



Special Executive Report

DATE: January 9, 2024

SER#: 9317

SUBJECT: Amendments to Rule XXX.03. (“Settlement Procedures”) of Lean Hog, Pork Cutout, Feeder Cattle, and Live Cattle Futures Contracts to Codify Contingency Plans

Effective January 25, 2024, and pending all relevant CFTC regulatory review periods, Chicago Mercantile Exchange Inc. (“CME” or “Exchange”) will amend the Lean Hog, Pork Cutout, Feeder Cattle, and Live Cattle Futures contracts noted in the table below (“the Contracts”) to codify contingency plans in the event that United States Department of Agriculture (“USDA”) reporting is unavailable, such as a possible U.S. federal government shutdown.

Contract Title	Rulebook Chapter	CME ClearPort Code	CME Globex Code
Lean Hog Futures	152	LN	HE
Pork Cutout Futures	156	PRK	PRK
Feeder Cattle Futures	102	62	GF
Live Cattle Futures	101	48	LE

Specifically, the Exchange will adopt additional language in:

1. Rule XXX.03.A. (“Settlement Procedures”) of the Lean Hog, Pork Cutout, and Feeder Cattle Futures contracts to specify that the Exchange may incorporate market activity in the Contracts in the calculation of the final settlement price in the event the USDA is unable to publish prices during the settlement period; and
2. Rule 101.03.A. (“Settlement Procedures”) of the Live Cattle Futures contract to specify that in the event the USDA is unable to publish the reports utilized for adjustment factors in live and carcass deliveries, the most recently issued reports on or prior to the day a Certificate is tendered shall be used for calculating final invoice amounts (collectively, the “Rule Amendments”).

The Rule Amendments are intended to codify the Exchange’s historical practice and advise market participants of the Exchange’s course of action within the rules.

The Rule Amendments are administrative in nature and will not materially impact the economic value of the Contracts. The Rule Amendments shall only apply when USDA reporting is unavailable such as, for example, in certain circumstances surrounding a U.S. federal government shutdown. The Exchange

believes that the Rule Amendments are specific contingency plans which shall be implemented in certain circumstances and do not materially amend the substance of the final settlement of the Contracts.

Appendix A provides the Rule Amendments in blackline format.

Please refer questions on this subject to:

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APPENDIX A

CME Rulebook

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

Chapter 152 Lean Hog Futures

15203. SETTLEMENT PROCEDURES

15203.A. Final Settlement

There shall be no delivery of hogs in settlement of this contract. All contracts open as of the termination of trading shall be cash settled based upon the CME Lean Hog Index® for the two-day period ending on the day on which trading terminates.

1. The Sample

The sample consists of all producer-sold negotiated, swine or pork market formula and negotiated formula barrows and gilts purchased on a lean value direct basis by packers for which the head count, average net price and average carcass weight are reported in the "National Daily Direct Hog Prior Day Report-Slaughtered Swine" released by the USDA.

2. The Calculation

The procedure for calculating the CME Lean Hog Index is as follows, using data reported on two consecutive weekdays.

1. The daily head count for negotiated transactions is multiplied by the corresponding daily average carcass weight to obtain the negotiated daily total weight;
2. The daily head count for swine or pork market formula transactions is multiplied by the corresponding daily average carcass weight to obtain the swine or pork market formula daily total weight;
3. The daily head count for negotiated formula transactions is multiplied by the corresponding daily average carcass weight to obtain the negotiated formula daily total weight;
4. The daily totals for negotiated weight (i.e., the result from 1. above), swine or pork market formula weight (i.e., the result from 2. above) and negotiated formula weight (i.e., the result from 3. above) are added to obtain the daily total weight;
5. The daily total weights (i.e., the result from 4. above) for two consecutively reported days are aggregated to obtain the two-day total weight;
6. The negotiated daily total weight (i.e., the result from 1. above) is multiplied by the corresponding daily average net price to obtain the negotiated daily total value;
7. The swine or pork market formula daily total weight (i.e., the result from 2. above) is multiplied by the corresponding daily average net price to obtain the swine or pork market formula daily total value;
8. The negotiated formula daily total weight (i.e., the result from 3. above) is multiplied by the corresponding daily average net price to obtain the negotiated formula daily total value;
9. The daily totals for negotiated value (i.e., the result from 6. above), swine or pork market formula value (i.e. the result from 7. above) and negotiated formula value (i.e., the result from 8. above) are added to obtain the daily total value
10. The daily total values (i.e., the result from 9., above) for two consecutively reported days are aggregated to obtain the two-day total value; and

11. The two-day total value (i.e., the result from 10., above) is divided by the two-day total weight (i.e., the result from 5., above) to obtain the CME Lean Hog Index

For the purposes of this rule, Friday of one week and Monday of the following week shall be considered to be consecutive weekdays.

Also for the purposes of this rule, any days when the necessary data are not released by the USDA shall not be considered weekdays, in which case the first weekday immediately preceding and the first weekday immediately following such day(s) shall be considered two consecutive weekdays. Should USDA price reporting be unavailable during any portion of the final settlement pricing timeframe, CME may utilize data compiled from futures market activity during that corresponding pricing timeframe to calculate the final settlement price.

[Remainder of Chapter unchanged.]

Chapter 156 Pork Cutout Futures

15603. SETTLEMENT PROCEDURES

15603.A. Final Settlement

There shall be no delivery of pork carcasses in settlement of this contract. All contracts open as of the termination of trading shall be cash settled based upon the CME Pork Cutout Index® for the five-day period ending on the day on which trading terminates.

1. The Sample

The sample consists of the daily estimates by the USDA of the value of a 215-pound, 55-56% lean pork carcasses, with 0.55-0.70 inches of back fat at the last rib or equivalent and is based upon negotiated wholesale prices being paid for sub-primal pork cuts. The information upon which the estimates are made and the resulting values are reported daily by the USDA in the "NATIONAL DAILY PORK REPORT FOB PLANT – Negotiated Sales – Afternoon (LM_PK602)".

2. The Calculation

The procedure for calculating the CME Pork Cutout Index is as follows, using data reported on five consecutive weekdays.

- a. The most recent daily number of loads is multiplied by the corresponding daily carcass price to determine the daily value;
- b. The most recent daily value is added to the four previous consecutive daily values to determine the 5-day value;
- c. The most recent daily load count is added to the four previous consecutive daily load counts to determine the 5-day load count;
- d. The 5-day value (i.e. the result from b. above) is divided by the 5-day load count (i.e. the result from c. above) to obtain the CME Pork Cutout Index.

For the purposes of this rule, Friday of one week and Monday of the following week shall be considered to be consecutive weekdays.

Also for the purposes of this rule, any days when the necessary data are not released by the USDA shall not be considered weekdays, in which case the first weekday immediately preceding and the first weekday immediately following such day(s) shall be considered two consecutive weekdays. Should USDA price reporting be unavailable during any portion of the final settlement pricing timeframe, CME may utilize data compiled from futures market activity during that corresponding pricing timeframe to calculate the final settlement price.

[Remainder of Chapter unchanged.]

Chapter 102 Feeder Cattle Futures

10203. SETTLEMENT PROCEDURES

10203.A. Final Settlement

There shall be no delivery of feeder cattle in settlement of this contract. All contracts open as of the termination of trading shall be cash settled based upon the CME Feeder Cattle Index™ for the seven calendar days ending on the day on which trading terminates.

1. The Sample The CME Feeder Cattle Index™ is based upon a sample of transactions from these weight/frame score categories: 700 to 899 pound Medium and Large Frame #1 feeder steers, and 700 to 899 pound Medium and Large Frame #1-2 feeder steers.

The sample consists of all feeder cattle auction, direct trade, video sale, and Internet sale transactions within the 12-state region of Colorado, Iowa, Kansas, Missouri, Montana, Nebraska, New Mexico, North Dakota, Oklahoma, South Dakota, Texas and Wyoming for which the number of head, weighted average price and weighted average weight are reported by the Agricultural Marketing Service of the USDA (USDA-AMS).

All direct trade reports shall be considered to be Friday transactions.

Multiple day sales, for which separate weighted average reports are not issued for each day or it is not evident from the reports issued what cattle sold on which day, shall be included in the sample as if all transactions occurred the final day of the sale.

Saturday and Sunday sales shall be included in the sample as if all transactions occurred on Monday.

Reports that are designated as "preliminary" shall not be included in the sample, and no transactions from that location shall be used until a final report is issued.

Cattle identified in the report as having predominantly dairy, exotic or Brahma breeding; shall be excluded from the sample. Transactions for cattle that are reported by USDA-AMS as having an origin outside of the United States shall be excluded from the sample. Direct trade, video sale, and Internet sale transactions must be quoted on an FOB basis, 3% standing shrink or equivalent, with pickup within 14 days to be included in the sample.

2. The Calculation

The procedure for calculating the CME Feeder Cattle Index™ is as follows:

- a. For each of the relevant weight/frame score categories in each report:
 - i. the number of head is multiplied by the corresponding weighted average weight to obtain the total pounds sold in that weight/frame score category for that report; and
 - ii. the number of head is multiplied by the corresponding weighted average weight, and the resulting product is then multiplied by the corresponding weighted average price, to obtain the total dollars sold in that weight/frame score category for that report.
- b. For each report:
 - i. the total pounds sold in the relevant weight/frame score categories (i.e., the results from 1.a., above) are aggregated to obtain the total pounds sold for that report; and
 - ii. the total dollars sold in the relevant weight/frame score categories (i.e., the results from 1.b., above) are aggregated to obtain the total dollars sold for that report.
- c. For all reports covering relevant transactions that occurred within the same seven calendar day period:
 - i. the total pounds (i.e., the results from 2.a., above) are aggregated to obtain the total pounds sold within the 12-state region during that seven calendar day period; and
 - ii. the total dollars (i.e., the results from 2.b., above) are aggregated to obtain the total dollars sold within the 12-state region during that seven calendar day period.
- d. The total dollars sold within the 12-state region during that seven calendar day period (i.e., the result from 3.b., above) is divided by the total pounds sold within the 12-state region during that

same seven calendar day period (i.e., the result from 3.a., above) to obtain the CME Feeder Cattle Index™.

Should USDA price reporting be unavailable during any portion of the final settlement pricing timeframe, CME may utilize data compiled from futures market activity during that corresponding pricing timeframe to calculate the final settlement price.

[Remainder of Chapter unchanged.]

Chapter 101 Live Cattle Futures

10103.

SETTLEMENT PROCEDURES

10103.A. Sources and Calculation of Adjustment Factors

Quality grade adjustments for all delivery units will make use of the live weight equivalent of the Choice-Select boxed beef spread calculated from information reported by USDA (in \$/cwt.) for the day of tender in the National Daily Boxed Beef Cutout and Boxed Beef Cuts – Negotiated Sales – Afternoon report. This is referred to hereafter as the Live Equivalent Choice-Select Spread (LECSS) and is computed by subtracting the “Selected Boxed Beef Cut-Out Value” from the “Choice Boxed Beef Cut-Out Value” and multiplying that result by 0.0063. If the USDA National Daily Boxed Beef Cutout and Boxed Beef Cuts – Negotiated Sales – Afternoon report for the day of tender is unavailable, the most recently issued report on or prior to the day a Certificate is tendered shall serve as the source of information for calculating the quality grade adjustments for all delivery units.

The USDA By-Product Drop Value report for the day of tender shall serve as the source of information for calculating the condemned liver factor used in carcass-graded deliveries. The condemned liver factor shall equal the reported liver value (in \$/cwt.) multiplied by -0.01. If the USDA By-Product Drop Value report for the day of tender is unavailable, the most recently issued report on or prior to the day a Certificate is tendered shall serve as the source of information for calculating the condemned liver factor used in carcass-graded deliveries.

In addition, quality grade, yield grade and carcass weight adjustments will make use of factors calculated from values reported by USDA (in \$/cwt.) in the 5-Area Weekly Weighted Average Direct Slaughter Cattle – Premiums and Discounts report. The Prime, Standard, Yield Grade 1, Yield Grade 2, Yield Grade 4, Yield Grade 5, 400-500 lbs., 500-550 lbs., 550-600 lbs., 900-1000 lbs., 1000-1050 lbs. and over 1050 lbs. factors are calculated by multiplying the reported weighted average for the corresponding category by 0.0063. If a quality grade or yield grade is broken into subcategories on this report, then the factor for that quality or yield grade shall be the simple average of all reported averages for the subcategories in that category multiplied by 0.0063. The most recently issued report on or prior to with respect to the day a Certificate is tendered shall be used to calculate the factors for that delivery unit. When a Certificate is tendered on the same day that a new report is issued that new report shall be used in factor calculation regardless of the time of day that the report is released.

The sub-Standard factor shall equal -25% of the tender day settlement price.

Should the USDA determine that an error exists in any of the reports used to calculate adjustment factors and subsequently issues a corrected report, that corrected report shall be used in place of the original.

[Remainder of Chapter unchanged.]