



## Special Executive Report

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**DATE:** August 19, 2019

**SER#:** 8423

**SUBJECT: Clarification Regarding Delivery in Connection with the Random Length Lumber Futures Contract**

Chicago Mercantile Exchange Inc.'s ("CME" or "Exchange") Random Length Lumber Futures contract (the "Contract") (Rulebook Chapter [201](#); CME Globex Code: LBS; Clearing Code: LB) states in Rule 20104.A. ("Par Delivery") that "delivery shall be made on track at the producing mill." As a result of various inquiries from market participants and for additional clarification, this is to advise that pursuant to Rule 20104.A., CME permits market participants to enter into cash contracts with a mill and satisfy such contract's delivery through the Exchange delivery process.

For example, Broker A may contact Mill B and purchase a railcar of lumber for delivery to a yet-to-be-determined destination. Mill B generally provides Broker A an estimate of how long the mill's order file is, meaning Broker A is provided with an estimate as to when the lumber will be ready to ship. Broker A could then enter a short position in the Contract. When matched with Long C, Broker A could contact Mill B and provide the destination of the long, and the lumber will be delivered through Mill B to the Exchange delivery recipient, Long C.

The holder of the short position shall be solely responsible for the delivery obligation. In the above example, Broker A (not Mill B) shall be the "deliverer" of lumber pursuant to the Exchange rules. The lumber will still be delivered on track through the mill in satisfaction of the rules. The mill will have no direct responsibility for the Exchange delivery.

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