

## **Chapter 14L**

### **Options on KC HRW Wheat Futures**

#### **14L00. SCOPE OF CHAPTER**

This chapter is limited in application to put and call options on KC HRW Wheat futures contracts. In addition to the rules of this chapter, transactions in options on KC HRW Wheat futures shall be subject to the general rules 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.

#### **14L01. OPTIONS CHARACTERISTICS**

##### **14L01.A. Contract Months**

Options shall be listed for trading in the following months:

a. For options months in the ordinary cycle of the underlying futures contract (i.e., July, September, December, March and May), the number of months listed shall be the same as the underlying futures contract, provided, however, that a new option contract based on the ordinary cycle will be introduced the day after trading has commenced in the underlying futures pursuant to Rule 14L01.A.

b. For options months outside the ordinary cycle (i.e., August, October, November, January, February, April and June, hereinafter referred to as "serial" months), the number of months listed shall be established by the Exchange. However, no serial months shall be listed outside of the months listed pursuant to subsection (a) above.

c. Friday Weekly options expire on every Friday, except for those Fridays on which standard or serial options are scheduled to expire. A new weekly option will automatically be introduced the business day following the expiration of a weekly option so that three weekly options are always listed concurrently.

d. For short-dated new crop options, on the first trading day following the expiration of the September option, list at least 3 contract months: December, March, and May. A new listing cycle will begin on the first trading day following the expiration of the next September option.

For options that expire in the ordinary cycle (i.e., July, September, December, March and May), the underlying futures contract is the futures contract corresponding to the option expiration month. For serial options (options outside the ordinary cycle), the underlying futures contract is the next futures contract in the ordinary cycle nearest the option expiration month. For example, the underlying futures contract for an option contract expiring in October or November is the December futures contract. For weekly options, the underlying futures contract is the nearby futures contract. However, if the nearby futures are still trading but the standard option on that futures has expired, then weekly options expire into the second-listed futures contract. For short-dated new crop options, the underlying futures contract is the July futures contract that is nearest to the expiration of the options.

A new option based on a futures month within the ordinary cycle will be introduced the day after trading has commenced in the underlying futures contract for that contract month, (for example — if on February 1, the December futures contract had traded for the first time, then on February 2, an option month for the December futures contract is listed, having strike prices as specified in Rule 14L01.E). A new option based on a serial month (a month outside of the ordinary cycle) will automatically be introduced the day following the expiration of a serial month, so as to at all times have available for trading the number of serial months established by the Exchange for trading, (for example, if the Exchange has authorized the listing of three serial months, and those months currently traded are January, February and April, then the serial contract month of June will automatically be listed for trading the day following the expiration of the January contract month). A new weekly option will automatically be introduced the business day following the expiration of a weekly option so that three weekly options are always listed concurrently. Weekly options expire on every Friday, except for those Fridays on which standard or serial options are scheduled to expire. On the business day following the expiration of standard or serial options, no new weekly option will be introduced. For short-dated new crop options, on the first trading day following expiration of the September option, list at least 3 contract months: December, March, and May.

##### **14L01.B. Trading Unit**

The size of the unit of trading in the options contract shall be five thousand (5,000) bushels, the same size as the underlying futures contract.

#### **14L01.C. Minimum Fluctuations**

Bids and offers for options shall be measured and expressed in increments of one-eighth of one cent (1/8¢) per bushel. However, for options valued at less than one-eighth of one cent (1/8¢), the option premium may range from \$1.00 to \$6.00 in \$1.00 increments per option contract.

#### **14L01.D. Trading Hours**

The hours of trading for options on KC HRW Wheat futures contracts shall be determined by the Exchange. KC HRW Wheat futures options shall be opened and closed for all months and strike prices simultaneously or in such other manner as determined by the Exchange.

#### **14L01.E. Exercise and Exercise Prices**

Transactions and exercise of options shall be conducted for option contracts as set forth in the [Strike Price Listing and Exercise Procedures Table](#).

#### **14L01.F. Position Limits, Exemptions, Position Accountability and Reportable Levels**

The applicable position limits and/or accountability levels, in addition to the reportable levels, are set forth in the Position Limit, Position Accountability and Reportable Level Table in the Interpretations & Special Notices Section of Chapter 5.

A Person seeking an exemption from position limits for bona fide commercial purposes shall apply to the Market Regulation Department on forms provided by the Exchange, and the Market Regulation Department may grant qualified exemptions in its sole discretion.

Refer to Rule 559 for requirements concerning the aggregation of positions and allowable exemptions from the specified position limits.

#### **14L01.G. Reserved**

#### **14L01.H. Nature of Options on KC HRW Wheat Futures**

The "option premium" shall be the sum paid to the writer of a call option who agrees to deliver the underlying futures contracts against payment of the exercise price upon being assigned an exercise notice. The premium with respect to the writer of a put option is the sum paid to the writer of the put option who agrees to purchase the underlying futures contract on which the put is written at the exercise price upon being assigned an exercise notice. Both put options and call options may be written.

The Clearing House must receive from each of its Clearing Members, and each Clearing Member must receive from each other party for whom it clears commodity option transactions, and each FCM must receive from each of its option customers, the full amount of each option premium at the time the option is purchased, or within a reasonable time thereafter.

The strike price is the price at which a party may purchase or sell the underlying futures contract upon exercise of an option. The strike price will be determined in accordance with the following Rules.

#### **14L01.I. Termination of Trading**

a. For options months in the ordinary cycle; no trades in options expiring in the current month shall be made after the close of the electronic trading system on the last Friday which precedes by at least two (2) business days, the first notice day for the corresponding futures contract.

b. For serial options months (months outside the ordinary cycle); no trades shall be made after the close of the electronic trading session on the Friday which precedes by at least two (2) business days, the last business day of the calendar month immediately preceding the option serial month, (for example, for November serial options contracts, the last trading day is the Friday which precedes by at least two (2) business days, the last business day in October). If such Friday is not a business day, the last day of trading shall be the business day prior to such Friday. Unexercised options shall expire at 5:30 p.m. on the last day of trading.

c. For weekly options; no trades in weekly options shall be made after the close of the electronic trading system on the Friday such a weekly option expires. If such Friday is not a business day, the last day of trading shall be the business day prior to such Friday. Unexercised options shall expire at 5:30 p.m. on the last day of trading.

d. For short-dated new crop options, the last day of trading in any option for expiry in a given month shall be the last Friday which precedes by at least two business days the last business day of the calendar month preceding such option's named expiry month. If such Friday is not a business day, then the last day of trading in such option shall be the business day prior to such Friday. On their last day of trading, short-dated new crop options shall cease trading at the same time that its corresponding futures contract ceases trading. Unexercised options shall expire at 5:30 p.m. on the last day of trading.

#### **14L01.J. Settlement of Trades**

Trades made in put and call options shall be settled at the end of each day's trading. Positions in the underlying futures contracts as a result of the exercise of options shall be made by book entry in the books of the Clearing House.

#### **14L01.K. Deep-Out-Of-The-Money Options**

1. A deep out-of-the-money option is defined as an out-of-the-money option whose strike price is more than X strike prices distant from the strike price closest to the settlement price of the underlying futures contract, where X equals two (2) plus the number of calendar months remaining until option expiration;
2. However, the Exchange Board may impose additional criteria as appropriate;
3. No Permit Holder who is a FCM shall accept an order for a deep out-of-the-money option without providing the customer with an explanation of the nature and the risks of the option prior to the transaction.

#### **14L02. ASSIGNMENT**

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

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

The clearing member assigned an exercise notice shall be assigned a short position in the underlying futures contract if a call is exercised or a long position if a put is exercised. The clearing member representing the option buyer shall be assigned a long position in the underlying futures contract if a call is exercised and a short position if a put is exercised.

All such futures positions shall be assigned at a price equal to the exercise price of the option and shall be marked to market in accordance with Rule 814 on the trading day of acceptance by the Clearing House of the Exercise Notice.

#### **14L03. [RESERVED]**

#### **14L04. [RESERVED]**

#### **14L05. OPTION PREMIUM LIMITS**

There are no option premium limits during any day for options on KC HRW Wheat futures.

#### **14L06. PAYMENT OF OPTION PREMIUM**

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