

Chapter 201A

Options on Random Length Lumber Futures

201A00. SCOPE OF CHAPTER

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

201A01. OPTION CHARACTERISTICS

201A01.A. Contract Months and Trading Hours ¹

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.

201A01.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 Random Length Lumber futures contract as specified in Chapter 201.

201A01.C. Minimum Fluctuations ²

The price of an option shall be quoted in dollars per thousand board feet. Minimum price fluctuations shall be in multiples of \$.10 per thousand board feet (also known as one tick). A trade may also occur at a price of \$.05 per thousand board feet (\$.50, also known as one-half tick), whether or not it results in the liquidation of positions for both parties to the trade.

201A01.D. Underlying Futures Contract ³

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.

201A01.E. Exercise Prices ⁴

1. Options in the Regular Cycle

The exercise prices shall be stated in terms of dollars per thousand board feet at intervals of \$5, e.g., \$170, \$175, \$180, \$185, \$190, etc.

At the commencement of option trading in a contract month, the Exchange shall list put and call options at the exercise price that is nearest the previous day's settlement price of the underlying futures contract as well as the next twenty higher and the next twenty lower exercise prices.

When a sale, bid or offer in the underlying futures contract occurs at, or passes through, the twentieth highest (or twentieth lowest) listed exercise price, put and call option contracts at the next higher (or lower) exercise price shall commence trading on the next trading day. 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.

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

2. Options Not in the Regular Cycle

¹ Revised December 2001.

² Revised December 1988; January 1991; December 1992; July 1995; April 1999.

³ Adopted June 1998; revised March 2006.

⁴ Revised May 1988; July 1992; June 1998, December 2001.

Upon demand evidenced in the respective options pit, the Exchange shall list put and call options at any exercise price listed for trading in the next regular cycle futures options that is nearest the expiration of the option. New options may be listed for trading up to and including the termination of trading. The Exchange may modify the procedure for the introduction of strike prices as it deems appropriate in order to respond to market conditions.

201A01.F. Position Limits⁵

No person shall own or control a combination of options and underlying futures that exceeds 435 futures equivalent contracts net on the same side of the market in any contract month.

No person shall own or control a combination of options and underlying futures that exceeds 1,000 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 an option contract is 1 times the previous business day's IOM risk factor for the option series. Also for the 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.

201A01.G. Accumulation of Positions⁶

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 position of all accounts in which a person or person have a proprietary or beneficial interest, shall be cumulated.

201A01.H. Exemptions⁷

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 559 and shall not apply to other option positions exempted pursuant to Rule 559.

201A01.I. Termination of Trading⁸

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 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 day on which the underlying futures market is open for trading.

201A01.J. Contract Modifications⁹

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 government orders.

201A02. EXERCISE

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

201A02.A. Exercise of Option by Buyer

⁵ Revised July 1995; June 1998; April 1999; August 1999; October 1999, July 2005.

⁶ Renumbered June 1998.

⁷ Revised September 1988. Renumbered June 1998.

⁸ Revised April 1987; November 1997; June 1998; December 2000; December 2001.

⁹ Renumbered June 1998.

An option may be exercised by the buyer on any business day the option is traded. To exercise an 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.¹⁰

An option that is in the money and has not been liquidated or exercised prior to the termination of trading shall, in the absence of contrary instructions delivered to the Clearing House by 7:00 p.m. on the day of expiration by the clearing member representing the option buyer, be exercised automatically.¹¹

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.¹²

201A02.B. Assignment

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.

201A03. ACTS OF GOVERNMENT, ACTS OF GOD AND OTHER EMERGENCIES

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

201A04.-09. [RESERVED]

FLEXIBLE RANDOM LENGTH LUMBER OPTIONS¹³

201A30. SCOPE OF FLEXIBLE OPTION RULES

Unless otherwise noted below, the following flexible option rules supersede the standard option regulations presented in the earlier part of the chapter.

201A31. FLEXIBLE OPTION CHARACTERISTICS

201A31.A. Nature of Flexible Contracts

Flexible options on Random Length Lumber futures shall be permitted in puts and calls that do not have the same underlying futures contract, and the same strike price, and the same exercise style, and the same expiration date as the standard listed options that are already available for trading.

Trading in standard options under certain flexible trading procedures shall be permitted prior to the listing of such options. Once and if these options are listed for trading as standard options, they will be traded only as standard options subject to the standard option trading requirements. Upon such listing, all existing open positions established under flexible procedures shall be fully fungible with transactions in the respective standard option series for all purposes under these regulations.

¹⁰ Revised July 1988.

¹¹ Revision effective December 27, 1991. An option is in the money if the settlement price of the underlying futures contract at the termination of trading lies above the exercise price in the case of a call, or lies below the exercise price in the case of a put.

¹² Adopted August 1995.

¹³ Effective June 1998.

201A31.B. Trading Unit

The minimum size for requesting a quote and/or trading in a flexible option series is 10 contracts, where each contract represents an option to buy, in the case of a call, or to sell, in the case of a put, one Random Length Lumber futures contract as specified in Chapter 201. However, parties may request a quote and/or trade for less than 10 contracts in order to entirely close out a position in a flexible series.

Respondents to a request for quote must be willing to trade at least 10 contracts. However, a respondent may trade less than 10 contracts if the respondent is entirely closing out a position in the series.

201A31.C. Minimum Fluctuations

(Refer to Rule 201A01.C.–Minimum Fluctuations)

201A31.D. Underlying Futures Contracts

The underlying futures contract for a flexible option shall be any Random Length Lumber futures contract that is currently available for trading, as specified in Chapter 201.

201A31.E. Exercise Prices

Exercise prices shall be stated in terms of the Random Length Lumber futures contract that is deliverable upon exercise of the option and may be at intervals of \$1 per thousand board feet for all levels from \$1 to \$10,000; e.g., \$301, \$302.

201A31.F. Position Limits

(Refer to Rule 201A01.F.–Position Limits)

201A31.G. Accumulation of Positions

(Refer to Rule 201A01.G.–Accumulation of Positions)

201A31.H. Exemptions

(Refer to Rule 201A01.H.–Exemptions)

201A31.I. Termination of Trading¹⁴

Flexible option expiration dates may be specified for any Exchange business day up to and including the last 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 day on which the underlying futures market is open for trading.

A new flexible option series may not be opened on its last day of trading. However, an existing flexible option series may be traded on its last day of trading.

201A31.J. Contract Modification

(Refer to Rule 201A01.J.–Contract Modification)

201A32. EXERCISE

In addition to the applicable procedures and requirements of Chapter 7, the following shall apply to the exercise of flexible options on Random Length Lumber futures.

201A32.A. Exercise of Flexible Option by Buyer

Flexible options may be specified to have either American-style or European-style exercise.

A flexible option with American-style exercise may be exercised by the buyer on any business day that the option is traded and also on its expiration date. 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.

A flexible option with European-style exercise 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 flexible option that is in the money and has not been liquidated or exercised prior to its

¹⁴ Revised December 2001.

expiration date shall, in the absence of contrary instructions delivered to the Clearing House by 7:00 P.M. on the day of termination of trading by the clearing member representing the option buyer, be exercised automatically.

201A32.B. Assignment

(Refer to Rule 201A02.B.–Assignment)

201A33. ACTS OF GOVERNMENT, ACTS OF GOD AND OTHER EMERGENCIES

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

201A34. INITIATING A FLEXIBLE OPTION CONTRACT SERIES

For each trading session, the opening of trading in any flexible option series shall occur through a Request For Quote (RFQ). No RFQ's will be accepted prior to ten minutes after the daily scheduled opening time of the underlying futures. No RFQ's will be accepted within thirty minutes of the daily scheduled closing time of the underlying futures.

201A35. RESPONSE TIME INTERVAL

No trades against the first RFQ submitted for a flexible option series on any trading day may occur prior to the end of the Response Time Interval. The Response Time Interval shall be a 5 minute period and will begin immediately upon acceptance of an RFQ by the designated flexible option pit official. The designated flexible option pit official shall signal the end of the Response Time Interval for each RFQ.

201A36. RFQ TRADING INTERVAL

A flexible option series shall be immediately open for trading following the Response Time Interval. Priority for RFQ's is determined by order of submission to the RFQ official, except that all RFQ's submitted before the open shall be treated equally.

201A37. EXPIRATION OF AN RFQ

Trading in a given flexible option series following an RFQ shall remain open for the remainder of the trading session.

201A38. REPORTING OF FLEXIBLE OPTION TRADES

It shall be the responsibility of the participants in a flexible option trade to report the quantities and prices to the designated flexible option pit official in a timely manner, including any later trades in open flexible contract term series.

(End Chapter 201A)