

Chapter 14G

KC HRW Wheat-Wheat Intercommodity Spread Options

14G00. SCOPE OF CHAPTER

This chapter is limited in application to put and call options on KC HRW Wheat–Wheat Intercommodity Spreads. In addition to the rules of this chapter, transactions in KC HRW Wheat–Wheat Intercommodity Spread Options shall be subject to the general rules of the Exchange insofar as applicable.

14G01. OPTIONS CHARACTERISTICS

14G01.A. Contract Months

Trading in KC HRW Wheat–Wheat Intercommodity Spread options may be scheduled in such months as determined by the Exchange.

14G01.B. Trading Unit

One KC HRW Wheat–Wheat Intercommodity Spread Option reflects one (1) KC HRW Wheat futures (CBOT Rulebook Chapter 14H) contract of a specified contract month, and one (1) opposing Wheat futures (CBOT Rulebook Chapter 14) contract of a specified contract month on the Board of Trade of the City of Chicago, Inc.

The KC HRW Wheat–Wheat Intercommodity Spread is calculated in cents/bushel as:

KC HRW Wheat futures price in cents/bu. – Wheat futures price in cents/bu.

14G01.C. Minimum Fluctuations

The premium for KC HRW Wheat–Wheat Intercommodity Spread options shall be in multiples of one-eighth (1/8) of one cent per bushel, or six dollars and twenty-five cents (\$6.250) per contract.

However, a position may be initiated or liquidated in KC HRW Wheat–Wheat Intercommodity Spread options at premiums ranging from \$1.00 to \$6.00, in \$1.00 increments per option contract.

14G01.D. Trading Hours

The hours for trading of KC HRW Wheat–Wheat Intercommodity Spread options contracts shall be determined by the Exchange. KC HRW Wheat–Wheat Intercommodity Spread options shall be opened and closed for all months and strike prices simultaneously.

14G01.E. Exercise Prices

Trading shall be conducted for put and call options with strike prices in integral multiples of five cents per bushel per KC HRW Wheat–Wheat Intercommodity Spread contract. At the commencement of trading for such option contracts, the following strike prices shall be listed: one with a strike price closest to the previous day's KC HRW Wheat–Wheat Intercommodity Spread price settlement; the next ten consecutive higher and the next ten consecutive lower strike prices closest to the previous day's KC HRW Wheat–Wheat Intercommodity Spread price settlement. If the previous day's settlement price is midway between two strike prices, the closest price shall be the larger of the two. When a trade in the underlying KC HRW Wheat–Wheat Intercommodity Spread occurs at a price greater than or equal to the tenth largest strike price, a new strike price one increment higher than the existing strike prices will be added. When a sale in the underlying KC HRW Wheat–Wheat Intercommodity Spread occurs at a price less than or equal to the tenth smallest strike price, a new strike price one increment lower than the existing strike prices will be added. When a new strike price is added for an option contract month, the same strike price will be added to all option contract months for which that strike price is not already listed.

All strikes will be listed prior to the opening of trading on the following business day. Upon demand and at the discretion of the Exchange, new out-of-current-range strike prices at regularly defined intervals may be added for trading on as soon as possible basis.

The Exchange may modify the procedures for the introduction of strikes as it deems appropriate in order to respond to market conditions.

14G01.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.

14G01.G. Reserved

14G01.H. Nature of Options on the Intercommodity Spreads

The buyer of one KC HRW Wheat–Wheat Intercommodity Spread put option may exercise his option only upon option expiration, (subject to Rule 14P02.A), to assume a short position of one KC HRW Wheat futures contract of a specified contract month, and a long position in one Wheat futures contract of a specified contract month, at a strike price set at the time the option was purchased.

The seller of one KC HRW Wheat–Wheat Intercommodity Spread put option incurs the obligation of assuming a long position of one KC HRW Wheat futures contract of a specified contract month, and a short position of one Wheat futures contract of a specified contract month at a combination of prices such that the Intercommodity Spread equals the strike price set at the time the option was sold, upon exercise by a put option buyer.

The buyer of one KC HRW Wheat–Wheat Intercommodity Spread call option may exercise his option only upon option expiration, (subject to Rule 14P02.A), to assume a long position of one KC HRW Wheat futures contract of a specified contract month, and a short position of one Wheat futures contract of a specified contract month at a strike price set at the time the option was purchased.

The seller of one KC HRW Wheat–Wheat Intercommodity Spread call option incurs the obligation of assuming a short position of one KC HRW Wheat futures contract of a specified contract month and a long position of one Wheat futures contract of a specified contract month at a combination of prices such that the Intercommodity Spread equals the strike price set at the time the option was sold, upon exercise by a call option buyer.

14G01.I. Termination of Trading

Subject to the provisions of rule 14P01.D no trades in KC HRW Wheat–Wheat Intercommodity Spread options expiring in the current month shall be made after the close of trading of the electronic trading session on the day identical to the expiration of standard KC HRW Wheat and Wheat options. Therefore, expiration will occur on the last Friday which precedes by at least two business days, the last business day of the month preceding the option month. If such Friday is not a business day, the last day of trading shall be the business day prior to such Friday. For example, the July KC HRW Wheat–Wheat Intercommodity Spread Option (July KC HRW Wheat minus July Wheat) will expire on the last Friday which precedes by at least two business days the last business day of June; the December-December KC HRW Wheat–Wheat Intercommodity Spread Option (December KC HRW Wheat minus December Wheat) will expire on the last Friday which precedes by at least two business days the last business day of November.

14G01.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 the rules and all open and new options contracts shall be subject to such government orders.

14G02. EXERCISE AND ASSIGNMENT

In addition to the applicable procedures and requirements of Chapter 7, the following shall apply to the exercise and assignment of KC HRW Wheat–Wheat Intercommodity Spread Options.

14G02.A. Exercise of Option

The buyer of a KC HRW Wheat–Wheat Intercommodity Spread option may exercise the option only on the business day such option expires by giving notice of exercise to the Clearing House by 5:30 p.m. Chicago time, or by such other time designated by the Exchange, on such day. In-the-money options that have not been liquidated or exercised on the last day of trading in such option shall be automatically exercised in the absence of contrary instructions delivered to the Clearing House by 5:30 p.m. Chicago time, or by such other time designated by the Exchange, on the last day of trading by the clearing member representing the option buyer.

The KC HRW Wheat–Wheat Intercommodity Spread is calculated using final settlement values for the underlying contracts in the following formula: (Settlement Price of specified KC HRW Wheat futures) – (Settlement Price of specified Wheat futures). An option is in-the-money if the settlement price of the underlying Intercommodity Spread is less in the case of a put, or greater in the case of a call, than the exercise price of the option.

14G02.B. Assignment

Exercise notices accepted by the Clearing House shall be assigned through a process of random selection to clearing members' open short positions in the same series. A clearing member to which an exercise notice is assigned shall be notified of the assignment as soon as practicable after such notice is assigned by the Clearing House.

Upon the exercise of a KC HRW Wheat–Wheat Intercommodity Spread option the Clearing House assigns prices to the legs of the KC HRW Wheat–Wheat Intercommodity Spread in the following manner:

- a. assigned KC HRW Wheat Futures price equals the KC HRW Wheat Futures settlement price on the day of exercise,
- b. assigned Wheat Futures price equals the KC HRW Wheat Futures settlement price on the day of exercise minus the strike value of the option,

All such futures positions shall be marked to market in accordance with Rule 814 on the trading day of acceptance by the Clearing House of the exercise notice.

14G03. [RESERVED]

14G04. CORRECTIONS TO OPTIONS EXERCISES

Corrections to option exercises, including automatic exercises, may be accepted by the Clearing House after the 5:30 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 un-reconciled 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 as to 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.

14G05. OPTION PREMIUM FLUCTUATION LIMITS

There are no option premium limits during any day for KC HRW Wheat–Wheat Intercommodity Spread options.

14G06. PAYMENT OF OPTION PREMIUM

The option premium must be paid in full by each clearing member to the Clearing House and by each option customer to his futures commission merchant at the time that the option is purchased, or within a reasonable time after the option.