



AGRICULTURE

# **Live Cattle Delivery Manual Relating to Chapter 101**

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The following is a general outline of the procedures for delivery of live cattle against the Live Cattle futures contract at the Chicago Mercantile Exchange. The procedures are based upon a combination of the Rules of the Exchange and trade practices. Where applicable, the Rules of the Exchange are cited.

## I. Submission Requirements

1. Description of terms:
  - A **Tender** is a Certificate of Delivery (“Certificate”) initiated by the short (seller).
  - A **Retender** is when a long (buyer), who was originally assigned a Certificate, decides against consummating the delivery, and puts the Certificate back out for delivery. A Certificate may only be retendered twice, and the long who is assigned a third tender of a Certificate must complete the delivery. A long deciding to retender, must ensure they establish the necessary short position to do so.
  - A **Demand** is a long who wants to take a Certificate.
  - A **Reclaim** is a short who wants to reclaim their tender after it is retendered by a long.
  - The order of priority to stop a Certificate is: **Demand, Reclaim, and oldest long**.
2. A clearing member representing a short may present a Certificate of Delivery (on a form prescribed by the Clearing House) to the Clearing House no later than 3:00 pm on defined tender days (no later than 12:00 pm on the business day following the last trade date). A Certificate of Delivery is a commitment to deliver cattle conforming to the contract specifications at a delivery point designated by the short or at a corresponding approved slaughter plant selected by the long.
3. All cattle must be born and raised exclusively in the United States and the short must sign an Exchange affidavit attesting that the cattle are of U.S. origin. Any and all cattle aged 30 months or more are not deliverable for either live or carcass delivery. Delivery of heifers requires two additional Exchange affidavits: one attesting the heifers have been given an approved estrus-suppressing progestin additive and another indicating the heifers have been administered an approved open heifer protocol.
4. All cattle must not have been fed any animal proteins prohibited in ruminant feed by the Food and Drug Administration as described in 21 CFR 589 and the short must sign an Exchange affidavit attesting the cattle have been fed in conformance to the requirement.
5. By 3:05 pm, the Clearing House shall post a list of the tendered and retendered Certificates. Demand notices must be presented to the Clearing House (on a form prescribed by the Clearing House) by 3:30 pm on any day Certificates are tendered or retendered. **Demand** notices shall specify the following: the date the long position was established, the long’s choice for delivery points, the long’s choice for the gender of the cattle, and the minimum amount of accrued retender charges. Demand and reclaim notices may be presented only for Certificates included on the list posted by the Clearing House.
6. For a **Retender** to be accepted, the long who was assigned this initial Certificate must establish a short futures position and notify the exchange by 3:00 pm on the business day following assignment. There is a retender charge of \$400 per Certificate and each Certificate can only be retendered twice.
7. For a **Reclaim** to be accepted, the initial short who tendered the Certificate needs to establish a long position in the same contract month and file a reclaim notice (on a form prescribed by the Clearing House) to the Clearing House by 3:30 pm on day of retender.

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8. Payment for Certificates of Delivery must be submitted to the Clearing House by 12:00 pm on the first business day after assignment. The long will submit 100% of the par value of the Certificate.
  9. There is a **\$1.50/cwt discount** on Certificate tendered into the Iowa/Minnesota/South Dakota region for October delivery only. Delivery is at par in this region for all other delivery periods.

## II. Live Delivery Requirements

### A. Duties of the short:

1. It is the duty of a short who is tendering a Certificate of Delivery to ensure that the enumerated livestock yard can administer the delivery and that the delivery does not occur on a black out date for the yard. The Clearing House requires a name and telephone number of the contact at the livestock yard that approved the delivery. The short also must designate a commission firm at the livestock yard, if applicable.
2. The cost of freight is the responsibility of the short unless the long elects carcass delivery. If carcass delivery is elected by the long, the long is responsible for the difference in freight covering the distance from the feedlot to the plant should that distance exceed the distance from the feedlot to the stockyard.
3. All cattle must be born and raised exclusively in the United States and delivering shorts must sign an Exchange affidavit attesting that the cattle were born and raised in the United States. Any and all cattle aged 30 months or more are not deliverable for either live or carcass delivery. If the short is tendering heifers, then two additional affidavits are required and must be provided to the Clearing House: A certificate attesting that the heifers have been administered an approved estrus-suppressing progestin additive. A certificate attesting that the heifers have been administered an approved open heifer protocol.
4. It is the duty of the short, subject to penalty, to ensure that the cattle are penned, sorted, and ready for presentation to the USDA grader by 9:00 am on the delivery day.
5. **For deliveries prior to October 2018:** If the short fails to present a suitable load of cattle or fails to present a load that is properly prepared for grading, then at the discretion of the USDA grader a penalty of \$0.015 per pound (steers) or \$0.025 per pound (heifers) may be assessed for each business day any unsuitability exists. Such penalties shall be payable to the CME.
6. **For deliveries commencing with October 2018 and beyond:** If the short fails to present a suitable load of cattle, the USDA grader may fine the short \$0.030 per pound for each business day such unsuitability exists. If the short presents a load that is not properly sorted and unnecessarily slows down the grading process, then it is at the discretion of the USDA grader to assess a penalty of \$0.015 per pound.
7. **For deliveries prior to October 2018:** Par delivery is 40,000 pounds (variation can be between 38,000 pounds and 42,000 pounds) of USDA estimated Yield Grade 3, 60% Choice / 40% Select steers or heifers. Steers should weigh between 1,050 and 1,550 pounds. Steers between 1,500 and 1,550 pounds shall be deliverable at an adjustment determined by the USDA 5-Area Weekly Weighted Average Direct Slaughter Cattle - Weekly Premiums and Discounts schedule (LM\_CT169). Steers weighing less than 1,050 pounds and more than 1,550 pounds are not deliverable. Heifers weighing less than 1,050 pounds and more than 1,350 pounds are not deliverable. Yield and quality grade deviations from par are adjusted based on formulas utilizing the premium and discount report noted above.

8. **For deliveries commencing with October 2018 and beyond:** Par delivery is 40,000 pounds (variation can be between 38,000 pounds and 42,000 pounds) of USDA estimated Yield Grade 3, 65% Choice / 35% Select steers or heifers. Steers should weigh between 1,050 and 1,550 pounds. Steers between 1,500 and 1,550 pounds shall be deliverable at an adjustment determined by the USDA 5-Area Weekly Weighted Average Direct Slaughter Cattle - Weekly Premiums and Discounts schedule (LM\_CT169). Steers weighing less than 1,050 pounds and more than 1,550 pounds are not deliverable. Heifers weighing less than 1,050 pounds and more than 1,350 pounds are not deliverable. Yield and quality grade deviations from par are adjusted based on formulas utilizing the premium and discount report noted above.
9. Par delivery loads must have an average hot yield of 63%.
10. A delivery load must be comprised of all steers or all heifers. A mixed load is not deliverable.
11. Title does not pass to the long until the delivered unit is placed in the long's holding pen.

## **B. Duties of the long:**

1. The long determines whether a Certificate will be delivered on a live-graded or carcass-graded basis.
2. It is the duty of the long to ensure that trucking is available to move cattle from the delivery livestock yard following delivery.
3. The cost of freight is the responsibility of the short unless the long elects carcass delivery. If carcass delivery is elected by the long, the long is responsible for the difference in freight covering the distance from the feedlot to the plant should that distance exceed the distance from the feedlot to the stockyard.
4. **For deliveries prior to October 2018:** If the long or their agent delays, disrupts, or otherwise interferes with the delivery, the USDA grader, at its discretion, may assess a penalty of \$0.015 per pound for each load to the long.
5. **For deliveries commencing with October 2018 and beyond:** If the long or their agent delays, disrupts or otherwise interferes with the delivery, the USDA grader, at its discretion, may assess a penalty of \$0.030 per pound for each load to the long.

## **C. Delivery Days:**

1. If the tender is submitted before the last trading day and the long elects live grading, then the Certificate of Delivery will require delivery on the **eighth business day** following the date of tender that is also a delivery day.
2. If the tender is on or after the last trade date, then the live delivery will be between the **eighth and eleventh business days** following the last trade date. If the short is unable to obtain clearance from an approved livestock yard for business days eight through eleven of the succeeding calendar month, or if a USDA grader is unavailable for grading at the designated livestock yard for business days eight through eleven of the succeeding calendar month, the Exchange may extend the delivery period up to an additional three business days (i.e., up to the 14th Business Day of the succeeding calendar month).
3. For a more detailed description of the rules please **see Chapter 101, sections 10103 and 10104.**

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### III. Carcass Delivery Requirements

#### A. Duties of the short:

1. At the election of the long, the short will deliver live cattle to an approved slaughter plant that corresponds to the livestock yard defined in the Certificate of Delivery OR to another slaughter plant that is no more than 225 road miles from the originating feedlot.
2. The cost of freight is the responsibility of the short unless the long elects carcass delivery. If carcass delivery is elected by the long, the long is responsible for the difference in freight covering the distance from the feedlot to the plant should that distance exceed the distance from the feedlot to the stockyard.
3. The short will be notified of the long's election for carcass grading on the **third business day** prior to the day of slaughter. The short will indicate whether they intend to deliver as a "large lot." The long will provide the following information: the approved slaughter plant selected; the slaughter date, which is selected by both the long and a representative of the slaughter plant; and whether the long consents to Large Lot Delivery if elected by the short.
4. The short will need to contact the plant to coordinate the arrival time to the slaughter plant and provide that information to the Clearing House by 3:00 p.m. two business days prior to the carcass delivery date.
5. All cattle must be born and raised exclusively in the United States and delivering shorts must sign an Exchange affidavit attesting that the cattle were born and raised in the United States. Any and all cattle aged 30 months or more are not deliverable for either live or carcass delivery. If the short is tendering heifers, then two additional affidavits are required and must be provided to the Clearing House: A certificate attesting that the heifers have been administered an approved estrus-suppressing progestin additive. A certificate attesting that the heifers have been administered an approved open heifer protocol.
6. **For deliveries prior to October 2018:** Par delivery will be 40,000 pounds (variation can be 38,000 pounds to 42,000 pounds) of USDA estimated Yield Grade 3, 60% Choice / 40% Select steers or heifers.
7. **For deliveries commencing with October 2018 and beyond:** Par delivery will be 40,000 pounds (variation can be 38,000 pounds to 42,000 pounds) of USDA estimated Yield Grade 3, 65% Choice / 35% Select steers or heifers.
8. Par delivery loads must have an average hot yield of 63%.
9. It is the responsibility of the short to ensure cattle are sorted into deliverable units prior to arrival at the slaughter plant. Certificates delivered in excess of 42,000 pounds or Certificates that do not meet the contract specifications will not be considered part of the delivery unit, and the short will be responsible for merchandising those additional cattle. Any load that fails to meet the 38,000 pound lower delivery limit will be treated by the USDA grader as a failure to present a deliverable load and penalized according to Rule 1013.C.9.
10. If cattle are removed from the load by the USDA grader because they do not conform with contract specifications, the short is responsible for replacing those animals until the minimum live weight is achieved.
11. The carcasses should weigh between 600 pounds and 900 pounds. Cattle weighing below or above these levels will be subject to an adjustment determined by the USDA 5-Area Weekly Weighted Average Direct Slaughter Cattle - Premiums and Discounts schedule (LM\_CT169). Yield and quality grade deviations from par are adjusted based on formulas utilizing

the premium and discount report noted above.

12. If, in the opinion of the USDA grader, the short fails to present the required quantity of cattle to the slaughter plant on the date and time required, the short shall pay a penalty of \$0.015 per pound each business day until the delivery is completed.

## **B. Duties of the long:**

1. If the long elects carcass delivery, they must ensure that the slaughter plant is prepared to receive the cattle and that the slaughter plant is either associated with the livestock yard specified in the Certificate of Delivery OR within 225 road miles from the originating feedlot. This information, as well as a name and telephone number of the contact at the slaughter facility, must be passed along to the Clearing House by 10:00 a.m. at least 3 business days prior to the carcass delivery date.
2. The cost of freight is the responsibility of the short unless the long elects carcass delivery. If carcass delivery is elected by the long, the long is responsible for the difference in freight covering the distance from the feedlot to the plant should that distance exceed the distance from the feedlot to the stockyard.
3. Timing for the delivery must be confirmed to ensure cattle do not wait on a truck for an extended period.

## **C. Delivery Days:**

1. If the long elects carcass grading and the Certificate of Delivery was tendered prior to the last trade date, delivery shall be at the option of the long on any business day between the **fourth and eighth business day**, inclusive, following tender of the Certificate.
2. If the tender is on or after the last trade date, delivery shall be at the option of the long on any business day between the **fourth and eleventh** business day, inclusive, following tender of the Certificate. If the short was granted an extension by the Exchange to deliver past the eleventh business day of the succeeding calendar month, and if the assigned long elects carcass-graded delivery, the slaughter shall take place on a business day chosen by the long between the fourth business day of the succeeding calendar month and the business day for which the extension was granted, inclusive.
3. Final grading results must be completed within three business days after slaughter. The USDA grader will notify the Clearing House of the results.
4. For a more detailed description of the rules please **see Chapter 101, sections 10103 and 10104.**



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