

03--008
NC 1
APPROVAL
REQUESTED

June 19, 2003

Ms. Jean A. Webb
Secretary
Commodity Futures Trading Commission
Three Lafayette Center
1155 21st Street, NW.
Washington, DC 20581

Reference File #2328.01
Request for Commission Rule Approval

Dear Ms. Webb:

- 40.5 (i) The following Request for Commission Rule Approval is submitted by the Chicago Board of Trade (CBOT[®]) pursuant to Section 5c(c) of the Commodity Exchange Act and Commission Regulation 40.5.
- 40.5 (ii) Regulation changes per the attached texts (additions underlined; deletions bracketed) for CBOT Rulebook Chapters 10, 10C, 10S, 10mC, 10mS, 10mW, 11, 12, 13, 29 through 33, 37 and 38.
- 40.5 (iii) The Board of Directors approved these regulation changes pursuant to the CBOT Charter, Article Seventh and the CBOT Bylaws, Article I, Section 2. The CBOT intends to implement these revisions concurrently with the transition of the applicable products to the CBOT/Chicago Mercantile Exchange (CME) Clearing Link.
- 40.5 (iv) In connection with the CBOT/CME Clearing Link, the referenced revisions will:
- Clarify, via new Regulations 1050.01 and 1054.01, the nature of any CME clearing guarantees that will apply to CBOT agricultural contract deliveries;
 - Change the time and date of agricultural option expirations from 10:00 a.m. on the Saturday following last trading day to 7:00 p.m. on last trading day; and
 - Update relevant terminology by replacing references to the "Clearing Corporation" and the "Clearing House" with the more generic term "Clearing Services Provider".

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- 40.5 (v) There were no substantive opposing views.
- 40.5 (vi) The CBOT has not identified any Commission regulations or sections of the Act which require interpretation or amendment in connection with this proposal.

Sincerely,

Paul J. Draths
Vice President and Secretary

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Additions are underlined; Deletions are [bracketed].

CHAPTER 10 GRAINS

1050.01 Failure to Deliver – If a clearing member fails to fulfill its delivery obligation, the non-defaulting clearing member must notify the Clearing Services Provider of such failure as soon as possible. If, and only if, the non-defaulting clearing member notifies the Clearing Services Provider of the failure no later than sixty minutes after the time the delivery obligation was required to have been fulfilled, then the Clearing Services Provider shall pay to the non-defaulting clearing member reasonable damages proximately caused by the default.

The Clearing Services Provider shall not be obligated to either: (1) pay any damages greater than the difference between the delivery price of the specific commodity and the reasonable market price of such commodity at the time delivery was required; or (2) make or accept delivery of the actual commodity; or (3) pay any damages relating to the accuracy, genuineness, completeness, or acceptableness of warehouse receipts, shipping certificates, or any similar documents; or (4) pay any damages relating to the failure or insolvency of banks, depositories, warehouses, shipping stations, or similar organizations or entities that may be involved with a delivery.

All delivery obligations of a clearing member to another clearing member, which are not fulfilled by the clearing member, shall be deemed an obligation of the defaulting clearing member to the Clearing Services Provider. These obligations must be fulfilled to the Clearing Services Provider within sixty minutes of the time the obligations were required to be fulfilled to the non-defaulting clearing member.

1054.01 Failure to Accept Delivery - If a clearing member fails to accept delivery, the seller tendering such delivery shall promptly sell the commodity for the account of the buyer. If the proceeds are insufficient to pay the seller the full delivery price, the clearing member failing to accept delivery shall be liable for the difference.

If a clearing member is unable or refuses to make full payment to the seller, the Clearing House shall bear the seller's loss in the first instance.

All delivery obligations of a clearing member to another clearing member, which are not fulfilled by the clearing member, shall be deemed an obligation of the defaulting clearing member to the Clearing Services Provider. These obligations must be fulfilled to the Clearing Services Provider within sixty minutes of the time the obligations were required to be fulfilled to the non-defaulting clearing member.

Failure to accept delivery or make full payment shall also constitute improper conduct.

CHAPTER 10C CORN FUTURES

C1050.02 Failure to Deliver – (See 1050.01)

C1054.01 Failure to Accept Delivery – (see 1054.00, [and] 1054.00A, and 1054.01)

**CHAPTER 10S
SOYBEAN FUTURES**

S1050.02 Failure to Deliver – (See 1050.01)

S1054.01 Failure to Accept Delivery – (see 1054.00, [and] 1054.00A, and 1054.01)

**CHAPTER 10MC
CBOT® MINI-SIZED CORN FUTURES**

mC1050.02 Failure to Deliver – (See C1050.02)

**CHAPTER 10MS
CBOT® MINI-SIZED SOYBEAN FUTURES**

mS1050.02 Failure to Deliver – (See S1050.02)

**CHAPTER 10MW
CBOT® MINI-SIZED WHEAT FUTURES**

mW1050.02 Failure to Deliver – (See 1050.01)

mW1054.01 Failure to Accept Delivery - (see 1054.00, [and] 1054.00A, and 1054.01)

**CHAPTER 11
SOYBEAN OIL**

1150.01 Failure to Deliver – (See 1050.01)

1154.01 Failure to Accept Delivery – (See 1054.01)

CHAPTER 12
SOYBEAN MEAL

1250.01 Failure to Deliver – (See 1050.01)

1254.01 Failure to Accept Delivery – (See 1054.01)

CHAPTER 13
OATS FUTURES OPTIONS

1307.01 Exercise of Option - The buyer of an Oats futures option may exercise the option on any business day prior to expiration by giving notice of exercise to the Clearing [Corporation] Services Provider by 6:00 p.m., or by such other time designated by the [Board of Directors] Exchange, on such day. [Notwithstanding the foregoing, the buyer may exercise the option prior to 10:00 a.m. on the expiration date:

- i) to correct errors or mistakes made in good faith;
- ii) to take appropriate action as the result of unreconciled Exchange option transactions;
 - iii) in exceptional cases involving a customer's inability to communicate to the member firm exercise instructions or the member firm's inability to receive such instructions prior to 6:00 p.m. on the last day of trading.]

1307.02 Automatic Exercise - Notwithstanding the provisions of Regulation 1307.01, after the close on the last day of trading, all in-the-money options shall be automatically exercised, unless notice to cancel automatic exercise is given to the Clearing [Corporation] Services Provider. Notice to cancel automatic exercise shall be given to the Clearing [Corporation] Services Provider by 6:00 p.m., or by such other time designated by the [Board of Directors] Exchange, on the last day of trading. [except that such notice may be given to the Clearing Corporation prior to 10:00 a.m. on the expiration date:

- i) to correct errors or mistakes made in good faith;
- ii) to take appropriate action as the result of unreconciled Exchange option transactions;
- iii) in exceptional cases involving a customer's inability to communicate to the member firm exercise instructions or the member firm's inability to receive such instructions prior to 6:00 p.m. on the last day of trading.]

1307.03 Corrections to Option Exercises - Corrections to option exercises, including automatic exercises, may be accepted by the Clearing Services Provider after the 6:00 p.m. deadline and up to the beginning of final option expiration processing provided that such corrections are necessary due to: (1) a bona fide clerical error, (2) an unreconciled Exchange option transaction(s), or (3) an extraordinary circumstance where the clearing firm and customer are unable to communicate final option exercise instructions prior to the deadline. The decision

whether a correction is acceptable will be made by the President of the Clearing Services Provider, or the President's designee, and such decision will be final.

1308.01 Expiration of Option - Unexercised Oats futures options shall expire at 7:00 p.m. [10:00 a.m.] on [the first Saturday following] the last day of trading.

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CHAPTER 29 SOYBEAN FUTURES OPTIONS

2907.01 Exercise of Option - The buyer of a Soybean futures option may exercise the option on any business day prior to expiration by giving notice of exercise to the Clearing [Corporation] Services Provider by 6:00 p.m., or by such other time designated by the [Board of Directors] Exchange, on such day. [Notwithstanding the foregoing, the buyer may exercise the option prior to 10:00 a.m. on the expiration date:

- i) to correct errors or mistakes made in good faith;
- ii) to take appropriate action as the result of unreconciled Exchange option transactions;
 - iii) in exceptional cases involving a customer's inability to communicate to the member firm exercise instructions or the member firm's inability to receive such instructions prior to 6:00 p.m. on the last day of trading.]

2907.02 Automatic Exercise - Notwithstanding the provisions of Regulation 2907.01, after the close on the last day of trading, all in-the-money options shall be automatically exercised, unless notice to cancel automatic exercise is given to the Clearing [Corporation] Services Provider. Notice to cancel automatic exercise shall be given to the Clearing [Corporation] Services Provider by 6:00 p.m., or by such other time designated by the [Board of Directors] Exchange, on the last day of trading. [except that such notice may be given to the Clearing Corporation prior to 10:00 a.m. on the expiration date:

- i) to correct errors or mistakes made in good faith;
- ii) to take appropriate action as the result of unreconciled Exchange option transactions;
- iii) in exceptional cases involving a customer's inability to communicate to the member firm exercise instructions or the member firm's inability to receive such instructions prior to 6:00 p.m. on the last day of trading.]

2907.03 Corrections to Option Exercises - Corrections to option exercises, including automatic exercises, may be accepted by the Clearing Services Provider after the 6:00 p.m. deadline and up to the beginning of final option expiration processing provided that such corrections are necessary due to: (1) a bona fide clerical error, (2) an unreconciled Exchange option transaction(s), or (3) an extraordinary circumstance where the clearing firm and customer are unable to communicate final option exercise instructions prior to the deadline. The decision whether a correction is acceptable will be made by the President of the Clearing Services Provider, or the President's designee, and such decision will be final.

2908.01 Expiration of Option - Unexercised Soybean futures options shall expire at 7:00 p.m. [10:00 a.m.] on [the first Saturday following] the last day of trading.

**CHAPTER 30
CORN FUTURES OPTIONS**

3007.01 Exercise of Option - The buyer of a Corn futures option may exercise the option on any business day prior to expiration by giving notice of exercise to the Clearing [Corporation] Services Provider by 6:00 p.m., or by such other time designated by the [Board of Directors] Exchange, on such day. [Notwithstanding the foregoing, the buyer may exercise the option prior to 10:00 a.m. on the expiration date:

- i) to correct errors or mistakes made in good faith;
- ii) to take appropriate action as the result of unreconciled Exchange option transactions;
- iii) in exceptional cases involving a customer's inability to communicate to the member firm exercise instructions or the member firm's inability to receive such instructions prior to 6:00 p.m. on the last day of trading.]

3007.02 Automatic Exercise - Notwithstanding the provisions of Regulation 3007.01, after the close on the last day of trading, all in-the-money options shall be automatically exercised, unless notice to cancel automatic exercise is given to the Clearing [Corporation] Services Provider. Notice to cancel automatic exercise shall be given to the Clearing [Corporation] Services Provider by 6:00 p.m., or by such other time designated by the [Board of Directors] Exchange, on the last day of trading. [except that such notice may be given to the Clearing Corporation prior to 10:00 a.m. on the expiration date:

- i) to correct errors or mistakes made in good faith;
- ii) to take appropriate action as the result of unreconciled Exchange option transactions;
- iii) in exceptional cases involving a customer's inability to communicate to the member firm exercise instructions or the member firm's inability to receive such instructions prior to 6:00 p.m. on the last day of trading.]

3007.03 Corrections to Option Exercises - Corrections to option exercises, including automatic exercises, may be accepted by the Clearing Services Provider after the 6:00 p.m. deadline and up to the beginning of final option expiration processing provided that such corrections are necessary due to: (1) a bona fide clerical error, (2) an unreconciled Exchange option transaction(s), or (3) an extraordinary circumstance where the clearing firm and customer are unable to communicate final option exercise instructions prior to the deadline. The decision whether a correction is acceptable will be made by the President of the Clearing Services Provider, or the President's designee, and such decision will be final.

3008.01 Expiration of Option - Unexercised Corn futures options shall expire at 7:00 p.m. [10:00 a.m.] on [the first Saturday following] the last day of trading.

CHAPTER 31 WHEAT FUTURES OPTIONS

3107.01 Exercise of Option - The buyer of a Wheat futures option may exercise the option on any business day prior to expiration by giving notice of exercise to the Clearing [Corporation] Services Provider by 6:00 p.m., or by such other time designated by the [Board of Directors] Exchange, on such day. [Notwithstanding the foregoing, the buyer may exercise the option prior to 10:00 a.m. on the expiration date:

- i) to correct errors or mistakes made in good faith;
- ii) to take appropriate action as the result of unreconciled Exchange option transactions;
- iii) in exceptional cases involving a customer's inability to communicate to the member firm exercise instructions or the member firm's inability to receive such instructions prior to 6:00 p.m. on the last day of trading.]

3107.02 Automatic Exercise - Notwithstanding the provisions of Regulation 3107.01, after the close on the last day of trading, all in-the-money options shall be automatically exercised, unless notice to cancel automatic exercise is given to the Clearing [Corporation] Services Provider. Notice to cancel automatic exercise shall be given to the Clearing [Corporation] Services Provider by 6:00 p.m., or by such other time designated by the [Board of Directors] Exchange, on the last day of trading. [,except that such notice may be given to the Clearing Corporation prior to 10:00 a.m. on the expiration date:

- i) to correct errors or mistakes made in good faith;
- ii) to take appropriate action as the result of unreconciled Exchange option transactions;
- iii) in exceptional cases involving a customer's inability to communicate to the member firm exercise instructions or the member firm's inability to receive such instructions prior to 6:00 p.m. on the last day of trading.]

3107.03 Corrections to Option Exercises - Corrections to option exercises, including automatic exercises, may be accepted by the Clearing Services Provider after the 6:00 p.m. deadline and up to the beginning of final option expiration processing provided that such corrections are necessary due to: (1) a bona fide clerical error, (2) an unreconciled Exchange option transaction(s), or (3) an extraordinary circumstance where the clearing firm and customer are unable to communicate final option exercise instructions prior to the deadline. The decision whether a correction is acceptable will be made by the President of the Clearing Services Provider, or the President's designee, and such decision will be final.

3108.01 Expiration of Option - Unexercised Wheat futures options shall expire at 7:00 p.m. [10:00 a.m.] on [the first Saturday following] the last day of trading.

CHAPTER 32 SOYBEAN OIL FUTURES OPTIONS

3207.01 Exercise of Option - The buyer of a Soybean Oil futures option may exercise the option on any business day prior to expiration by giving notice of exercise to the Clearing [Corporation] Services Provider by 6:00 p.m., or by such other time designated by the [Board of Directors] Exchange, on such day. [Notwithstanding the foregoing, the buyer may exercise the option prior to 10:00 a.m. on the expiration date:

- i) to correct errors or mistakes made in good faith;
- ii) to take appropriate action as the result of unreconciled Exchange option transactions;
- iii) in exceptional cases involving a customer's inability to communicate to the member firm exercise instructions or the member firm's inability to receive such instructions prior to 6:00 p.m. on the last day of trading.]

3207.02 Automatic Exercise - Notwithstanding the provisions of Regulation 3207.01, after the close on the last day of trading, all in-the-money options shall be automatically exercised, unless notice to cancel automatic exercise is given to the Clearing [Corporation] Services Provider. Notice to cancel automatic exercise shall be given to the Clearing [Corporation] Services Provider by 6:00 p.m., or by such other time designated by the [Board of Directors] Exchange, on the last day of trading. [except that such notice may be given to the Clearing Corporation prior to 10:00 a.m. on the expiration date:

- i) to correct errors or mistakes made in good faith;
- ii) to take appropriate action as the result of unreconciled Exchange option transactions;
- iii) in exceptional cases involving a customer's inability to communicate to the member firm exercise instructions or the member firm's inability to receive such instructions prior to 6:00 p.m. on the last day of trading.]

3207.03 Corrections to Option Exercises - Corrections to option exercises, including automatic exercises, may be accepted by the Clearing Services Provider after the 6:00 p.m. deadline and up to the beginning of final option expiration processing provided that such corrections are necessary due to: (1) a bona fide clerical error, (2) an unreconciled Exchange option transaction(s), or (3) an extraordinary circumstance where the clearing firm and customer are unable to communicate final option exercise instructions prior to the deadline. The decision whether a correction is acceptable will be made by the President of the Clearing Services Provider, or the President's designee, and such decision will be final.

3208.01 Expiration of Option - Unexercised Soybean Oil futures options shall expire at 7:00 p.m. [10:00 a.m.] on [the first Saturday following] the last day of trading.

CHAPTER 33 SOYBEAN MEAL FUTURES OPTIONS

3307.01 Exercise of Option - The buyer of a Soybean Meal futures option may exercise the option on any business day prior to expiration by giving notice of exercise to the Clearing [Corporation] Services Provider by 6:00 p.m., or at such other time designated by the [Board of

Directors] Exchange, on such day. [Notwithstanding the foregoing, the buyer may exercise the option prior to 10:00 a.m. on the expiration date:

- i) to correct errors or mistakes made in good faith;
- ii) to take appropriate action as the result of unreconciled Exchange option transactions;
- iii) in exceptional cases involving a customer's inability to communicate to the member firm exercise instructions or the member firm's inability to receive such instructions prior to 6:00 p.m. on the last day of trading.]

3307.02 Automatic Exercise - Notwithstanding the provisions of Regulation 3307.01, after the close on the last day of trading, all in-the-money options shall be automatically exercised, unless notice to cancel automatic exercise is given to the Clearing [Corporation] Services Provider. Notice to cancel automatic exercise shall be given to the Clearing [Corporation] Services Provider by 6:00 p.m., or at such other time designated by the [Board of Directors] Exchange, on the last day of trading. [,except that such notice may be given to the Clearing Corporation prior to 10:00 a.m. on the expiration date:

- i) to correct errors or mistakes made in good faith;
- ii) to take appropriate action as the result of unreconciled Exchange option transactions;
- iii) in exceptional cases involving a customer's inability to communicate to the member firm exercise instructions or the member firm's inability to receive such instructions prior to 6:00 p.m. on the last day of trading.]

3307.03 Corrections to Option Exercises - Corrections to option exercises, including automatic exercises, may be accepted by the Clearing Services Provider after the 6:00 p.m. deadline and up to the beginning of final option expiration processing provided that such corrections are necessary due to: (1) a bona fide clerical error, (2) an unreconciled Exchange option transaction(s), or (3) an extraordinary circumstance where the clearing firm and customer are unable to communicate final option exercise instructions prior to the deadline. The decision whether a correction is acceptable will be made by the President of the Clearing Services Provider, or the President's designee, and such decision will be final.

3308.01 Expiration of Option - Unexercised Soybean Meal futures options shall expire at 7:00 p.m. [10:00 a.m.] on [the first Saturday following] the last day of trading.

CHAPTER 37 CBOT ROUGH RICE FUTURES

3705.05 Failure to Deliver - A clearing member who has not tendered a Notice on or before 8:00 p.m., or by such other time designated by the Exchange, on the last day in a delivery month on which such notice is permitted shall be in default. Failure to make delivery shall constitute improper conduct. [In addition to the penalties provided under Exchange rules and regulations, the Exchange shall determine and assess the damages incurred by the buyer, taking into account the settlement price and such other factors as it may deem just.]

If a clearing member fails to fulfill its delivery obligation, the non-defaulting clearing member must notify the Clearing Services Provider of such failure as soon as possible. If, and only if, the non-defaulting clearing member notifies the Clearing Services Provider of the failure no later than sixty minutes after the time the delivery obligation was required to have been fulfilled, then the Clearing Services Provider shall pay to the non-defaulting clearing member reasonable damages proximately caused by the default.

The Clearing Services Provider shall not be obligated to either: (1) pay any damages greater than the difference between the delivery price of the specific commodity and the reasonable market price of such commodity at the time delivery was required; or (2) make or accept delivery of the actual commodity; or (3) pay any damages relating to the accuracy, genuineness, completeness, or acceptableness of warehouse receipts, shipping certificates, or any similar documents; or (4) pay any damages relating to the failure or insolvency of banks, depositories, warehouses, shipping stations, or similar organizations or entities that may be involved with a delivery.

All delivery obligations of a clearing member to another clearing member, which are not fulfilled by the clearing member, shall be deemed an obligation of the defaulting clearing member to the Clearing Services Provider. These obligations must be fulfilled to the Clearing Services Provider within sixty minutes of the time the obligations were required to be fulfilled to the non-defaulting clearing member.

3705.06 Failure To Accept Delivery -

[A.] If a clearing member fails to accept delivery, the seller tendering such delivery shall promptly sell the commodity [shall be sold] for the account of the buyer [by the Exchange]. If the proceeds are insufficient to pay the seller the full delivery price, the clearing member failing to accept delivery shall be liable for the difference.

[B.] If a clearing member is unable or refuses to make full payment to the seller, the Clearing House shall bear the seller's loss in the first instance.

All delivery obligations of a clearing member to another clearing member, which are not fulfilled by the clearing member, shall be deemed an obligation of the defaulting clearing member to the Clearing Services Provider. These obligations must be fulfilled to the Clearing Services Provider within sixty minutes of the time the obligations were required to be fulfilled to the non-defaulting clearing member.

[C.] Failure to accept delivery or make full payment shall also constitute improper conduct.

CHAPTER 38 CBOT ROUGH RICE OPTIONS

3802.01 Options Call

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D. Option Expiration - The contractual rights and obligations arising from the unexercised option contract expire at 7:00 p.m. [10:00 a.m.] on [the first Saturday following] the last trading day.

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3804.01 Option Exercise - An option holder intending to exercise shall present to the [c]Clearing [house] Services Provider, no later than 6:00 p.m., or by such other time designated by the [Board of Directors] Exchange, on any business day through and including the last trading day, on a form prescribed thereby, a notice of exercise.

The [c]Clearing [house] Services Provider shall assign such a notice promptly and at random to a clearing member carrying a short position in the option series. Said clearing member in turn shall assign such notice to accounts with an open short option position in a fair and non-preferred manner in accordance with written procedures. By the opening of the next trading session, in the case of a call option, the writer shall sell to the holder by book entry the underlying futures contract at the contracted striking price. In the case of a put option, the writer shall buy from the holder by book entry the underlying futures contract at the contracted striking price. Thenceforth, the writer and the holder assume the rights and obligations associated with their respective positions in the underlying futures contract.

[Notwithstanding the foregoing, the buyer may exercise the option prior to 10:00 a.m. on the expiration date:

- i) to correct errors or mistakes made in good faith;
- ii) to take appropriate action as the result of unreconciled Exchange option transactions;
- iii) in exceptional cases involving a customer's inability to communicate to the member firm exercise instructions or the member firm's inability to receive such instructions prior to 6:00 p.m. on the last day of trading.]

3806.01 Automatic Exercise - Notwithstanding the provisions of Regulation 3804.01, after the close on the last day of trading, all in-the-money options shall be automatically exercised, unless notice to cancel automatic exercise is given to the [c]Clearing [house] Services Provider. Notice to cancel automatic exercise shall be given to the [c]Clearing [house] Services Provider by 6:00 p.m., or by such other time designated by the [Board of Directors] Exchange, on the last day of trading. [except that such notice may be given to the Clearing Corporation prior to 10:00 a.m. on the expiration date:

- i) to correct errors or mistakes made in good faith;
- ii) to take appropriate action as the result of unreconciled Exchange option transactions;
- iii) in exceptional cases involving a customer's inability to communicate to the member firm exercise instructions or the member firm's inability to receive such instructions prior to 6:00 p.m. on the last day of trading.]

3807.01 Corrections to Option Exercises - Corrections to option exercises, including automatic exercises, may be accepted by the Clearing Services Provider after the 6:00 p.m.

deadline and up to the beginning of final option expiration processing provided that such corrections are necessary due to: (1) a bona fide clerical error, (2) an unreconciled Exchange option transaction(s), or (3) an extraordinary circumstance where the clearing firm and customer are unable to communicate final option exercise instructions prior to the deadline. The decision whether a correction is acceptable will be made by the President of the Clearing Services Provider, or the President's designee, and such decision will be final.