

Chapter 52B

Midsized Options on Milk Futures

52B00. SCOPE OF CHAPTER ¹

This chapter is limited in application to trading in options on the Milk futures contract. The procedures for trading, clearing and settlement, and any other matters not specifically covered herein shall be governed by the rules of the Exchange.

52B01. OPTION CHARACTERISTICS

52B01.A. Contract Months and Trading Hours ²

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

52B01.B. Trading Unit ³

The trading unit shall be an option to buy, in the case of the call, or to sell, in the case of the put, 1,000 times the USDA Class III price for milk, expressed in dollars per hundredweight (cwt.).

52B01.C. Minimum Fluctuations

The price of an option shall be quoted in cents per hundredweight. Minimum price fluctuations shall be in multiples of \$.01 per cwt. (\$10.00, also known as one tick). A trade may also occur at a price of \$.005 per cwt. (\$5.00, also known as one-half tick), whether or not it results in the liquidation of positions for both parties to the trade.

52B01.D. [Reserved]

52B01.E. Exercise Prices ⁴

The exercise prices shall be stated in terms of dollars per cwt. For all contract months, exercise prices shall be at intervals of \$.25; e.g., \$11.75, \$12.00, \$12.25, etc.

At the commencement of option trading in a contract month, the Exchange shall list put options in a range of \$4 above and below the previous day's settlement price of the underlying futures contract.

When a sale, bid, offer or settlement price in the underlying futures contract occurs at, or passes through, an exercise price, the Exchange shall list on the next trading day put and call option contracts at the next higher (or next lower) exercise price within a \$4 range above (or below) the exercise price at which or through which the underlying futures sale, bid, offer or settlement price occurred. New options may be listed for trading up to and including the termination of trading.

The Board may modify the provisions governing the establishment of exercise prices as it deems appropriate.

52B01.F. Position Limits ⁵

No person shall own or control a combination of options and underlying futures that exceeds:

1500 Milk futures-equivalent contracts net on the same side of the market in any contract month;

For the purpose of this rule, the futures equivalent of a midsized option contract is 0.50 times the previous business day's IOM risk factor for the option series. Also for purposes of this rule, a long call option, a short put option, and a long underlying futures contract are on the same side of the market; similarly, a short call option, a long put option, and a short underlying futures contract are on the same side of the market.

52B01.G. Accumulation of Positions

For purposes of this rule, the positions of all accounts directly or indirectly owned or controlled by a person or persons, and the positions of all accounts of a person or persons acting pursuant to an expressed or implied agreement or understanding, and the positions of all accounts in which a person or persons have a proprietary or beneficial interest, shall be cumulated.

¹ Revised March 2000.

² Revised December 2001.

³ Revised March 2000.

⁴ Revised December 2001.

⁵ Revised March 2000; June 2000, October 2001; July 2003.

52B01.H. Exemptions

The foregoing position limits shall not apply to commercially appropriate risk reducing option positions defined in accordance with Regulation 1.3(z)(1) of the CFTC and meeting the requirements of Rule 543 and shall not apply to option positions exempted pursuant to Rule 543.

52B01.I. Termination of Trading⁶

Options trading shall terminate on the same date and time as the Milk futures contract.

52B01.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 these rules and all open and new options contracts shall be subject to such governmental orders.

52B02. EXERCISE⁷

In addition to the applicable procedures and requirements of Chapter 7, the following shall apply to the exercise of midsize options on Milk futures.

52B02.A. Exercise of Option by Buyer

An option may be exercised by the buyer only on the day that the option expires. To exercise the option, the clearing member representing the buyer shall present an exercise notice to the Clearing House by 7:00 p.m. on the day of exercise.

Any option that is in the money and has not been liquidated prior to its expiration date shall, in the absence of contrary instructions delivered to the Clearing House by 7:00 p.m. on the day following the expiration by the clearing member representing the option buyer, be exercised automatically.

Corrections to option exercises may be accepted by the Clearing House after the 7:00 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 unreconciled 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 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.

52B02.B. Assignment⁸

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 long futures position if a put was exercised or a short futures position if a call was exercised. The clearing member representing the option buyer shall be assigned a short futures position if a put was exercised or a long futures position if a call was exercised. The positions shall be equivalent to 0.50 times the value of the Milk futures contract (i.e., 1,000 times the USDA Class III price for milk, expressed in dollars per hundredweight).

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.

52B03. ACTS OF GOVERNMENT, ACTS OF GOD AND OTHER EMERGENCIES

(Refer to Rule 701. – ACTS OF GOVERNMENT, ACTS OF GOD AND OTHER EMERGENCIES)

(End Chapter 52B)

⁶ Revised March 2000.

⁷ Revised March 2000.

⁸ Revised March 2000.