

**SUBMISSION COVER SHEET**

**IMPORTANT:** Check box if Confidential Treatment is requested

Registered Entity Identifier Code (optional): 17-258RR

Organization: Chicago Mercantile Exchange Inc. ("CME")

Filing as a: DCM SEF DCO SDR

Please note - only ONE choice allowed.

Filing Date (mm/dd/yy): 06/21/17 Filing Description: Amendments to the Live Cattle Futures Contract

Please note only ONE choice allowed per Submission.

**Organization Rules and Rule Amendments**

- Certification § 40.6(a)
- Approval § 40.5(a)
- Notification § 40.6(d)
- Advance Notice of SIDCO Rule Change § 40.10(a)
- SIDCO Emergency Rule Change § 40.10(h)

**Rule Numbers:**

**New Product**

**Please note only ONE product per Submission.**

- Certification § 40.2(a)
- Certification Security Futures § 41.23(a)
- Certification Swap Class § 40.2(d)
- Approval § 40.3(a)
- Approval Security Futures § 41.23(b)
- Novel Derivative Product Notification § 40.12(a)
- Swap Submission § 39.5

**Product Terms and Conditions (product related Rules and Rule Amendments)**

- Certification § 40.6(a)
- Certification Made Available to Trade Determination § 40.6(a)
- Certification Security Futures § 41.24(a)
- Delisting (No Open Interest) § 40.6(a)
- Approval § 40.5(a)
- Approval Made Available to Trade Determination § 40.5(a)
- Approval Security Futures § 41.24(c)
- Approval Amendments to enumerated agricultural products § 40.4(a), § 40.5(a)
- "Non-Material Agricultural Rule Change" § 40.4(b)(5)
- Notification § 40.6(d)

Official Name(s) of Product(s) Affected: See filing.

Rule Numbers: See filing.

June 21, 2017

**VIA ELECTRONIC PORTAL**

Mr. Christopher J. Kirkpatrick  
Office of the Secretariat  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21st Street, N.W.  
Washington, D.C. 20581

**Re: CFTC Regulation 40.4(a)/40.5(a) Amendments to the Live Cattle Futures Contract.  
CME Submission No. 17-258RR**

Dear Mr. Kirkpatrick:

Pursuant to Commodity Futures Trading Commission (“CFTC” or “Commission”) Regulations 40.4(a) and 40.5(a), Chicago Mercantile Exchange Inc. (“CME” or “Exchange”) is requesting approval to amend the Live Cattle futures contract (the “Contract”) set forth in the table below effective with the December 2017 contract month and beyond.

<b>Contract Title</b>	<b>Rulebook Chapter</b>	<b>Clearing Code</b>	<b>CME Globex Code</b>	<b>CME ClearPort Code</b>
Live Cattle Futures	101	48	LE	48

Please note that CME Submission No.17-258R simply replaces Appendix C which provides CME Chapter 101 (“Live Cattle Futures”) in its entirety. New Appendix C corrects a revision control issue and provides the amendments relevant to this submission to the most current version of the rulebook chapter. No changes have been made to Appendix B which reflect the rule amendments described herein and to the original CME Submission No. 17-258.

Please note that CME Submission No. 17-258RR replaces CME Submission No, 17-258R. Specifically, additional amendments are being made to CME Rule 10104.A. to clarify the timeline when an extension is granted to a seller and carcass delivery is selected by the buyer. These additional amendments are noted in blackline format in this Submission No. 17-258RR and the related Appendices. Additionally, the Exchange implemented administrative, non-substantive amendments to Rule 10104.G. (“Payments for Tender and Retender”) of the Live Cattle futures contract (Rulebook chapter 101; Clearing Code: LC; CME Globex Code: LE; CME ClearPort Code: 48) effective on trade date Friday, July 28, 2017. Language was inserted to codify that when a buyer submits payment to the CME Clearing House for an assigned Certificate, the buyer will submit payment equal to the settlement price on the day of assignment, less accrued retender charges and any applicable delivery location premiums or discounts, times the par weight of 40,000 pounds. The rule amendments state that the dollar amount paid by the buyer for an assigned delivery shall reflect any applicable delivery location premium or discount when it is provided to the CME Clearing House. This was communicated to the marketplace via a Special Executive Report (“SER”) on July 27, 2017 and the CFTC was notified of the amendments during the week of July 31, 2017, via the weekly notification procedures set forth in Part 40 of the CFTC Regulations.

Specifically, the Exchange will: 1) Amend the last day on which a seller may tender a Certificate of Delivery (“Last Tender Date”) to no later than 12 p.m. on the Business Day following Last Trade Date (“LTD”); 2) For Certificates of Delivery tendered to the Exchange on Last Tender Date, live-graded delivery may occur on Business Days eight through eleven of the succeeding calendar month, inclusive; 3) For Certificates of Delivery tendered to the Exchange on Last Tender Date, if the seller 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 14<sup>th</sup> Business Day of the succeeding calendar month); 4) For Certificates of Delivery tendered to the Exchange on Last Tender Date, if the assigned buyer elects carcass-graded delivery, the slaughter shall take place on a Business Day chosen by the buyer between the fourth Business Day and the eleventh Business Day, inclusive, of the succeeding calendar month; 5) For Certificates of Delivery tendered to the Exchange on Last Tender Date, if the seller was granted an extension by the Exchange to deliver past the eleventh Business Day of the succeeding calendar month (pursuant to Item 3 above), and if the assigned buyer elects carcass-graded delivery, the slaughter shall take place on a Business Day chosen by the buyer between the fourth Business Day of the succeeding calendar month and the Business Day for which the extension was granted, inclusive, no later than the 14<sup>th</sup> Business Day after Last Trade Date; and 6) Amend timing deadlines associated with tender, demand, retender, reclaim, and assignment of Certificates of Delivery to the Clearing House to one and a half hours earlier than is currently specified. The amendments described in items (1) through (6) above shall collectively be referred to herein as the “Delivery Amendments”. The Delivery Amendments shall be effective with the December 2017 contract month and beyond.

Currently, a short position holder as of expiration on the Last Trade Date (“LTD”) may tender a Certificate for Delivery to the Exchange up to the third Business Day following LTD and live-graded delivery occurs on the eighth Business Day following tender. For example, under current rules, if a short position holder as of expiration on LTD tenders on the third Business Day following LTD, live-graded delivery must occur on the 11<sup>th</sup> Business Day of the succeeding calendar month (i.e., the 8<sup>th</sup> Business Day following tender).

The Delivery Amendments will change the process to allow a short position holder as of expiration on LTD to tender a Certificate for Delivery no later than 12:00 p.m. (Central Time) on the Business Day following LTD. Additionally, delivery on Certificates tendered on or after LTD may occur on Business Days eight through eleven of the succeeding calendar month, inclusive with the seller having the option to choose the delivery day. For example, if a short position holder as of expiration on LTD tenders a Certificate for Delivery anytime on LTD and up to 12:00 p.m. on the Business Day following LTD, live-graded delivery may occur on Business Day eight, nine, ten or eleven of the succeeding calendar month. If the short position holder 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 14<sup>th</sup> Business Day of the succeeding calendar month).

The amendments to the delivery rules to (1) require all delivery tenders be submitted no later than 12:00 p.m. on the first Business Day following LTD, (2) allow live-graded delivery on Certificates tendered on LTD through 12:00 p.m. on the Business Day following LTD to occur on any Business Day between Business Days eight through eleven of the succeeding calendar month and (3) add the option to be granted up to three additional Business Days after Business Day eleven of the succeeding calendar month to procure a reservation at an approved livestock yard (i.e., expanding the live-graded delivery window after LTD to a total of up to seven Business Days (delivery on Business Day 8 – 14 of the succeeding calendar month)), shall alleviate live-graded delivery constraints after contract expiration. Similarly, the Delivery Amendments will allot the buyer additional time to obtain a reservation at a slaughter plant should they choose carcass-graded delivery. These changes, combined with the addition of new delivery point livestock yards, will increase delivery capacity after last trade date by up to 167% as of the date of this submission.

The Exchange estimates that the average monthly availability of fed cattle meeting Contract specifications over the previous three years was equivalent to 9,216 contracts (see **Exhibit A, Table 3 of Appendix A**). The Contract currently has three spot month position limits: 1) 450 contracts on the close of trading on the first business day following the first Friday of the contract month, which is 4.9% of average monthly availability of fed cattle meeting Contract specifications, and 2) 300 contracts on the close of trading on the business day immediately preceding the last 5 trading days of the contract month, which is 3.3% of average monthly availability of fed cattle meeting Contract specifications, and 3) 200 contracts on the close of trading on the business day immediately preceding the last 2 trading days of the contract month, which is 2.2% of average monthly availability of fed cattle meeting Contract specifications.

However, the ability to deliver cattle to fulfill Contract obligations is constrained by the daily live grading capacity limits imposed on the approved stockyards by the Exchange (see **Exhibit A, Table 1 of Appendix A**). Therefore, the Exchange measures its estimation of deliverable supply of fed cattle to fulfill Contract delivery obligations based on the maximum stockyard capacity permitted by the Exchange, inclusive of 'blackout' days in which the stockyards self-report themselves as not being available to facilitate deliveries as noted more specifically below.

By changing the Last Tender Date to 12:00 p.m. on the Business Day following LTD, it allows the short to schedule delivery on one of four business days (business days 8 through 11 following LTD), and provides the long advance notice as to the day on which they will be assigned delivery. Additionally, if the short is unable to obtain clearance from an approved livestock yard to make live delivery between Business Days eight through eleven following LTD, the short can request an extension from the Exchange and if granted, delivery may occur no later than the 14th Business Day after LTD. The amendment to the Last Tender Date and the expansion of the live-graded delivery window following LTD to up to business day 14 following LTD provides the short up to a total of seven consecutive business days after LTD to schedule delivery at an approved livestock yard (business days eight through 14 following LTD).

Therefore, the Exchange based its estimation of deliverable supply on the maximum livestock yard capacity permitted by the Exchange during the window available for delivery at the livestock yards inclusive of blackout days in which the livestock yards self-report themselves as not being available to facilitate deliveries. Because the total daily available capacities for all approved livestock yards vary by day, the Exchange determined to measure the delivery window as an average of all available combinations of consecutive delivery days for the number of delivery days in that window.

The deliverable supply is most restrictive after LTD given that the delivery window for contracts tendered following LTD is restricted to up to seven (7) business days, or business days eight through 11 after last trade date plus 3 additional days (i.e., business days eight through 14 following LTD). The Exchange calculated the average of the consecutive seven-day live grading capacity totals to be 1,995 contracts (see **Exhibit A, Table 4 of Appendix A**). The Exchange's final spot month position limit of 200 contracts, which is in effect at the close of trading on the business day immediately preceding the last 2 trading days of the contract month, represents 10.03% of the estimated deliverable supply based on the 7-day delivery window.

The Exchange's initial spot month limit of 450 contracts is in effect at the close of trading on the first business day following the first Friday of the contract month and is reduced to 300 contracts at the close of trading on the business day immediately preceding the last 5 trading days of the contract month. Immediately prior to the spot limit step-down from 450 to 300 contracts, the available delivery window is comprised of 13 delivery days, or 5 business days prior to LTD plus business days eight through 14 following LTD, inclusive. The Exchange calculated the average of the consecutive 13-day live grading capacity totals to be 3,705 contracts (see **Exhibit A, Table 6 of Appendix A**). The Exchange's initial spot month position limit of 450 contracts represents 12.15% of the estimated deliverable supply based on the 13-day delivery window.

The Exchange's subsequent spot month limit of 300 contracts is in effect at the close of trading on the business day immediately preceding the last 5 trading days of the contract month and is reduced to 200 contracts at the close of trading on the business day immediately preceding the last 2 trading days of the contract month. Immediately prior to the spot limit step-down from 300 to 200 contracts, the available

delivery window is comprised of 10 delivery days, or 2 business days prior to LTD plus business days eight through 14 following LTD, inclusive. The Exchange calculated the average of the consecutive 10-day live grading capacity totals to be 2,850 contracts (see **Exhibit A, Table 5 of Appendix A**). The Exchange's subsequent spot month position limit of 300 contracts represents 10.53% of the estimated deliverable supply based on the 10-day delivery window.

Prior to February 10, 2016, trading in CME Live Cattle futures and options ceased at 4:00 p.m. daily. Presently, trading ceases in CME Live Cattle futures and options at 1:05 p.m. daily and at 12:00 p.m. on LTD. To inform the marketplace in a more timely and efficient manner, all times associated with tender, demand, retender, reclaim, and assignment of Certificates of Delivery will be moved to one and a half hours earlier.

Based upon a significant amount of market participant feedback, the Exchange has determined that the Delivery Amendments will not have a material price effect on Contracts with open interest. Most of the feedback conveyed the belief that these changes are procedural in nature. Market participants agreed with the Exchange that the changes were necessary to ensure that the Live Cattle futures remain a viable deliverable contract. Some feedback indicated that by moving the last tender date up to 10:00 a.m. (as originally contemplated prior to moving last tender date to 12:00 p.m. at the request of FCMs) on the Business Day following LTD, it could be more difficult to make delivery on a short position that is the result of an error. Others indicated that it should be the responsibility of the seller to be prepared ahead of time should they choose to be short or tender delivery on LTD. Other comments that the Exchange received questioned whether the addition of the option to make delivery on Business Days 12-14 beyond LTD would delay convergence. The Exchange asserted that these additional Business Days will only be approved when they are essential and the circumstances warrant their necessity.

The Exchange reviewed the designated contract market core principles ("Core Principles") as set forth in the Commodity Exchange Act ("the Act") and identified that the Delivery Amendments may impact the following Core Principles:

- **Contracts Not Readily Subject to Manipulation** –Implementation of the Delivery Amendments is intended alleviate live-graded delivery constraints after contract expiration and to increase delivery capacity. The Exchange believes that the Delivery Amendments will not significantly impact any region from being able to deliver cattle into the futures market.
- **Availability of General Information** – The Exchange will amend the CME rulebook accordingly upon the approval of this submission. The Exchange will make the Delivery Amendments publicly available on the CME Group website. In addition, the Exchanges will publish a SER to advise the marketplace of the Delivery Amendments. The SER will also be posted on the CME Group website.

CME Group continues to work closely with end users to identify several changes to the Contract which will improve hedging effectiveness and ensure adequate delivery capacity. As with all contract modifications, the Exchange will monitor the impact of these changes and continue our dialogue with the cattle industry.

As noted above, the Exchange obtained significant feedback from market participants. There were no substantive opposing views to this proposal.

Pursuant to Section 5c(c) of the Act and CFTC Regulation 40.4(a) and 40.5(a), the Exchange hereby certifies that the Delivery Amendments comply with the Act, including regulations under the Act.

The Exchange certifies that this submission has been concurrently posted on the Exchange's website at <http://www.cmegroup.com/market-regulation/rule-filings.html>.

Should you have any questions concerning the above, please contact the undersigned at (212) 299-2200 or via e-mail at [CMEGSubmissionInquiry@cmegroup.com](mailto:CMEGSubmissionInquiry@cmegroup.com).

Sincerely,

/s/Christopher Bowen  
Managing Director and Chief Regulatory Counsel

Attachments:

Appendix A: Analysis of Deliverable Supply

Appendix B: Amendments to CME Chapter 101 ("Live Cattle Futures") (blackline format - affected rules only)

Appendix C: Amendments to CME Chapter 101 ("Live Cattle Futures") (blackline format - entire chapter) (provided under separate cover)

## **Appendix A**

### **Analysis of Deliverable Supply Live Cattle Futures**

#### **Overview:**

Chicago Mercantile Exchange Inc. (“CME” or “Exchange”) staff conducted a review of the cash market underlying its Live Cattle Futures contracts (“Contract”) which is defined as beef bred steers and heifers sold from feedlots to livestock yards (live-graded deliveries) or slaughter plants (carcass-graded deliveries) and herein referred to as “fed cattle”. Based on the analysis presented herein, the Exchange determined to implement changes to the Live Cattle Futures (Rule Chapter 101), summarized below, to alleviate delivery capacity constraints impacting the contract after last trade date.

1. Amend the last day on which a seller may tender a Certificate of Delivery (“Last Tender Date”) to no later than 12 p.m. on the Business Day following Last Trade Date (“LTD”).
2. For Certificates of Delivery tendered to the Exchange on Last Tender Date, live-graded delivery may occur on Business Days eight through eleven of the succeeding calendar month, inclusive.
3. For Certificates of Delivery tendered to the Exchange on Last Tender Date, if the seller 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 14<sup>th</sup> Business Day of the succeeding calendar month).
4. For Certificates of Delivery tendered to the Exchange on Last Tender Date, if the assigned buyer elects carcass-graded delivery, the slaughter shall take place on a Business Day chosen by the buyer between the fourth Business Day and the eleventh Business Day, inclusive, of the succeeding calendar month.
5. For Certificates of Delivery tendered to the Exchange on Last Tender Date, if the seller was granted an extension by the Exchange to deliver past the eleventh Business Day of the succeeding calendar month (pursuant to Item 3 above) and if the assigned buyer elects carcass-graded delivery, the slaughter shall take place on a Business Day chosen by the buyer between the fourth Business Day of the succeeding calendar month and the Business Day for which the extension was granted, inclusive, no later than the 14<sup>th</sup> Business Day after Last Trade Date.
6. Amend timing deadlines associated with tender, demand, retender, reclaim, and assignment of Certificates of Delivery to the Clearing House to one and a half hours earlier than is currently specified.

Given that the ability to deliver cattle to fulfill Contract obligations has been constrained by the daily live grading capacity limits imposed on the approved stockyards by the Exchange, these changes, combined with the addition of two new delivery point livestock yards as of the date of this submission, will increase the delivery capacity after last trade date by up to 167%, thereby increasing the Exchange’s estimation of deliverable supply during the spot month.

Additionally, to ensure that the specifications of the Live Cattle futures contract continue to reflect the predominant quality of slaughter cattle transacted in the underlying cash market, beginning with the October 2018 contract month, the Exchange will (1) amend the contract specifications regarding the Choice/Select percentage spread from 60% Choice / 40% Select to 65% Choice / 35% Select for live- and carcass-graded steers and heifers and (2) increase the penalty for the failure to present a load suitable for live-graded delivery from \$0.015 per pound to \$0.030 per pound and amend the penalty language to clarify that a USDA grader can assess a penalty for slowing the live grading process by failing to properly sort a load prior to delivery and allow that grader to assess such sorting penalties without stopping the delivery process of the Live Cattle Futures contract (CME Submission No. 17-208, dated June 9, 2017). Starting with the October

2017 contract, the Choice/Select spread will be amended to 60% Choice / 40% Select (CME Submission No. 16-304, dated August 5, 2016).

### **Background:**

The Contract is a physically-deliverable futures contract whose terms are satisfied by the delivery of fed cattle meeting contract specifications that have been transported to and then graded at approved locations. More specifically, the contract allows for the delivery of qualified fed steers or heifers to either CME-approved stockyards or CME-approved slaughter plants. A short position holder initiates the Contract's delivery process by tendering a certificate of delivery to the Clearing House designating a CME-approved stockyard to which the cattle will be tendered for delivery and the feedlot from which the cattle originate. The long position holder who ultimately receives the delivery notice may accept either a live-graded delivery at that designated stockyard or may alternatively choose to arrange for a carcass-graded delivery at a CME-approved slaughter plant corresponding to the designated stockyard or to a CME-approved slaughter plant within 225 road miles of the short position holder's originating feedlot. The delivery period – defined herein as the timeframe in which a certificate of delivery may be tendered: the first notice day through the last notice day – for an expiring month of the Contract generally lasts roughly one calendar month.<sup>1</sup>

According to the *National Weekly Slaughter Cattle – Committed and Delivered Cattle (USDA LM\_CT142)* report published by the USDA, roughly 20.5 million head of domestically sourced cattle that had been placed on feed (including non-beef bred cattle) were slaughtered (or “delivered” in USDA report) in the United States in 2016. Of that annual number, roughly 5.04 million head of cattle (steer or heifer only) were purchased on a spot (or “negotiated” in USDA report) basis and were delivered live or dressed. Of those 5.04 million head, roughly 14% were transacted outside of the main “5-Area” region (defined further in the “Data Sources section of this document), bringing the number down to roughly 4.33 million head. Further, eliminating roughly 6.6%<sup>2</sup> of cattle that were either too light (less than 1,050 pounds) or too heavy (greater than 1,350 pounds for heifers or 1,550 pounds for steers), leaves roughly 4.04 million head. In summary, roughly 19.7% of cattle slaughtered in 2016 would fit the description of what CME would estimate as cattle that were available on a spot basis, were geographically located in a region containing at least one Contract delivery point stockyard, and would have met the Contract's specifications for weight.

The vast majority of the domestic fed cattle supply is committed to slaughter plants on a non-spot basis (i.e. a forward contract, a formula-based contract, etc.) and therefore would typically not be in position to be delivered to fulfill a futures contract obligation<sup>3</sup>. Some classes of cattle such as bulls and cows are not representative of the broader cash fed cattle market due to quality, age, and size differences relative to that of steers and heifers and are therefore not deliverable to satisfy the Contract and are not used in this analysis.

The sellers of fed cattle are feedlot operators and the buyers of fed cattle are typically slaughter plant operators (“packers”). Most feedlots are family or individually operated, indicating a low level of industry concentration at the producer level.<sup>4</sup> However, there is a high amount of industry concentration amongst the beef packers: According to the National Cattlemen's Beef Association (“NCBA”), the four largest beef

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<sup>1</sup> Rule 10104.A in CME Chapter 101 indicates that Certificates of Delivery can be tendered no sooner than the business day following the first Friday of the contract month and not after the third business following contract expiration. For example, the August 2017 Live Cattle Futures contract had a first notice day of August 7, 2017 and a last notice day of September 6, 2017.

<sup>2</sup> In order to account for weight variance, CME used the standard deviation calculated in the study done by the University of Minnesota (<http://ageconsearch.umn.edu/bitstream/11841/1/pa03di01.pdf>) and applied that to the three-year average live weights from the *USDA 5 Area Monthly Weighted Average Direct Slaughter Cattle* (USDA LM\_CT180).

<sup>3</sup> Some slaughter plant operators have indicated that their formula agreements with feedlots include an option that allows the feedlot to deliver the cattle versus futures positions if market conditions warrant. However, we are not including formula transacted cattle in our deliverable supply estimate as industry sources indicate this option is rarely utilized.

<sup>4</sup> According to the 2012 USDA Census of Agriculture, “In 2012, 80 percent of feedlots were family or individually operated.” [https://www.agcensus.usda.gov/Publications/2012/Online\\_Resources/Highlights/Cattle/Cattle\\_Highlights.pdf](https://www.agcensus.usda.gov/Publications/2012/Online_Resources/Highlights/Cattle/Cattle_Highlights.pdf).

packers represented roughly 90% of the daily beef slaughter capacity among the top ten largest beef packers in the U.S. in 2015.<sup>5</sup>

The fed cattle market is primarily domestic: only about 1% of slaughtered steers and heifers in the U.S. were imported by packers in 2016 according to the *National Weekly Slaughter Cattle – Committed and Delivered Cattle* report. According to the USDA Foreign Agricultural Service, only 69,760 head of any type of cattle were exported out of the U.S. in 2016, representing only a tiny fraction of the total inventory of U.S. cattle.

Fed Cattle are primarily graded in two ways that affect their economic value: quality and yield. Quality grading reflects the expected eating characteristics of the meat (tenderness, flavor, etc.) once it is cooked. The yield grade reflects the estimated amount of lean, edible meat produced by a carcass.<sup>6</sup> Inspecting fed cattle on a carcass-graded basis leads to more precise grading because the grader is able to review the actual carcass, allowing for more accurate premiums and discounts to be assigned to the base price paid for the cattle by the packer. When cattle are inspected on a live-graded basis, the grader must make estimations on future carcass grading outcomes based on external visual indicators when inspecting the live animal. According to the *5-Area Weekly Weighted Average Direct Slaughter Cattle* report, 64% of fed cattle marketed on a spot / negotiated transaction were priced on a live-graded basis between February 2004 and June 2016, while only 20% of cattle marketed on a formula price agreement were graded on a live basis between January 2014 and June 2016 (dates prior were not available in the *5 Area Weekly Direct Slaughter Cattle – Formula, Grid and Contract Purchases* report).

The Exchange believes that the best method for assessing the availability of fed cattle meeting Contract specifications is to measure the observed transactions of fed cattle between feedlots and packers over time. CME believes that these transactions are indicative of available market-ready fed cattle at any given time given their non-storable nature. The purchases of cattle by packers are subject to livestock mandatory price reporting legislation and therefore the Exchange's analysis of the deliverable supply of fed cattle makes use of mandatorily reported volumes of packer purchases of all grades of beef bred steers and heifers priced on either a live or dressed basis as aggregated and published by the United States Department of Agriculture ("USDA") Agricultural Marketing Service ("AMS") division on a monthly basis.<sup>7</sup>

### **Live Cattle Futures Delivery Capacity:**

The delivery territories for delivery against the Live Cattle futures contract are Colorado; Iowa/Minnesota/South Dakota; Kansas; Nebraska; and Texas/Oklahoma/New Mexico. Cattle may be delivered at par at any of the approved stockyard or slaughter plants with one exception currently: beginning in October 2017, any deliveries whose certificates of delivery were originally tendered for delivery at Worthing, SD to satisfy an October futures contract will be made at a \$1.50/cwt discount to the short position holder making delivery.<sup>8</sup>

USDA AMS provides graders at the stockyard delivery points at the scheduled time of delivery to facilitate deliveries where the long position holder receiving delivery has selected that final settlement and transfer of ownership of the cattle be completed on a live-graded basis. The USDA provides input to the Exchange on their staffing as well as each stockyard's infrastructure (i.e. scales, employees) which are factors in our self-imposed daily limits on the maximum number of contracts that can be delivered on any given day to

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<sup>5</sup> See page 48 of this NCBA document:

<http://www.beefusa.org/CMDocs/BeefUSA/Producer%20Ed/2015%20CattleFax%20section.pdf>.

<sup>6</sup> For more information on beef grading, it is suggested to read *Beef Grading* by Daryl Tatum of Colorado State University:

<http://www.beefresearch.org/cmdocs/beefresearch/beef%20grading.pdf>.

<sup>7</sup> Legislation regarding the mandatory reporting of cattle can be found in 7 CFR Part 59, Subpart B - Cattle Reporting: <https://www.gpo.gov/fdsys/pkg/CFR-2016-title7-vol3/pdf/CFR-2016-title7-vol3-part59-subpartB.pdf>.

<sup>8</sup> Please see CME Submission No. 16-304 for further information on the discount being applied to deliveries originally tendered to a stockyard in Worthing, SD in the October contract month: <http://www.cmegroup.com/market-regulation/rule-filings/2016/08/16-304.pdf>.

each stockyard. Based on delivery constraints identified by the USDA, CME instituted a daily limit on how many certificates of delivery could be tendered for delivery at any given stockyard. The daily limits at each stockyard are based on USDA grader estimations on the size and quality of the stockyard as well as their own staffing availability for grading. It is important to note that the daily maximum number of contracts allowed per stockyard by the Exchange is typically lower than the stockyards' actual maximum daily capacity. CME believes that this helps remove the risk of delivery congestion and promotes an orderly delivery process for the Contract. The Exchange is increasing the penalty for failing to complete delivery on the date and place specified on the Certificate of Delivery to encourage sellers to be fully prepared prior to arrival at the delivery point from \$600 to \$1,200. To further encourage preparedness, the Exchange is clarifying the penalty for slowing the live-grading process due to a failure to properly sort prior to delivery. The current Rule allows USDA graders the authority to assess sorting penalties. The Rule is being rewritten to clarify this authority, which will encourage proper sorting prior to live deliveries. The sorting penalty shall remain \$600. This will be effective starting with the October 2018 contract month. It is intended to further alleviate delivery congestion by encouraging sellers to present steers and heifers that have been properly sorted prior to arrival at the delivery point livestock yard and are suitable for delivery on the date and place specified in the certificate of delivery.

Each delivery point stockyard conducts feeder cattle sales and other types of cash market auctions each week where the facility is unavailable to provide capacity in support of deliveries for the Contract. It is the responsibility of the delivering short position holder to ensure that the delivery point stockyard will be able to receive a Contract delivery prior to tendering a delivery certificate to that stockyard. However, the stockyards themselves provide an expected schedule to the Exchange of days in which they expect that they will be unable to facilitate Contract deliveries, and the Exchange communicates that schedule to the market as it changes.<sup>9</sup>

**Table 1** in the appendix of this document lists the weekly stockyard delivery capacity for the Contract and blackout days as communicated to the Exchange by the stockyards.

The approved slaughter plant delivery points for the Contract do not have a limit on the number of deliveries that they may receive because the short position holder will be able to make delivery at a stockyard even if the long is unable to schedule a delivery at any of the plants associated with that stockyard. It is the responsibility of the long position holder to schedule a delivery to be received at a slaughter plant if the long prefers for the final settlement of the delivery to be done by a carcass grading instead of by live grading at the originally tendered stockyard. Slaughter plant grading capacity is not an issue because each plant is staffed by USDA meat graders on a daily basis as part of their normal business operations. Because all deliveries must be tendered to a stockyard to initiate the delivery process, the capacity of the stockyard accounts for the delivery constraint irrespective of whether the ultimate delivery consists of live-graded or carcass-graded beef cattle. Further, CME delivery data shows that there were 320 deliveries between 2014 and 2016. Of those, 275 (86%) were delivered on a live-graded basis while 45 (14%) were delivered carcass-graded. As indicated in the "background" section above, the majority of spot / negotiated fed cattle transactions are priced on a live FOB basis, indicating that it is expected for stockyards to receive the majority of Contract deliveries.

#### **Data Sources:**

CME's analysis of the deliverable supply of fed cattle makes use of data provided by USDA AMS within its *5 Area Monthly Weighted Average Direct Slaughter Cattle – Negotiated* report.<sup>10</sup>

A monthly data series is used because the delivery period for an expiring month of the Contract generally lasts roughly one calendar month. The "5 Area" geographic region – which is comprised of the "Texas/Oklahoma/New Mexico", "Kansas", "Nebraska", "Colorado", and "Iowa/Minnesota" sub-regions – is

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<sup>9</sup> Please see the latest such notice here: <http://www.cmegroup.com/notices/clearing/2016/10/Chadv16-456.pdf>.

<sup>10</sup> The most current "5 Area monthly Weighted Average Direct Slaughter Cattle – Negotiated" Report can be found at this static location on the USDA's website: [https://www.ams.usda.gov/mnreports/lm\\_ct180.txt](https://www.ams.usda.gov/mnreports/lm_ct180.txt).

used because it most closely represents the geographical area where fed cattle are realistically expected to physically be in a position to be delivered to a delivery point stockyard. Only negotiated cattle were used in this analysis because all other forms of marketing fed cattle result in those cattle being committed to another party and therefore reasonably assumed to be unavailable for delivery by a short position holder of the Contract. Steers and heifers priced on both a live or dressed basis are used in this analysis because both steers and heifers are deliverable and can be graded on either a live or a carcass/dressed basis to satisfy Contract delivery terms. All grades are utilized in this analysis because the four main USDA quality grades of cattle (prime, choice, select, standard) and most predominant yield grades (grades 1 – 5) are deliverable and the terms of the Contract make use of the most current USDA published *National Weekly Direct Slaughter Cattle – Premiums and Discounts* report to assess quality grade and yield grade premiums and discounts on delivered cattle accordingly.

USDA AMS maintains a historical database of its mandatory price reports on its website at the following location: <https://mpr.datamart.ams.usda.gov/>.

Please see **Table 2** in the Appendix at the end of this document for a list of delivery point stockyard locations and their associated geographical cash market regions, all of which are represented within 5 Area price reports published by USDA AMS.

### **Calculation Methodology for Cattle Available for Delivery Pursuant to Contract Specifications:**

The following steps using the *5 Area Monthly Weighted Average Direct Slaughter Cattle – Negotiated* report allow for the estimate of the fed cattle available for delivery pursuant to Contract specifications:

1. Obtain the head count and average weight for “Total all grades” for:
  - a. Live FOB Basis – Beef Breeds, Steers
  - b. Live FOB Basis – Beef Breeds, Heifers
  - c. Dressed Delivered Basis – Beef Breeds, Steers
  - d. Dressed Delivered Basis – Beef Breeds, Heifers
2. Convert the dressed weights to ‘live equivalent weights’ by dividing the dressed weights by 63% (the par yield of carcass graded cattle in the Contract).
3. Multiply each category’s head count by its live-equivalent weight to get the category’s total live-equivalent weight for the month, then add each category’s total monthly live-equivalent weight together to get a monthly total live equivalent weight.
4. Divide the total live equivalent weight for the month by 40,000 lbs. (the size of the futures contract) to determine the number of cattle available for delivery during a given contract month in contract equivalents.

### **Analysis of Deliverable Supply:**

Please see **Table 3** in the Appendix at the end of this document for a monthly estimate of fed cattle available for delivery pursuant to Contract specifications for the previous three years using the data and calculation methodology described above.

The Exchange estimates that the average monthly availability of fed cattle meeting Contract specifications over the previous three years was equivalent to 9,216 contracts. The Contract currently has three spot month position limits: 1) 450 contracts on the close of trading on the first business day following the first Friday of the contract month, which is 4.9% of average monthly availability of fed cattle meeting Contract specifications, and 2) 300 contracts on the close of trading on the business day immediately preceding the last 5 trading days of the contract month, which is 3.3% of average monthly availability of fed cattle meeting Contract specifications, and 3) 200 contracts on the close of trading on the business day immediately

preceding the last 2 trading days of the contract month, which is 2.2% of average monthly availability of fed cattle meeting Contract specifications.

However, the ability to deliver cattle to fulfill Contract obligations is constrained by the daily live grading capacity limits imposed on the approved stockyards by the Exchange. Therefore, the Exchange measures its estimation of deliverable supply of fed cattle to fulfill Contract delivery obligations based on the maximum stockyard capacity permitted by the Exchange, inclusive of 'blackout' days in which the stockyards self-report themselves as not being available to facilitate deliveries as noted more specifically below.

By changing the Last Tender Date to 12 p.m. on the Business Day following LTD allows the short to schedule delivery on one of four business days (business days 8 through 11 following LTD). Additionally, if the short is unable to obtain clearance from an approved livestock yard to make live delivery between Business Days eight through eleven following LTD, the short is able to request an extension from the Exchange and if granted, delivery may occur no later than the 14th Business Day after LTD. The amendment to the Last Tender Date and the expansion of the live-graded delivery window following LTD to up to business day 14 following LTD provides the short up to a total of seven consecutive business days after LTD to schedule delivery at an approved livestock yard (business days eight through 14 following LTD).

Therefore, the Exchange based its estimation of deliverable supply on the maximum livestock yard capacity permitted by the Exchange during the window available for delivery at the livestock yards inclusive of blackout days in which the livestock yards self-report themselves as not being available to facilitate deliveries. Because the total daily available capacities for all approved livestock yards vary by day, the Exchange determined to measure the delivery window as an average of all available combinations of consecutive delivery days for the number of delivery days in that window.

The deliverable supply is most restrictive after LTD given that the delivery window for contracts tendered following LTD is restricted to up to seven (7) business days, or business days eight through 11 after last trade date plus 3 additional days (i.e., business days eight through 14 following LTD). The Exchange calculated the average of the consecutive seven-day live grading capacity totals to be 1,995 contracts (see **Exhibit A, Table 4**). The Exchange's final spot month position limit of 200 contracts, which is in effect at the close of trading on the business day immediately preceding the last 2 trading days of the contract month, represents 10.03% of the estimated deliverable supply based on the 7-day delivery window.

The Exchange's initial spot month limit of 450 contracts is in effect at the close of trading on the first business day following the first Friday of the contract month and is reduced to 300 contracts at the close of trading on the business day immediately preceding the last 5 trading days of the contract month. Immediately prior to the spot limit step-down from 450 to 300 contracts, the available delivery window is comprised of 13 delivery days, or 5 business days prior to LTD plus business days eight through 14 following LTD, inclusive. The Exchange calculated the average of the consecutive 13-day live grading capacity totals to be 3,705 contracts (see **Exhibit A, Table 6**). The Exchange's initial spot month position limit of 450 contracts represents 12.15% of the estimated deliverable supply based on the 13-day delivery window.

The Exchange's subsequent spot month limit of 300 contracts is in effect at the close of trading on the business day immediately preceding the last 5 trading days of the contract month and is reduced to 200 contracts at the close of trading on the business day immediately preceding the last 2 trading days of the contract month. Immediately prior to the spot limit step-down from 300 to 200 contracts, the available delivery window is comprised of 10 delivery days, or 2 business days prior to LTD plus business days eight through 14 following LTD, inclusive. The Exchange calculated the average of the consecutive 10-day live grading capacity totals to be 2,850 contracts (see **Exhibit A, Table 5**). The Exchange's subsequent spot month position limit of 300 contracts represents 10.53% of the estimated deliverable supply based on the 10-day delivery window.

**Exhibit A**

**Table 1: Maximum Daily Grading Capacity (in Contract Equivalents)**

<b>Stockyard</b>	<b>Mon</b>	<b>Tue</b>	<b>Wed</b>	<b>Thu</b>	<b>Fri</b>	<b>Weekly</b>
Amarillo, TX		60	60	60	60	240
Clovis, NM*	30	30		30	30	120
Columbus, NE	15	15				30
Dodge City, KS	40	40		40	40	160
North Platte, NE	20		20	20	20	80
Ogallala, NE	25	25			25	75
Pratt, KS	10	10	10		10	40
Syracuse, KS	25	25	25	25		100
Texhoma, OK	30	30		30	30	120
Tulia, TX	30	30	30		30	120
Worthing, SD		60		60	60	180
Wray, CO	10		10	10	10	40
** <i>West Point Livestock, NE</i>		<u>20</u>	<u>20</u>		<u>20</u>	60
** <i>Cattleman's Livestock, TX</i>	<u>15</u>	<u>15</u>	<u>15</u>		<u>15</u>	60
<b>Total Daily Capacity (inclusive of blackout dates)</b>	<b>250</b>	<b>360</b>	<b>190</b>	<b>275</b>	<b>350</b>	<b>1,425</b>

\*Capacity is inclusive of requested increase pending Exchange approval. See MKR06-09-17B

\*\* New Livestock Yards

**Table 2: USDA Cash Reporting Regions vs. Associated Stockyard Delivery Points**

<b>USDA Cash Reporting Region</b>	<b>Associated Stockyard Delivery Points</b>
Iowa / Minnesota	Worthing, SD
Colorado	Wray, CO
Nebraska*	Columbus, NE; North Platte, NE; Ogallala, NE; <i>West Point, NE;</i>
Kansas	Dodge City, KS; Pratt, KS; Syracuse, KS
Texas* / Oklahoma / New Mexico	Amarillo, TX; Clovis, NM; Texhoma, OK; Tulia, TX; <i>Dalhart, TX</i>
5-Area	Representative of all delivery points

\*New Delivery Points.

**Table 3: Monthly negotiated steers and heifers by contract month (in Contract Equivalents, or 40,000 live equivalent pounds)**

<b>Contract Month</b>	<b>Contract Year</b>	<b>Dressed Heifers</b>	<b>Dressed Steers</b>	<b>Live Heifers</b>	<b>Live Steers</b>	<b>Total</b>
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<b>Feb</b>	<b>2014</b>	764	1,510	2,054	3,094	7,421
	<b>2015</b>	1,002	2,042	1,725	2,357	7,126
	<b>2016</b>	1,330	2,415	2,516	3,333	9,594
<b>Apr</b>	<b>2014</b>	612	1,809	1,697	2,519	6,636
	<b>2015</b>	939	2,336	1,238	2,216	6,729
	<b>2016</b>	1,051	3,110	2,086	4,043	10,291
<b>Jun</b>	<b>2014</b>	963	2,124	1,682	4,460	9,229
	<b>2015</b>	770	2,221	969	2,353	6,314
	<b>2016</b>	1,053	2,774	2,144	5,693	11,664
<b>Aug</b>	<b>2014</b>	1,251	2,532	2,405	4,945	11,134
	<b>2015</b>	768	2,529	1,032	3,148	7,477
	<b>2016</b>	1,225	3,530	2,618	5,911	13,283
<b>Oct</b>	<b>2014</b>	1,270	2,522	2,274	4,274	10,341
	<b>2015</b>	1,153	2,106	2,044	3,876	9,179
	<b>2016</b>	1,123	2,202	2,414	4,605	10,344
<b>Dec</b>	<b>2014</b>	960	2,066	1,391	3,202	7,618
	<b>2015</b>	1,997	3,290	1,948	3,317	10,552
	<b>2016</b>	1,316	2,824	2,620	4,204	10,964
	<b>3-Year Avg.</b>	1,086	2,441	1,937	3,753	9,216

**Table 4: Consecutive Seven-Day Grading Capacity Totals (in Contract Equivalents)**

<b>Consecutive 7-Day Combination</b>	<b>Daily Grading Capacity</b>							<b>Total Grading Capacity</b>
M-T-W-TH-F:M-T	250	360	190	275	350	250	360	2,035
T-W-TH-F:M-T-W	360	190	275	350	250	360	190	1,975
W-TH-F:M-T-W-TH	190	275	350	250	360	190	275	1,890
Th-F:M-T-W-TH-F	275	350	250	360	190	275	350	2,050
F:M-T-W-TH-F:M	350	250	360	190	275	350	250	2,025
	<b>Avg</b>							<b>1,995</b>

**Table 5: Consecutive 10-Day Grading Capacity Totals (in Contract Equivalents)**

<b>Consecutive 10-Day Combination</b>	<b>Daily Grading Capacity</b>										<b>Total Grading Capacity</b>
M-T-W-TH-F:M-T-W-TH-F	250	360	190	275	350	250	360	190	275	350	2,850

T-W-TH-F:M-T-W-TH-F:M	360	190	275	350	250	360	190	275	350	250	2,850
W-TH-F:M-T-W-TH-F:M-T	190	275	350	250	360	190	275	350	250	360	2,850
Th-F:M-T-W-TH-F:M-T-W	275	350	250	360	190	275	350	250	360	190	2,850
F:M-T-W-TH-F:M-T-W-TH	350	250	360	190	275	350	250	360	190	275	2,850
<b>Avg</b>											<b>2,850</b>

**Table 6: Consecutive 13-Day Grading Capacity Totals (in Contract Equivalents)**

Consecutive 13-Day Combination	Daily Grading Capacity													Total Grading Capacity
M-T-W-TH-F:M-T-W-TH-F:M-T-W	250	360	190	275	350	250	360	190	275	350	250	360	190	3,650
T-W-TH-F:M-T-W-TH-F:M-T-W-TH	360	190	275	350	250	360	190	275	350	250	360	190	275	3,675
W-TH-F:M-T-W-TH-F:M-T-W-TH-F	190	275	350	250	360	190	275	350	250	360	190	275	350	3,665
Th-F:M-T-W-TH-F:M-T-W-TH-F:M	275	350	250	360	190	275	350	250	360	190	275	350	250	3,725
F:M-T-W-TH-F:M-T-W-TH-F:M-T	350	250	360	190	275	350	250	360	190	275	350	250	360	3,810
<b>Avg</b>													<b>3,705</b>	

## **Appendix B**

### **CME Rulebook**

#### **Chapter 101 Live Cattle Futures**

(additions underscored; deletions ~~struck through~~)

(Affected Rules Only)

#### **10104. PROCEDURES FOR TENDER, DEMAND, RETENDER, RECLAIM, AND ASSIGNMENT OF CERTIFICATES OF DELIVERY**

##### **(FOR ALL CONTRACT MONTHS PRIOR TO DECEMBER 2017)**

###### 10104.A. Tendering a Certificate

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 4:30 p.m. on any Business Day except that Certificates may not be tendered:

1. On or before the first Friday of the contract month; and
2. After the third Business Day after expiration.

A Certificate of Delivery is a commitment to deliver cattle conforming with contract specifications at the delivery point designated in the Certificate, or at a corresponding approved slaughter plant selected by the buyer, if the Certificate is not reclaimed. A Certificate requires delivery on the eighth Business Day that is also a delivery day following the tender of that Certificate, if the buyer elects live grading. If live graded delivery would occur on either Christmas Eve or New Year's Eve, then live graded delivery shall occur on the following Business Day. If the buyer elects carcass grading, the Certificate requires delivery at the option of the buyer on any Business Day the slaughter plant is in operation between the fourth Business Day and the eighth Business Day, inclusive, following tender of that Certificate.

A Certificate must include the name, location, business address, and telephone number of the feedlot from which the cattle originate. A Certificate must also include: (1) the distance between the feedlot and the livestock yards to which the cattle are tendered for delivery; (2) the distance between the feedlot and the approved slaughter plants corresponding to the livestock yards to which the cattle are tendered for delivery; (3) any other approved slaughter plants within 225 road miles of the feedlot and the distances to such approved slaughter plants and (4) whether steers or heifers will be delivered.

The seller is responsible for determining, in advance of tendering a Certificate, if the delivery point livestock yards will be able to accommodate a live-graded delivery on the eighth Business Day following the day of tender should the buyer request one. If the buyer requests a live-graded delivery which the livestock yards is unable to accommodate, then this will be deemed a failure by the seller to present a load of cattle for USDA grading under Rule 10103.B.8. In addition, the Exchange may prohibit deliveries on certain days for certain locations at which it deems deliveries would not be feasible due to auctions or other activities.

###### 10104.B. Posting

By 4:35 p.m. the Clearing House shall post a list of the tendered and retendered Certificates specifying delivery points and accrued retender charges. Demand Notices and Reclaim Notices may be presented only for Certificates which are included on the list.

###### 10104.C. Demand Notice

A clearing member representing a long may present a Demand Notice for the purpose of securing priority in the assignment of a Certificate of Delivery. The following rules govern Demand Notices:

1. The Demand Notice shall be presented to the Clearing House (on a form prescribed by the Clearing House) by 5:00 p.m. on any Business Day on which Certificates are tendered or retendered.

2. The Demand Notice shall specify: the date the long position was established, the buyer's choice (if any) for delivery points, the buyer's choice (if any) for the gender of the cattle and the minimum amount of accrued retender charges acceptable to the buyer.

3. A Certificate assigned to a Demand Notice may not be retendered.

4. A Demand Notice which is not assigned a Certificate on the day of presentment is void.

#### 10104.D. Retender

A clearing member representing a long that is assigned a Certificate may retender that Certificate. The following rules govern retender:

1. A Certificate may only be retendered twice. A long that has been assigned a Certificate which has been retendered twice must take delivery.

2. A Certificate that has been assigned to a Demand Notice may not be retendered.

3. A Certificate may not be retendered after the last Trading Days of the contract month.

4. A long assigned a Certificate must establish a short position in the delivery month and notify the Clearing House of retender by 4:30 p.m. on the Business Day following assignment.

5. The retendering long will be assessed a retender charge of \$.01 per pound (\$400 per contract). The retender charges accrue to the Certificate and are payable to the long exercising the Certificate or to the reclaiming short.

#### 10104.E. Reclaim

A clearing member representing a short that has tendered a Certificate may reclaim that Certificate upon the first or second retender if there is no Demand Notice issued for that Certificate.

The reclaiming short must have established a long position in the contract month and must issue a Reclaim Notice (on a form prescribed by the Clearing House) to the Clearing House by 5:00 p.m. on the day the Certificate is retendered.

#### 10104.F. Assignment of Certificates

The Clearing House shall assign Certificates and notify the clearing member representing the long on the day of tender or retender. Assignments shall be made in the following order:

1. Newly-tendered Certificates and retendered Certificates shall be assigned to Demand Notices which specify delivery points, gender and retender charges which match those of the Certificate. In the case of duplication, the Certificate shall be assigned to the Demand Notice submitted by the long with the oldest long position. In the case of Demand Notices with long positions established on the same date, the time the Demand Notice was submitted to the Clearing House will determine priority.

2. Retendered Certificates which have not been assigned to Demand Notices will be assigned to Reclaim Notices, if any.

3. Retendered Certificates and newly-tendered Certificates which have not been demanded or reclaimed will be assigned to long positions by matching the Certificates having the largest retender charges with the oldest long positions.

#### 10104.G. Payments for Tender and Retender

1. All payment shall be by wire transfer of funds or by certified or cashier's check presented to the Clearing House.

2. Payment for an assigned Certificate must be submitted to the Clearing House by 12:00 noon on the Business Day after a tendered or retendered Certificate is assigned. The assignee shall submit payment equal to the settlement price on the day of assignment less accrued retender charges **and any applicable delivery location premiums/discounts**, times the par weight, 40,000 pounds.

3. Payment received for a newly-tendered Certificate shall be retained by the Clearing House until the Certificate is reclaimed or until cattle conforming with contract specifications are delivered.

4. The Clearing House shall remit payment received for a retendered Certificate to the retenderer by the close of business on the Business Day following the day of retender.

**10104. PROCEDURES FOR TENDER, DEMAND, RETENDER, RECLAIM, AND ASSIGNMENT OF CERTIFICATES OF DELIVERY**

**(FOR ALL CONTRACT MONTHS COMMENCING WITH DECEMBER 2017 AND BEYOND)**

10104.A. Tendering a Certificate

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 ~~4:30~~ **3:00 p.m.** on any Business Day except that Certificates may not be tendered:

1. On or before the first Friday of the contract month; and
2. After ~~the third Business Day after expiration~~ **12:00 p.m. on the business day following the Last Trade Date.**

A Certificate of Delivery is a commitment to deliver cattle conforming with contract specifications at the delivery point designated in the Certificate, or at a corresponding approved slaughter plant selected by the buyer, if the Certificate is not reclaimed. A Certificate **presented prior to the Last Trade Date of the contract month** requires delivery on the eighth Business Day that is also a delivery day following the tender of that Certificate, if the buyer elects live grading.

**If the seller tenders on or after the Last Trade Date, the Certificate shall require delivery on a business day chosen by the seller that is between the eighth Business Day and the eleventh Business Day following the Last Trade Date as prescribed by Rule 10103.B.1. If the seller is unable to obtain clearance from an approved livestock yard to make live delivery between Business Days eight through eleven following Last Trade Date, the seller shall request extension from the Exchange and if granted, delivery may occur no later than the 14th Business Day after Last Trade Date.**

If live graded delivery would occur on either Christmas Eve or New Year's Eve, then live graded delivery shall occur on the following Business Day.

If the buyer elects carcass grading, **and the Certificate was presented prior to the Last Trade Date of the contract month, delivery shall be** requires delivery at the option of the buyer on any Business Day the slaughter plant is in operation between the fourth Business Day and the eighth Business Day, inclusive, following tender of that Certificate.

**If the seller tenders on or after the Last Trade Date and the buyer elects carcass-graded delivery, the slaughter shall take place on a Business day chosen by the buyer between the fourth Business Day and the eleventh Business Day, inclusive, following tender of that Certificate as prescribed by Rule 10103.C.2. If the seller was granted extension by the Exchange when tendering, the buyer may choose slaughter to take place between the fourth Business Day of the succeeding calendar month and the Business Day for which the extension was granted, inclusive, no later than the 14<sup>th</sup> Business Day after Last Trade Date.**

A Certificate must include the name, location, business address, and telephone number of the feedlot from which the cattle originate. A Certificate must also include: (1) the distance between the feedlot and the livestock yards to which the cattle are tendered for delivery; (2) the distance between the feedlot and the approved slaughter plants corresponding to the livestock yards to which the cattle are tendered for delivery; (3) any other approved slaughter plants within 225 road miles of the feedlot and the distances to such approved slaughter plants and (4) whether steers or heifers will be delivered.

The seller is responsible for determining, in advance of tendering a Certificate, if the delivery point livestock yards will be able to accommodate a live-graded delivery **on an eligible Business Day** ~~on the eighth Business Day following the day of tender should the buyer request one.~~ If the buyer requests a live-graded delivery which the livestock yards is unable to accommodate, then this will be deemed a failure by the seller to present a load of cattle for USDA grading under Rule 10103.B.8. In addition, the Exchange may prohibit deliveries on certain days for certain locations at which it deems deliveries would not be feasible due to auctions or other activities.

#### 10104.B. Posting

By ~~4:35~~ 3:05 p.m. the Clearing House shall post a list of the tendered and retendered Certificates specifying delivery points and accrued retender charges. Demand Notices and Reclaim Notices may be presented only for Certificates which are included on the list.

#### 10104.C. Demand Notice

A clearing member representing a long may present a Demand Notice for the purpose of securing priority in the assignment of a Certificate of Delivery. The following rules govern Demand Notices:

1. The Demand Notice shall be presented to the Clearing House (on a form prescribed by the Clearing House) by ~~5:00~~ 3:30 p.m. on any Business Day on which Certificates are tendered or retendered.

2. The Demand Notice shall specify: the date the long position was established, the buyer's choice (if any) for delivery points, the buyer's choice (if any) for the gender of the cattle and the minimum amount of accrued retender charges acceptable to the buyer.

3. A Certificate assigned to a Demand Notice may not be retendered.

4. A Demand Notice which is not assigned a Certificate on the day of presentment is void.

#### 10104.D. Retender

A clearing member representing a long that is assigned a Certificate may retender that Certificate. The following rules govern retender:

1. A Certificate may only be retendered twice. A long that has been assigned a Certificate which has been retendered twice must take delivery.

2. A Certificate that has been assigned to a Demand Notice may not be retendered.

3. A Certificate may not be retendered after the last Trading Days of the contract month.

4. A long assigned a Certificate must establish a short position in the delivery month and notify the Clearing House of retender by ~~4:30~~ 3:00 p.m. on the Business Day following assignment.

5. The retendering long will be assessed a retender charge of \$.01 per pound (\$400 per contract). The retender charges accrue to the Certificate and are payable to the long exercising the Certificate or to the reclaiming short.

#### 10104.E. Reclaim

A clearing member representing a short that has tendered a Certificate may reclaim that Certificate upon the first or second retender if there is no Demand Notice issued for that Certificate.

The reclaiming short must have established a long position in the contract month and must issue a Reclaim Notice (on a form prescribed by the Clearing House) to the Clearing House by ~~5:00~~ 3:30 p.m. on the day the Certificate is retendered.

#### 10104.F. Assignment of Certificates

The Clearing House shall assign Certificates and notify the clearing member representing the long on the day of tender or retender. Assignments shall be made in the following order:

1. Newly-tendered Certificates and retendered Certificates shall be assigned to Demand Notices which specify delivery points, gender and retender charges which match those of the Certificate. In the case of duplication, the Certificate shall be assigned to the Demand Notice submitted by the long with the oldest long position. In the case of Demand Notices with long positions established on the same date, the time the Demand Notice was submitted to the Clearing House will determine priority.

2. Retendered Certificates which have not been assigned to Demand Notices will be assigned to Reclaim Notices, if any.

3. Retendered Certificates and newly-tendered Certificates which have not been demanded or reclaimed will be assigned to long positions by matching the Certificates having the largest retender charges with the oldest long positions.

#### 10104.G. Payments for Tender and Retender

1. All payment shall be by wire transfer of funds or by certified or cashier's check presented to the Clearing House.

2. Payment for an assigned Certificate must be submitted to the Clearing House by 12:00 noon on the Business Day after a tendered or retendered Certificate is assigned. The assignee shall submit payment

equal to the settlement price on the day of assignment less accrued retender charges and any applicable delivery location premiums/discounts, times the par weight, 40,000 pounds.

3. Payment received for a newly-tendered Certificate shall be retained by the Clearing House until the Certificate is reclaimed or until cattle conforming with contract specifications are delivered.

4. The Clearing House shall remit payment received for a retendered Certificate to the retenderer by the close of business on the Business Day following the day of retender.

**Appendix C**

**CME Rulebook**

**Chapter 101  
Live Cattle Futures**

(additions underscored; deletions ~~struck through~~)

(Provided under Separate Cover)