



## Special Executive Report

S-7426

July 20, 2015

### Amendments to Settlement Rules for Live Cattle Futures

Effective Monday, August 3, 2015, and pending all relevant CFTC regulatory review periods, Chicago Mercantile Exchange Inc. ("CME" or "Exchange") will amend CME Rules 10103.A ("Sources and Calculation of Adjustment Factors") and 10103.C.5.e ("Quality Grade Deviations") in connection with cattle carcass grading for the Live Cattle futures contract (Rulebook chapter: 101; Clearing Code: LC; CME Globex Code: LE; CME ClearPort Code: 48). These amendments will be effective commencing with the August 2015 contract month and beyond.

These amendments allow Exchange rules to be consistent with Official United States Standards for Grades of Carcass Beef promulgated by the Secretary of Agriculture.

CME Rulebook  
Chapter 101  
Live Cattle  
(additions underscored; deletions ~~overstruck~~)

#### 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.

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.

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, ~~Hardbone, Dark-Cutter~~, 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 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.

## 10103.C Carcass Graded Deliveries

### 5. Par Delivery and Substitutions.

e. Quality Grade Deviations. Delivery units resulting in 55% USDA Choice grade carcasses and 45% USDA Select grade carcasses are deliverable at par. All gradeable carcasses in a delivery unit shall receive a quality grade adjustment computed from the factors described in Rule 10103.A. The Live Equivalent Choice-Select Spread (LECSS) and other factors are defined in Rule 10103.A. Per pound quality grade adjustments shall be as follows:

USDA Prime:  $+0.45 \times \text{LECSS} + \text{Prime factor}$  USDA Choice:  $+0.45 \times \text{LECSS}$  USDA Select:  $-0.55 \times \text{LECSS}$   
USDA Standard:  $+0.45 \times \text{LECSS} + \text{Standard factor}$  Below USDA Standard:  $+0.45 \times \text{LECSS} + \text{Standard factor} + \text{sub-Standard factor}$ .

Carcasses with hardbone or dark cutter characteristics shall be deliverable at per pound adjustments in accordance with USDA grading procedures and equal to the quality grade factors described in Section 10103.A.

Carcasses deemed ungradeable with respect to quality grade by the USDA shall receive a per pound quality grade discount equal to 25% of the settlement price. The per animal quality grade adjustment shall be calculated by multiplying the per pound quality grade adjustment by the average live weight of the delivery unit.

Questions regarding this Special Executive Report may be directed to Jack Cook, Director, Commodity Research & Product Development, at 312-930-3295, [Jack.Cook@cmegroup.com](mailto:Jack.Cook@cmegroup.com).

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