

Chapter 54A

Options on Nonfat Dry Milk Futures

54A00. SCOPE OF CHAPTER

This chapter is limited in application to trading in put and call options on the Nonfat Dry Milk 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.

54A01. OPTION CHARACTERISTICS

54A01.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.

54A01.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 Nonfat Dry Milk futures contract as specified in Chapter 54.

54A01.C. Minimum Fluctuations

The price of an option shall be quoted in cents per pound. Minimum price fluctuations shall be in multiples of \$.00025 per pound (also known as one tick). A trade may also occur at a price of \$.000125 per pound (\$.50, also known as one-half tick), whether or not it results in the liquidation of positions for both parties to the trade.

54A01.D. [Reserved]

54A01.E. Exercise Prices ²

The exercise prices shall be stated in terms of cents per pound. For all contract months, exercise prices shall be at intervals of 2 cents; e.g., 100 cents, 102 cents, etc. In addition, for the nearest contract month, exercise prices shall be at intervals of 1 cent., as described below.

At the commencement of option trading in a contract month, the Exchange shall list put and call options in a range of 10 cents 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 10 cent range above (or below) the exercise price at which or through which the underlying futures sale, bid, offer, or settlement price occurred.

When a contract month becomes the nearest contract month, the Exchange shall add exercise prices at 1 cent intervals at a range of 4 cents above and below the previous day's settlement price of the underlying futures contract. If the previous day's futures contract settlement price equals an eligible exercise price, then that exercise price shall also be listed, if not yet listed. Thereafter, when a sale, bid, offer, or settlement price in the underlying futures contract occurs at, or passes through, an odd-numbered exercise price, the Exchange shall list on the next trading day put and call options 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.

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

¹ Revised December 2001.

² Revised December 2001.

54A01.F. Position Limits

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

1. 1,000 futures equivalent contracts net on the same side of the market in any contract month.
2. 100 futures equivalent contracts net on the same side of the market in the expiring contract month as of the close of business on the business day immediately preceding the last 5 trading days in the expiring contract.

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 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.

54A01.G. Accumulation of Positions

The positions of all accounts owned or controlled by a person or persons acting in concert or in which such person or persons have a proprietary or beneficial interest, shall be cumulated. The Board may impose position limits for any such accounts as it deems appropriate.

54A01.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 559. and shall not apply to other option positions exempted pursuant to Rule 559.

54A01.I. Termination of Trading

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

54A01.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 government orders.

54A02. EXERCISE

In addition to the applicable procedures and requirements of Chapter 7 the following shall apply to the exercise of Nonfat Dry Milk options.

54A02.A. Exercise of Option by Buyer

An option may be exercised by the buyer on any business day the option is traded. Exercise of an option is accomplished by the clearing member representing the buyer presenting an Exercise Notice to the Clearing House by 7:00 p.m. on the day of exercise.

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 instruction delivered to the Clearing House by 7:00 p.m. on the business day following the expiration by the clearing member representing the option buyer, be exercised automatically.

54A02.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.

54A03. ACTS OF GOVERNMENT, ACTS OF GOD AND OTHER EMERGENCIES

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

(End Chapter 54A)