



Special Executive Report

DATE: September 14, 2020

SER#: 8649

SUBJECT: Amendments to the Random Length Lumber Futures Contract

Effective Sunday, October 4, 2020 for trade date Monday, October 5, 2020, and pending all CFTC regulatory review periods, Chicago Mercantile Exchange Inc. ("CME" or Exchange") will implement amendments to the Random Length Lumber Futures contract (the "Contract") (Rulebook Chapter [201](#); CME Globex Code: LBS; Clearing Code: LB).

Specifically, the Exchange will implement administrative amendments regarding the applicable month for the purpose of daily price limits and insert language to provide the deadline for position liquidation through Exchange for Related Products ("EFRP") transactions (collectively, the "Rule Amendments").

The Rule Amendments are provided in blackline format in Appendix A below.

For additional information, please contact Alison Coughlin at Alison.Coughlin@cmegroup.com or 312-338-7171, or Candice Lucas at Candice.Lucas@cmegroup.com or 312-930-3365.

APPENDIX A CME Rulebook

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

Chapter 201 Random Length Lumber Futures

20100. SCOPE OF CHAPTER

This chapter is limited in application to Random Length Lumber futures. In addition to this chapter, Random Length Lumber futures shall be subject to the general rules and regulations of the Exchange insofar as applicable.

For purposes of this chapter, unless otherwise specified, times referred to herein shall refer to and indicate Chicago time.

20101. CONTRACT SPECIFICATIONS

Each delivery unit shall consist of nominal 2x4's of random lengths from 8 feet to 20 feet. Each delivery unit shall consist of and be grade stamped #1 or #2 AND BETTER. Each delivery unit shall be manufactured in California, Idaho, Montana, Nevada, Oregon, Washington, Wyoming, or Alberta or British Columbia, Canada, and contain lumber produced from and grade stamped Hem Fir (except that Hem-Fir shall not be deliverable if it is manufactured in Canada; nor that portion of Washington including and to the west of Whatcom, Skagit, Snohomish, King, Pierce, Lewis and Skamania counties; nor that portion of Oregon including and to the west of Multnomah, Clackamas, Marion, Linn, Lane, Douglas and Jackson counties; nor that portion of California west of Interstate Highway 5 nor south of US Highway 50), Englemann Spruce, Lodgepole Pine, Englemann Spruce/Lodgepole Pine and/or Spruce Pine Fir (except that Spruce-Pine-Fir shall not be deliverable if it is manufactured in those portions of Washington, Oregon and California that are noted above).

20102. TRADING SPECIFICATIONS

20102.A. Trading Schedule

Futures contract shall be scheduled for trading and delivery during such hours and in such months as may be determined by the Exchange.

20102.B. Trading Unit

The unit of trading shall be 110,000 board feet.

20102.C. Price Increments

Minimum price fluctuations shall be in multiples of \$.10 per thousand board feet.

20102.D. Daily Price Limits

Daily price limits for Random Length Lumber futures are reset every six months. The first reset date would be the first trading day in May based on the following: Daily settlement prices are collected for the nearest July contract over 45 consecutive trading days before and on the business day prior to April 16th. The average price is calculated based on the collected settlement prices and then multiplied by five percent. The resulting number, rounded to the nearest \$1 per thousand board feet, or \$10 per thousand board feet, whichever is higher, will be the new initial price limit for Random Length Lumber futures and will become effective on the first trading day in May and will remain in effect through the last trading day in October.

The second reset date would be the first trading day in November based on the following: Daily settlement prices are collected for the nearest November contract over 45 consecutive trading days before and on the business day prior to October 16th. The average price is calculated based on the collected settlement prices and then multiplied by five percent. The resulting number, rounded to the nearest \$1 per thousand board feet, or \$10 per thousand board feet, whichever is higher, will be the new initial price limit for Random Length Lumber futures and will become effective on the first trading day in November and will remain in effect through the last trading day in next April.

There shall be no trading in Random Length Lumber futures at a price more than the initial price limit above or below the previous day's settlement price. Should the ~~lead contract month~~ **nearest listed contract that is subject to a daily limit** settle at limit, the daily price limits for all contract months shall increase by 50 percent the next business day, rounded up to the nearest \$1 per thousand board feet. If the ~~lead futures contract month~~ **nearest listed contract that is subject to a daily limit** does not settle at the expanded limit the next business day, daily price limits for all contract months shall revert back to the initial price limit the following business day.

There shall be no price limit in the expiring month contract beginning on the first Business Day of the contract month.

20102.E. 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.

20102.F. [Reserved]

20102.G. [Reserved]

20102.H. Termination of Trading

Trading shall terminate on the Business Day immediately preceding the 16th calendar day of the contract month. **Any contracts remaining open after the last day of trading must be either:**

- (a) **Settled by delivery.**
- (b) **Liquidated by means of a bona fide Exchange of Futures for Related Position, no later than 5:45 p.m. Chicago time on the business day prior to the last business day of the month (last intent day).**

20102.I. [Reserved]

20103. SETTLEMENT PROCEDURES

In addition to the procedures and requirements of Chapter 7, the following shall specifically apply to the

delivery of random length lumber.

20103.A. [Reserved]

20103.B. Notice of Intent to Deliver

Seller shall give his Notice of Intent to Deliver to the Clearing House prior to 12:00 noon (on any Business Day after termination of trading in the contract month.

20103.C. [Reserved]

20103.D. Seller's Duties

If the buyer's designated destination is east of the western boundaries of North Dakota, South Dakota, Nebraska, Kansas, Texas and Oklahoma, and the western boundary of Manitoba, Canada, the seller shall follow the buyer's shipping instructions within seven (7) Business Days after receipt of such instructions. In addition, the seller shall prepay the actual freight charges and bill the buyer, through the Clearing House, the lowest published freight rate for 73-foot railcars from Prince George, British Columbia to the buyer's destination. If the lowest published freight rate from Prince George, British Columbia to buyer's destination is a rate per one hundred pounds, the seller shall bill the buyer on the weight basis of 1,650 pounds per thousand board feet. The term "lowest published freight rate" refers only to the lowest ~~published~~ "general through rate" **published by a railroad** and not to rates published in any other rate class.

If, however, the buyer's destination is outside of the aforementioned area, the seller shall follow the same procedures except that the seller shall have the right to change the point of origin and/or originating carrier within 2 Business Days after receipt of buyer's original shipping instructions. If a change of origin and/or originating carrier is made, the seller shall then follow the buyer's revised instructions within seven (7) Business Days after receipt of such instructions.

If the freight rate to the buyer's destination is not published, the freight charge shall be negotiated between the buyer and seller in accordance with industry practice.

Any additional freight charges resulting from diversion by the buyer in excess of the actual charges for shipment to the destination specified in the shipping instructions submitted to the Clearing House are the responsibility of the buyer. Any reduction in freight charges that may result from a diversion is not subject to billing adjustment through the Clearing House.

Any applicable surcharges noted by the rail carrier shall be considered as part of the freight rate and can be billed to the buyer through the CME Clearing House.

If within two (2) Business Days of the receipt of the Notice of Intent the buyer has not designated a destination, or if during that time the buyer and seller fail to agree on a negotiated freight charge, the seller shall treat the destination as Chicago, Illinois. If the buyer does not designate a carrier or routing, the seller shall select same according to normal trade practices.

To complete delivery, the seller must deposit with the Clearing House a Delivery Notice, a uniform straight bill of lading (or a copy thereof) and written information specifying grade, a tally of pieces of each length, board feet by sizes and total board feet. The foregoing documents must be received by the Clearing House postmarked within fourteen (14) Business Days of the date of receipt of shipping instructions.

In addition, within one (1) Business Day after acceptance by the railroad, the **seller's Clearing Member shall receive from the seller and submit to the** Clearing House **in the form prescribed by the Clearing House** ~~must receive information (via a telephone call, facsimile or electronic transmission) from the seller giving~~ the car number, piece count by length, unit size, total board footage and date of acceptance. The date of acceptance by the railroad is the date of the bill of lading, signed and/or stamped by the originating carrier, except when determined otherwise by the Clearing House.

If the seller fails to fulfill any of the aforementioned duties within the prescribed time, penalties will be assessed by the Clearing House in accordance with the current penalty schedule.

20103.E. Buyer's Duties

The clearing member assigned the Notice of Intent shall deposit with the Clearing House no later than 10:00 a.m. on the following Business Day ~~a certified or cashier's check~~ **funds** in an amount equal to 110 times the settlement price on the last day of trading in the contract month.

The buyer's **Clearing Member** shall **receive from the buyer and submit to the Clearing House**, within two Business Days of receipt of the Notice of Intent, ~~submit to the Clearing House~~ shipping instructions, to include consignee, point of destination, and routing acceptable to the originating carrier. In the event of a change in the point of origin and/or originating carrier by the seller, the buyer's **Clearing Member** shall **receive from the buyer and** submit to the Clearing House, within two Business Days of receipt of that change, revised instructions for routing acceptable to the originating carrier but may not change consignee nor point of destination.

20103.F. Payment

Upon the seller's fulfillment of the delivery, the Clearing House shall transfer to him the amount due, payment to be made in U.S. dollars. This means that "the lowest published freight rate" referred to in Rule 20103.D. is denominated in U.S. dollars with no exchange rate adjustment. The seller may not, however, bill the buyer for any surcharge for prepayment in Canadian dollars.

Any government duties, fees and charges shall be the responsibility of the shipper. Title shall pass to the buyer at the shipping point upon acceptance by the railroad of the loaded railcar which is being shipped in satisfaction of the delivery.

20103.G. - H. [Reserved]

20104. PAR DELIVERY AND SUBSTITUTIONS

20104.A. Par Delivery

Delivery shall be made on track at the producing mill. The delivery unit must be loaded at the on-site siding of the producing mill or, if a mill normally uses an off-site location for rail loading because rail access does not exist, then a delivery unit may be loaded on track at that designated off-site location by the producing mill. The unit must be shipped on ~~an original~~ **a uniform straight** bill of lading and the mill number must be noted on the bill of lading. A single delivery unit must be delivered from the same mill. Mills are limited to one location for purposes of delivery and, if off-site, must receive approval of the site from the Exchange prior to making delivery from that location.

The lumber shall be wrapped in paper, poly or their industry recognized equivalents and loaded on a flat car. All lumber delivered shall include only pieces produced directly from logs or mill run rough lumber, with no pre-sorting for grade prior to planing. Remanufactured pieces made from previously planed lumber are not acceptable for delivery.

1. Size

A delivery unit shall be 110,000 board feet of random length 2x4's, provided the tally is within the following limits:

| <u>Length</u> | <u>Percent of Total Board Feet Delivered</u> |
|-----------------|--|
| 8' | 3% to 10% |
| 10' | 5% to 12% |
| 12' | 10% to 20% |
| 14' | 10% to 24% |
| 16' | 35% to 60% |
| 18' | 0% to 15% |
| 20' | 0% to 15% |
| 16' + 18' + 20' | 45% to 60% |

The lumber shall be double end trimmed, surfaced four sides, eased edge and of minimum dressed dimensions, as specified in Voluntary Product Standard 20-94, American Softwood Lumber Standard, published by the United States Department of Commerce, or any subsequent revisions (hereinafter referred to as PS 20).

The tally (i.e., "piece count by length") reported to the Clearing House by the seller must meet the specifications of this Rule. If the seller's actual tally does not meet the specifications of this Rule, the seller may adjust the reported tally, as described below, to bring the reported tally into conformance with these specifications. If the reported tally is adjusted to meet contract specifications, the seller must provide the Clearing House with both the actual tally and the adjusted tally.

If the Clearing House must adjust a seller's reported tally or if the reported tally does not agree with the actual tally (actual wood received), the seller shall be charged with fines/penalties in accordance with the current penalty schedule.

If the reported tally cannot be adjusted to meet contract specifications, or if the actual tally does not meet specifications and cannot be adjusted to meet specifications, the delivery unit may be rejected by the buyer. The seller would then be required to reship and be fined/penalized in accordance with the current penalty schedule.

Delivery units (actual and reported tally) may be adjusted to meet contract specifications by deleting one or more banded units or individual pieces from the delivery unit, as long as such deletion does not cause the balance of the lumber to become inconsistent with any other rule in the Random Length Lumber contract. If lumber is deleted from the delivery unit in order to meet tally specifications, the buyer shall retain title to such lumber but shall not be billed for either the lumber which is to be disregarded or for the freight associated with it. A seller may not meet contract specifications by "pencil trimming" of lengths (e.g., assuming that a 20' piece is only an 18' piece). In addition, if a seller cannot meet tally specifications by deleting banded units or individual pieces, or if he cannot meet total board footage specifications even though tally specifications are met, the seller will be required to ship another car and be subject to appropriate fines, penalties and/or damages.

2. Packaging

The lumber shall be unitized; that is, ~~steel~~ banded. In addition, all units shall contain lumber of equal lengths, except 18 foot and 20 foot lengths which may be banded together. The units shall be individually wrapped in paper, poly or their industry recognized equivalents.

3. Quality

The lumber shall meet the requirements of PS 20 and shall comply with the requirements for inspection and reinspection of an agency recognized by the American Lumber Standards committee and/or Canadian Lumber Standards Committee.

4. Moisture Content

The moisture content of each piece shall not exceed 19% as determined by moisture meter readings in accordance with the "Standard Method of Tests for Moisture Content of Wood," Section 9, Method B of the American Society for Testing Material Standard, D2016-65.

5. Marking

All pieces shall be grade marked with the registered symbol of an agency recognized by the American Lumber Standards Committee and/or Canadian Lumber Standard Committee. All pieces shall be marked with the mill name and/or association identification number, grade, seasoning and species according to the stamping requirements of the Certified Inspection Agency, and shall meet all other requirements of state and federal law.

20104.B. Variations in Quantity

Variations in quantity of the delivery unit between 105,000 and 115,000 board feet shall be permitted without penalty, but payment shall be made on the basis of the exact quantity delivered.

20104.C. - D. [Reserved]

20105. INSPECTIONS

Inspection shall conform to PS 20 and any other requirements that may thereafter be promulgated under PS 20. Inspection service and compliance shall be subject to the customer lumber industry practice, as provided in PS 20.

In case of claim on grade, moisture content, tally or manufacture, the buyer shall demand reinspection through the Clearing House to an agency recognized by the American Lumber Standards Committee and/or Canadian Lumber Standards Committee as provided for under the rules of those organizations and PS 20. Findings of the reinspection shall be final and binding upon the buyer and seller.

20106. [RESERVED]

20107. ASSOCIATED COSTS

The costs of all original grading and marking, documentation and related service shall be borne by the seller. The cost of reinspection shall be assessed as provided by the agency performing reinspection.

The seller shall assume demurrage charges up to the date of shipment. The buyer shall be responsible for any demurrage and diversion charges after shipment. The buyer shall be entitled to one reconsignment.

20108. [RESERVED]

(End Chapter 201)

INTERPRETATIONS & SPECIAL NOTICES RELATING TO CHAPTER 201

CLARIFICATION OF TRANSFERS OF CASH FOR RANDOM LENGTH LUMBER FUTURES BEFORE AND AFTER TERMINATION OF CONTRACT

(Special Executive Reports S-2326, December 17, 1990; S-2766, February 22, 1994)

The cash merchandise transferred for Random Length Lumber futures after termination of trading may only be deliverable species dimension lumber with variances for grade/size and tally; provided, however, that the quantities transferred both before and after termination of trading are comparable to the quantities specified in the futures contract and provided further, that there is an unconditional transfer of title to the buyer of the cash and the seller of the futures contract evidenced by, at a minimum, payment for the cash merchandise.

The shipment or transfer of the cash merchandise should be delivered to a destination normally used by the buyer or one that is common to the cash market. The buyer must retain ownership of the transferred product for personal use or resale to his customers and may not resell the product either directly or indirectly to the original seller.

PENALTIES AND FINES

(Special Executive Report S-1216, May 12, 1983. Amended December 1990; February 1999, December 2005)

| <u>Cause</u> | <u>Penalty / Fine</u> |
|--|---|
| A. 1. Materially incomplete or erroneous shipping instructions or material adjustment to instructions. | \$200 per Business Day (assessed against the buyer and payable to seller). |
| 2. Failure by the seller to properly follow shipping instructions within seven Business Days after receipt of instructions. | \$200 per Business Day (assessed against the seller and payable to buyer). |
| B. Failure by the seller to telephone, telex or telegram submit the required information within one Business Day of railroad acceptance. (Independent of A.) | \$100 per Business Day (assessed against the seller and payable to the buyer). |
| C. Failure by the seller to mail submit the prescribed documents to the Clearing House within 14 Business Days of receipt of buyer's shipping instructions. | \$100 per Business Day (assessed against the seller and payable to the Clearing House). |
| D. Materially incomplete or erroneous delivery forms or material adjustment to delivery forms. | \$150 per car (assessed against the seller and payable to the Clearing House). |