyer will designate a delivery destination within the Chicago Switching District and provide shipping instructions to the seller and to the Clearing House by 4:00 p.m. within two (2) Business Days of the receipt of Notice of Intent. The buyer's Clearing Member shall receive from the buyer and submit to the Clearing House, within two (2) Business Days of receipt of the Notice of Intent, shipping instructions, to include the full address of the delivery destination within the Chicago Switching District, contact name, telephone number and any other information required by the Exchange.



The buyer shall ensure their designated facility within the Chicago Switching District has all information required by the facility, including contact and payment information.

Amendments to delivery destination details are allowed prior to shipment and upon mutual agreement between the buyer and seller.

**4. Delivery Confirmation**

By 4:00 p.m., within one (1) Business Day of receipt of the delivery into the designated facility or the transload or reload designated by the seller or buyer, the buyer shall provide to the buyer's Clearing Member documentation providing the receipt date, final tally details including piece count by length, unit size, and total board footage and any other information required by the Exchange.

**6303.E. Payment**

Final payment will be made on the basis of the exact quantity delivered. After a delivery is confirmed, additional funds are due by Clearing Members on behalf of buyers and sellers by 10:00 a.m. one (1) Business Day following delivery confirmation.

Upon the fulfillment of the delivery and receipt of final payments due, the Clearing House shall transfer to the seller the amount due, payment to be made in U.S. dollars.

Any related government duties, fees and charges shall be the responsibility of the seller.

**6304. PAR DELIVERY AND SUBSTITUTIONS**

**6304.A. Par Delivery**

Delivery shall be made in a railcar from a producing mill. The delivery unit must be loaded at the on-site siding of the producing mill or, if a mill normally uses an off-site location for rail loading because rail access does not exist, then a delivery unit may be loaded on track at that designated off-site location by the producing mill. The unit must be shipped on a uniform straight bill of lading and the mill number must be noted on the bill of lading. A single delivery unit must be delivered from the same mill. Mills are limited to one location for purposes of delivery and, if off-site, must receive approval of the site from the Exchange prior to making delivery from that location.

The lumber shall be wrapped in paper, poly or their industry recognized equivalents and loaded on a flat car. All lumber delivered shall include only pieces produced directly from logs or mill run rough lumber, with no pre-sorting for grade prior to planing. Remanufactured pieces made from previously planed lumber are not acceptable for delivery.

**1. Size**

A delivery unit shall be 27,500 board feet of random length 2x4's, provided the tally is within the following limits:

<u>Length</u>	<u>Percent of Total Board Feet Delivered</u>
8'	3% to 10%
10'	5% to 12%
12'	10% to 20%
14'	10% to 24%
16'	35% to 60%
18'	0% to 15%
20'	0% to 15%
16' + 18' + 20'	45% to 60%

The lumber shall be double end trimmed, surfaced four sides, eased edge and of minimum dressed dimensions, as specified in Voluntary Product Standard 20-94, American Softwood Lumber Standard, published by the United States Department of Commerce, or any subsequent revisions (hereinafter referred to as PS 20) or its Canadian equivalent (CSA O141). The lumber must be stamped by an agency accredited by either the Canadian Lumber Standards Accreditation Board or the American Lumber Standard Committee.

The tally (i.e., "piece count by length") reported to the Clearing House by the seller's Clearing Member on behalf of the seller must meet the specifications of this Rule. If the seller's actual tally does not meet the specifications of this Rule, the seller may adjust the reported tally, as described below, to

bring the reported tally into conformance with these specifications. If the reported tally is adjusted to meet contract specifications, the seller's Clearing Member on behalf of the seller must provide the Clearing House with both the actual tally and the adjusted tally.

If the Clearing House must adjust a seller's reported tally or if the reported tally does not agree with the actual tally (actual wood received), the seller shall be charged with fines/penalties in accordance with the current penalty schedule.

If the reported tally cannot be adjusted to meet contract specifications, or if the actual tally does not meet specifications and cannot be adjusted to meet specifications, the delivery unit may be rejected by the buyer. The seller would then be required to reship and be fined/penalized in accordance with the current penalty schedule.

Delivery units (actual and reported tally) may be adjusted to meet contract specifications by deleting one or more banded units or individual pieces from the delivery unit, as long as such deletion does not cause the balance of the lumber to become inconsistent with any other rule in the Lumber contract. If lumber is deleted from the delivery unit in order to meet tally specifications, the buyer shall retain title to such lumber but shall not be billed for either the lumber which is to be disregarded or for the freight associated with it. A seller may not meet contract specifications by "pencil trimming" of lengths (e.g., assuming that a 20' piece is only an 18' piece). In addition, if a seller cannot meet tally specifications by deleting banded units or individual pieces, or if they cannot meet total board footage specifications even though tally specifications are met, the seller will be required to ship another load and be subject to appropriate fines, penalties and/or damages.

2. Packaging

The lumber shall be unitized; that is, banded. In addition, all units shall contain lumber of equal lengths, except 18 foot and 20 foot lengths which may be banded together. The units shall be individually wrapped in paper, poly or their industry recognized equivalents.

3. Quality

The lumber shall meet the requirements of PS 20 or CSA O141 and shall comply with the requirements for inspection and reinspection of an agency accredited by the American Lumber Standards committee and/or Canadian Lumber Standards Accreditation Board.

4. Moisture Content

The moisture content of each piece shall not exceed 19% as determined by moisture meter readings in accordance with the "Standard Method of Tests for Moisture Content of Wood," ASTM International (formerly, American Society for Testing and Materials), D4442-20.

5. Marking

All pieces shall be grade marked with the registered symbol of an accredited agency recognized by the American Lumber Standard Committee and/or the Canadian Lumber Standards Accreditation Board. All pieces shall be marked with the mill name and/or association identification number, grade, seasoning and species according to the stamping requirements of the accredited agency, and shall meet all other requirements of state and federal law.

**6304.B. Variations in Quantity**

Variations in quantity of the delivery unit between 26,000 and 29,000 board feet shall be permitted without penalty, but payment shall be made on the basis of the exact quantity delivered.

**6305. INSPECTIONS**

Inspection shall conform to PS 20 or CSA O141 and any other requirements that may thereafter be promulgated under PS 20 or CSA O141. Inspection service and compliance shall be subject to the customer lumber industry practice.

In case of claim on grade, moisture content, tally or manufacture, the buyer shall demand reinspection through the Clearing House to an agency accredited by the American Lumber Standard Committee and/or the Canadian Lumber Standards Accreditation Board. Findings of the reinspection shall be final and binding upon the buyer and seller.

**6306. ASSOCIATED COSTS AND PENALTIES/FINES**

The following penalties or fines will apply.

<u>Cause</u>	<u>Penalty / Fine</u>
A. Materially incomplete, late, or erroneous shipping instructions after two (2) Business Days upon receipt of Notice of Intent.	\$200 per Business Day (assessed against the responsible party and payable to the counterparty).
B. Failure by the seller to properly follow shipping instructions within ten (10) Business Days after receipt of instructions.	\$500 per Business Day (assessed against the seller and payable to buyer).
C. Failure by a buyer or seller to submit required/prescribed documentation to the Clearing House by the deadlines set forth in the Rules.	\$150 per Business Day and per contract (assessed against the responsible party) and payable to the Clearing House.
D. Incomplete, erroneous or material adjustment to delivery forms.	\$150 per contract (assessed against the responsible party and payable to the Clearing House).
E. Final positions that go into Delivery in an increment outside of four (4) contracts.	\$5,000 per delivery period and per buyer or seller (assessed against the responsible party and payable to the Clearing House).

**Exhibit B**  
**CME Rulebook**  
**Chapter 63A**  
**Options on Lumber Futures**

**63A00. SCOPE OF CHAPTER**

This chapter is limited in application to options on Lumber futures. In addition to this chapter, options on Lumber Futures shall be subject to the general rules and regulations of the Exchange insofar as applicable.

For purposes of these rules, unless otherwise specified, times referred to herein shall refer to and indicate Central Prevailing Time (CPT).

**63A01. OPTIONS CHARACTERISTICS**

**63A01.A. Contract Months and Trading Hours**

Options contracts shall be listed for such contract months and scheduled for trading during such hours as may be determined by the Exchange.

**63A01.B. Trading Unit**

The trading unit shall be an option to buy, in the case of the call, or to sell, in the case of the put, one (1) Lumber Futures contract as specified in Chapter 63.

**63A01.C. Minimum Price Fluctuation**

The price of an option shall be quoted in dollars per thousand board feet (mbf). The minimum price fluctuation (also known as tick) shall be in multiples of \$.10 per mbf.

**63A01.D. Underlying Futures Contract**

1. Options in the Regular Cycle

For regular-cycle options, the underlying futures contract is the corresponding futures contract. For example, the underlying futures contract for the January option contract is the January futures contract.

2. Options Not in the Regular Cycle

For options that expire in months other than those in the regular cycle, the underlying futures contract is the next futures contract in the regular cycle that is nearest to the expiration of the option. For example, the underlying futures contract for the February option contract is the March futures contract.

**63A01.E. Exercise and Exercise Prices**

Transactions and exercise of options shall be conducted for option contracts as set forth in the [Strike Price Listing and Exercise Procedures Table](#).

The Exchange may modify the procedure for the introduction of strike prices as it deems appropriate in order to respond to market conditions.

**63A01.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.

**63A01.G. Termination of Trading**

1. Options in the Regular Cycle

Options trading shall terminate on the last scheduled Business Day of the month prior to the delivery month of the underlying futures contract. In the event that the underlying futures market does not open

on the scheduled Expiration Day, the option expiration shall be extended to the next Business Day on which the underlying futures market is open for trading.

2. Options Not in the Regular Cycle

Options trading shall terminate on the last scheduled Business Day of the month prior to the option contract month. In the event that the underlying futures market does not open on the scheduled Expiration Day, the option expiration shall be extended to the next Business Day on which the underlying futures market is open for trading.

**63A02. ASSIGNMENT**

In addition to the applicable procedures and requirements of Chapter 7, the following shall apply to the assignment of Lumber options.

Exercise Notices accepted by the Clearing House shall be assigned through a process of random selection to Clearing Members with 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, but not later than 45 minutes prior to the opening of trading in the underlying futures contract on the following Business Day.

The Clearing Member assigned an Exercise Notice shall be assigned a short position in the underlying futures contract if a call was exercised or a long position if a put was exercised. The Clearing Member representing the option buyer shall be assigned a long position in the underlying futures contract if a call was exercised and a short position if a put was 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.

**Exhibit C**

**CME Rulebook**

**Chapter 5**

**(“Trading Qualifications and Practices”)**

**Position Limits, Position Accountability and Reportable Level Table**

(attached under separate cover)

**Exhibit D**  
**Exchange Fees\***

Membership Type	Venue/ Transaction Type	Fee
Individual Members Clearing Members Rule 106.J Equity Member Firms & Rule 106.J Qualified Subsidiaries Rule 106.I Members & Rule 106.I Qualified Affiliates Rule 106.S Member Approved Funds	CME Globex	\$0.23
	EFP	\$0.63
	EFR	\$0.63
	Block	\$0.63
	Delivery	\$0.05
	Exe Asn Future From	\$0.07
Rule 106.D Lessees Rule 106.F Employees	CME Globex	\$0.27
	EFP	\$0.68
	EFR	\$0.68
	Block	\$0.68
	Delivery	\$0.10
	Exe Asn Future From	\$0.12
Rule 106.R Electronic Corporate Members (For other than CME Globex - Non-Member rates apply)	CME Globex	\$0.30
Rule 106.H and 106.N Firms	CME Globex	\$0.30
	EFP	\$0.74
	EFR	\$0.74
	Block	\$0.74
	Delivery	\$0.16
	Exe Asn Future From	\$0.18
International Incentive Program (IIP) Participants International Volume Incentive Program (IVIP) Participants (For other than CME Globex - Non-Member rates apply)	CME Globex	\$0.82
Central Bank Incentive Program (CBIP) Participants Latin American Fund Manager Incentive Program (FMIP) Participants (For other than CME Globex - Non-Member rates apply)	CME Globex	\$1.50
Members Trading Outside of Division (For other than CME Globex During ETH - Non-Member rates apply)	CME Globex During ETH Only	\$0.35
Non-Members	CME Globex	\$1.50
	EFP	\$0.81
	EFR	\$3.03
	Block	\$3.03
	Delivery	\$0.23
	Exe Asn Future From	\$0.24

Processing Fees	Fee
Position Adjustment/Position Transfer	\$0.10
Give-Up Surcharge	\$0.05
Facilitation Fee	\$0.40

\*Exchange fees in connection with Lumber Futures shall be waived through September 30, 2022 (See CME Submission No. 22-306 also dated July 21, 2022).

**Exhibit E**

**CME Rulebook  
Chapter 5  
("Trading Qualifications and Practices")  
Rule 588.H. ("Globex Non-Reviewable Trading Ranges") Table**

(additions underscored)

Instrument	Globex Symbol	Outrights			Spreads	
		Globex Non-Reviewable Ranges (NRR)	NRR: Globex Format	NRR: Minimum Ticks	NRR: Globex Format	NRR: Outright Minimum Ticks
<u>Lumber Futures</u>	<u>LBR</u>	<u>\$20.00 per 1,000 board feet</u>	<u>2000</u>	<u>40</u>	<u>Each leg evaluated as an outright</u>	

Agriculture Options	Globex Symbol	Globex Non-Reviewable Ranges (NRR)
<u>Options on Lumber Futures</u>	<u>LBR</u>	<u>The greater of the following:</u> <ul style="list-style-type: none"> <li>•<u>Delta multiplied by the underlying futures non-reviewable range</u></li> <li>•<u>20% of premium up to ¼ of the underlying futures non-reviewable range</u></li> <li>•<u>5 ticks</u></li> </ul>



**Exhibit F**  
**CME Rulebook**  
**Chapter 5**  
**(“Trading Qualifications and Practices”)**  
**Rule 589. Special Price Fluctuation Limits and Daily Price Limits Table**

(additions underscored)

<b>Product</b>	<b>Rulebook</b>	<b>Commodity Code</b>	<b>PRIMARY/ASSOCIATED</b>	<b>ASSOCIATED WITH</b>	<b>DAILY PRICE LIMIT</b>
<u>Lumber Futures</u>	<u>63</u>	<u>LBR</u>	<u>Primary</u>	<u>Primary</u>	5% of Dynamically Calculated Reference Price Daily Price Limit Table
<u>Options on Lumber Futures</u>	<u>63A</u>	<u>LBR</u>	<u>Associated</u>	<u>LBR</u>	

## **Exhibit F**

### **Cash Market Overview and Analysis of Deliverable Supply**

Chicago Mercantile Exchange Inc. (“CME” or the “Exchange”) certifies to the Commodity Futures Trading Commission (“CFTC” or “Commission”) the initial listing of the Lumber Futures and Options on Lumber Futures contracts (the “Contracts”) for trading on the CME Globex electronic trading platform (“CME Globex”) and for submission for clearing via CME ClearPort effective Sunday, August 7, 2022 for trade date Monday, August 8, 2022.

<b>Contract Title</b>	<b>Lumber Futures</b>	<b>Options on Lumber Futures</b>
Commodity Code	LBR	
Rulebook Chapter	63	63A

#### **Cash Market Overview**

Wood and wood products are produced worldwide for a variety of uses. China is the largest producer of sawn wood, followed by the United States, Russia, and Canada. North America is responsible for approximately one quarter of global sawn wood production as well as one quarter of global sawn wood consumption.

The North American timber industry is comprised of several types of species and produces inputs for a wide array of products, from construction equipment (framing, flooring, furniture) to pulp and paper. Softwood lumber has many uses, but is most frequently used to make roofing, framing, paneling and plywood or oriented strand board (“OSB”).

Generally, hardwood is produced from deciduous trees while softwood is produced from coniferous trees. Softwood lumber can be produced more rapidly because the source trees are faster growing, though different species can grow and be ready for harvest at different rates. For example, Southern Yellow Pine trees may be ready for harvest after approximately 25 years, while domestic spruce, pine, and fir trees generally live for 40 years before they are cut down and Canadian spruce, pine, and fir trees are harvested at approximately 60 years old.

Traditionally, most North American lumber production has taken place in the Pacific Northwest of the United States (“U.S.”) and in western Canada. However, over the past few decades, production has migrated east and south, such that the southern U.S. now produces almost as much softwood lumber as all of Canada. For example, Canada produced about 25 billion board feet in 2019 (15 billion board feet in western Canada and 10 billion east of the Rocky Mountains), while the U.S. produced 35 billion board feet – 20 billion board feet of which were harvested in the southern region.<sup>1</sup> Because softwood lumber production has diversified itself geographically, the Exchange is listing the Lumber Futures contract, which is a delivered Chicago price as opposed to a Free on Board (“FOB”) mill price. Mills from all parts of North America will have the ability to deliver lumber into Chicago, Illinois. The Contract will expand participation to mills in eastern Canada and shift the species mix such that more domestic mills can utilize the futures instrument to hedge and make physical delivery.

#### **Data**

The Lumber Futures contract will price lumber delivered from a mill to the Chicago Switching District, but any producing mill in the United States or Canada will have the ability to participate in physical delivery. Therefore, the underlying market is softwood lumber produced in the United States or produced in Canada and shipped to the U.S.

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<sup>1</sup> [Timber Processing](#).

	<b>United States Production (mbf)<sup>2</sup></b>		
	<b>2019</b>	<b>2020</b>	<b>2021</b>
January	3,150,000	3,200,000	3,100,000
February	2,700,000	2,900,000	2,800,000
March	2,800,000	3,000,000	3,350,000
April	3,100,000	2,900,000	3,400,000
May	3,000,000	2,800,000	3,150,000
June	2,900,000	3,150,000	3,200,000
July	3,125,000	3,300,000	3,000,000
August	3,125,000	3,100,000	3,100,000
September	2,800,000	3,000,000	3,100,000
October	3,350,000	3,250,000	3,150,000
November	2,600,000	2,850,000	2,800,000
December	2,625,000	2,950,000	2,950,000

	<b>U.S. Imports from Canada (mbf)<sup>3</sup></b>		
	<b>2019</b>	<b>2020</b>	<b>2021</b>
January	908,828	884,083	1,125,671
February	903,499	959,256	1,024,097
March	1,157,218	1,207,919	1,244,526
April	1,307,656	1,034,548	1,253,179
May	1,250,647	921,127	1,338,755
June	1,142,667	1,018,560	1,232,044
July	1,011,700	1,054,879	1,066,111
August	1,099,805	1,196,681	1,082,902
September	1,146,718	1,278,989	1,067,301
October	1,089,445	1,258,683	1,183,410
November	905,519	1,185,153	1,155,870
December	1,067,750	1,163,384	999,152

It should be noted that not all softwood species will be deliverable into the Lumber Futures contract. For example, the U.S. produces Spruce Pine Fir South (“SPF-S”) and Southern Yellow Pine. However, since the SPF-S and Southern Yellow Pine species have different strength characteristics than most of the Contract’s deliverable species, the Exchange, in consultation with market participants, will exclude them from delivery against the Contract. The Spruce Pine Fir (“SPF”), Douglas Fir, Fir Larch, and Hem Fir species exclusively shall be deliverable against the Contract.

The Exchange received feedback that approximately 30% of domestic softwood lumber production is Douglas Fir, Fir Larch, or Hem Fir.<sup>4</sup>

<sup>2</sup> Estimated from a chart in Madison’s Lumber Report [2019](#), [2020](#), [2021](#).

<sup>3</sup> [USDA GATS](#) (HTS Code 4407).

<sup>4</sup> SPF can only be produced in Canada. If SPF is produced in the United States, it is stamped SPF-S and is not deliverable through the Exchange.

	<b>United States Deliverable Production (mbf)<sup>5</sup></b>		
	<b>2019</b>	<b>2020</b>	<b>2021</b>
January	945,000	960,000	930,000
February	810,000	870,000	840,000
March	840,000	900,000	1,005,000
April	930,000	870,000	1,020,000
May	900,000	840,000	945,000
June	870,000	945,000	960,000
July	937,500	990,000	900,000
August	937,500	930,000	930,000
September	840,000	900,000	930,000
October	1,005,000	975,000	945,000
November	780,000	855,000	840,000
December	787,500	885,000	885,000

Using data on Canadian production by species, the percentage of SPF, Douglas Fir, Fir Larch, and Hem Fir softwood lumber is nearly 100%. Some cedar is also produced but is not deliverable through the Exchange. Therefore, the Exchange took the conservative percentage of 90% of lumber production being deliverable and applied that to Canadian exports to the U.S.

	<b>U.S. Deliverable Imports from Canada (mbf)</b>		
	<b>2019</b>	<b>2020</b>	<b>2021</b>
January	817,945	795,675	1,013,104
February	813,149	863,331	921,687
March	1,041,496	1,087,127	1,120,073
April	1,176,891	931,093	1,127,861
May	1,125,583	829,014	1,204,880
June	1,028,400	916,704	1,108,840
July	910,530	949,391	959,500
August	989,824	1,077,013	974,611
September	1,032,047	1,151,091	960,571
October	980,501	1,132,815	1,065,069
November	814,968	1,066,637	1,040,283
December	960,975	1,047,046	899,237

Combining three (3) years of data on deliverable U.S. production and deliverable U.S. imports from Canada leads to average monthly deliverable supply of approximately 1.9 billion board feet.

	<b>Total Deliverable Supply (mbf)</b>			
	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>Average</b>
January	1,762,945	1,755,675	1,943,104	1,820,575
February	1,623,149	1,733,331	1,761,687	1,706,056

<sup>5</sup> Thousand board feet is abbreviated as mbf.

March	1,881,496	1,987,127	2,125,073	1,997,899
April	2,106,891	1,801,093	2,147,861	2,018,615
May	2,025,583	1,669,014	2,149,880	1,948,159
June	1,898,400	1,861,704	2,068,840	1,942,981
July	1,848,030	1,939,391	1,859,500	1,882,307
August	1,927,324	2,007,013	1,904,611	1,946,316
September	1,872,047	2,051,091	1,890,571	1,937,903
October	1,985,501	2,107,815	2,010,069	2,034,461
November	1,594,968	1,921,637	1,880,283	1,798,963
December	1,748,475	1,932,046	1,784,237	1,821,586

### **Analysis of Deliverable Supply**

As described, domestic production and Canadian exports to the U.S., of deliverable species including SPF, Hem Fir, Douglas Fir, and Fir Larch, were used to determine the size of the underlying market. The industry does not rely on long term contracts for the vast majority of sales – most lumber that could be delivered through the Exchange is coordinated between the mill and the consumer only a few weeks prior to delivery.

Using the average of the last three (3) years of available data, the deliverable supply of lumber averages to 1,904,652 thousand board feet (mbf) per month, which is equivalent to 69,260 contracts (using a contract size of 27,500 board feet). Using the spot-month speculative position limit formula of 25 percent of deliverable supply, the maximum deliverable supply for the Lumber Futures contract supports position limits of 17,315 contracts (69,260\*0.25). The Exchange's existing Random Length Lumber Futures contract has a spot month position limit of 435 contracts. The new proposed Lumber Futures contract is one quarter of the size of the Random Length Lumber Futures contract. The Exchange conservatively recommends spot month position limits of 2,000 contracts, which represents only 3% of deliverable supply.

The 'Initial Spot-Month Limit Effective Date' will be the close of trading on the first Business Day of the contract month. The Exchange recommends a single month limit of 4,000 contracts, an all-month Accountability Level of 4,000 contracts, and a reportable level of 25 contracts.