

Chapter 52A

Options on Milk Futures

52A00. SCOPE OF CHAPTER¹

This chapter is limited in application to trading in put and call options on the Milk futures contract. The procedures for trading, clearing and settlement and any other matters not specifically covered herein shall be governed by the rules of the Exchange.

52A01. OPTION CHARACTERISTICS

52A01.A. Contract Months and Trading Hours²

Options contracts shall be listed for such contract months and scheduled for trading during such hours as may be determined by the Board of Directors.

52A01.B. Trading Unit³

The trading unit shall be an option to buy, in the case of the call, or to sell, in the case of the put, one Milk futures contract as specified in Chapter 52.

52A01.C. Minimum Fluctuations

The price of an option shall be quoted in cents per hundredweight (cwt.). Minimum price fluctuations shall be in multiples of \$.01 per cwt. (also known as one tick). A trade may also occur at a price of \$.005 per cwt. (\$10.00, also known as one-half tick), whether or not it results in the liquidation of positions for both parties to the trade.

52A01.D. [Reserved]

52A01.E. Exercise Prices⁴

The exercise prices shall be stated in terms of dollars per cwt. For all contract months, exercise prices shall be at intervals of \$.25; e.g., \$11.75, \$12.00, \$12.25, etc.

At the commencement of option trading in a contract month, the Exchange shall list put and call options in a range of \$6 above and below the previous day's settlement price of the underlying futures contract.

When a sale, bid, offer, or settlement price in the underlying futures contract occurs at, or passes through an exercise price, the Exchange shall list on the next trading day put and call option contracts at the next higher (or next lower) exercise price within a \$6 range above (or below) the exercise price at which or through which the underlying futures sale, bid, offer, or settlement price occurred.

New options may be listed for trading up to and including the termination of trading.

The Board may modify the provisions governing the establishment of exercise prices as it deems appropriate.

52A01.F. Position Limits⁵

No person shall own or control a combination of options and underlying futures that exceeds: 1500 futures equivalent contracts net on the same side of the market in any contract month;

For the purpose of this rule, the futures equivalent of an option contract is 1 times the previous business day's IOM risk factor for the option series. Also for purposes of this rule, a long call option, a short put option, and a long underlying futures contract are on the same side of the market; similarly, a short call option, a long put option, and a short underlying futures contract are on the same side of the market.

52A01.G. Accumulation of Positions

The positions of all accounts owned or controlled by a person or persons acting in concert or in which such person or persons have a proprietary or beneficial interest, shall be cumulated. The Board may impose position limits for any such accounts as it deems appropriate.

¹ Revised March 2000.

² Revised December 2001.

³ Revised March 2000.

⁴ Revised December 2001, June 2008.

⁵ Revised June 2000, October 2001; July 2003.

52A01.H. Exemptions

The foregoing position limits shall not apply to commercially appropriate risk reducing option positions defined in accordance with Regulation 1.3(z)(1) of the CFTC and meeting the requirements of Rule 559 and shall not apply to other option positions exempted pursuant to Rule 559.

52A01.I. Termination of Trading

Options trading shall terminate on the same date and time as the underlying futures contract.

52A01.J. Contract Modification

Specifications shall be fixed as of the first day of trading of a contract except that all options must conform to government regulations in force at the time of exercise. If the U.S. government, an agency, or duly constituted body thereof issues an order, ruling, directive, or law inconsistent with these rules, such order, ruling, directive, or law shall be construed to become part of these rules and all open and new options contracts shall be subject to such government orders.

52A02. EXERCISE ⁶

In addition to the applicable procedures and requirements of Chapter 7, the following shall apply to the exercise of Milk options.

52A02.A. Exercise of Option by Buyer

An option may be exercised by the buyer on any business day the option is traded. Exercise of an option is accomplished by the clearing member representing the buyer presenting an Exercise Notice to the Clearing House by 7:00 p.m. on the day of exercise.

An option that is in the money⁷ and has not been liquidated or exercised prior to the termination of trading shall, in the absence of contrary instruction delivered to the Clearing House by 7:00 p.m. on the day following the expiration by the clearing member representing the option buyer, be exercised automatically.

Corrections to option exercises may be accepted by the Clearing House after the 7:00 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 House, or the President's designee, and such decision will be final.

52A02.B. Assignment

Exercise Notices accepted by the Clearing House shall be assigned through a process of random selection to clearing members with open short positions in the same areas. 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, but not later than 45 minutes prior to the opening of trading in the underlying futures contract on the following business day.

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

52A03. ACTS OF GOVERNMENT, ACTS OF GOD AND OTHER EMERGENCIES

(Refer to Rule 701. – ACTS OF GOVERNMENT, ACTS OF GOD AND OTHER EMERGENCIES)

52A04.-29. [RESERVED]

⁶ Revised March 2000.

⁷ An option is in the money if the final settlement price of the underlying futures contract lies above the exercise price in the case of a call, or lies below the exercise price in the case of a put.

FLEXIBLE MILK OPTIONS ⁸**52A30. SCOPE OF FLEXIBLE OPTION RULES**

Unless otherwise noted below, the following flexible option rules supersede the standard option regulations presented in the earlier part of the chapter.

52A31. FLEXIBLE OPTION CHARACTERISTICS**52A31.A. Nature of Flexible Contracts ⁹**

Flexible options on Milk futures shall be permitted in puts and calls that do not have the same underlying futures contract, and the same strike price, and the same exercise style, and the same expiration date as the standard listed options that are already available for trading.

Trading in standard options under certain flexible trading procedures shall be permitted prior to the listing of such options. Once and if these options are listed for trading as standard options, they will be traded only as standard options subject to the standard option trading requirements. Upon such listing, all existing open positions established under flexible procedures shall be fully fungible with transactions in the respective standard option series for all purposes under these regulations.

52A31.B. Trading Unit ¹⁰

The minimum size for requesting a quote and/or trading in a flexible option series is 10 contracts, where each contract represents an option to buy, in the case of a call, or to sell, in the case of a put, one Milk futures contract as specified in Chapter 52. However, parties may request a quote and/or trade for less than 10 contracts in order to entirely close out a position in a flexible series.

Respondents to a request for quote must be willing to trade at least 10 contracts. However, a respondent may trade less than 10 contracts if the respondent is entirely closing out a position in the series.

52A31.C. Minimum Fluctuations

(Refer to Rule 52A01.C.—Minimum Fluctuations)

52A31.D. Underlying Futures Contracts

The underlying futures contract for a flexible option shall be any Milk futures contract that is currently available for trading, as specified in Chapter 52.

52A31.E. Exercise Prices

Exercise prices shall be stated in terms of the Milk futures contract that is deliverable upon exercise of the option and may be at intervals of \$.05 per hundredweight for all levels from .05 to 1,000; e.g., 11.05, 11.10.

52A31.F. Position Limits

(Refer to Rule 52A01.F.—Position Limits)

52A31.G. Accumulation of Positions

(Refer to Rule 52A01.G.—Accumulation of Positions)

52A31.H. Exemptions

(Refer to Rule 52A01.H—Exemptions)

52A31.I. Termination of Trading

Flexible option expiration dates may be specified for any Exchange business day up to and including the last trading day of the underlying futures contract.

A new flexible option series may not be opened on its last day of trading. However, an existing flexible option series may be traded on its last day of trading.

52A31.J. Contract Modification

(Refer to Rule 52A01.J.—Contract Modification)

⁸ Effective June 1998.

⁹ Revised March 2000.

¹⁰ Revised March 2000.

52A32. EXERCISE ¹¹

In addition to the applicable procedures and requirements of Chapter 7, the following shall apply to the exercise of flexible options on Milk futures.

52A32.A. Exercise of Flexible Option by Buyer

Flexible options may be specified to have either American-style or European-style exercise.

A flexible option with American-style exercise may be exercised by the buyer on any business day that the option is traded and also on its expiration date. To exercise the option, the clearing member representing the buyer shall present an exercise notice to the Clearing House by 7:00 P.M. on the day of exercise.

A flexible option with European-style exercise may be exercised by the buyer only on the day that the option expires. To exercise the option, the clearing member representing the buyer shall present an exercise notice to the Clearing House by 7:00 P.M. on the day of exercise.

Any flexible option that is in the money and has not been liquidated or exercised prior to its expiration date shall, in the absence of contrary instructions delivered to the Clearing House by 7:00 P.M. on the day following the termination of trading by the clearing member representing the option buyer, be exercised automatically.

52A32.B. Assignment

(Refer to Rule 52A02.B.—Assignment)

52A33. ACTS OF GOVERNMENT, ACTS OF GOD AND OTHER EMERGENCIES

(Refer to Rule 701. – ACTS OF GOVERNMENT, ACTS OF GOD AND OTHER EMERGENCIES)

52A34. INITIATING A FLEXIBLE OPTION CONTRACT SERIES

For each trading session, the opening of trading in any flexible option series shall occur through a Request For Quote (RFQ). No RFQ's will be accepted prior to ten minutes after the daily scheduled opening time of the underlying futures. No RFQ's will be accepted within thirty minutes of the daily scheduled closing time of the underlying futures.

52A35. RESPONSE TIME INTERVAL

No trades against the first RFQ submitted for a flexible option series on any trading day may occur prior to the end of the Response Time Interval. The Response Time Interval shall be a 5 minute period and will begin immediately upon acceptance of an RFQ by the designated flexible option pit official. The designated flexible option pit official shall signal the end of the Response Time Interval for each RFQ.

52A36. RFQ TRADING INTERVAL

A flexible option series shall be immediately open for trading following the Response Time Interval. Priority for RFQ's is determined by order of submission to the RFQ official, except that all RFQ's submitted before the open shall be treated equally.

52A37. EXPIRATION OF AN RFQ

Trading in a given flexible option series following an RFQ shall remain open for the remainder of the trading session.

52A38. REPORTING OF FLEXIBLE OPTION TRADES

It shall be the responsibility of the participants in a flexible option trade to report the quantities and prices to the designated flexible option pit official in a timely manner, including any later trades in open flexible contract term series.

(End Chapter 52A)

¹¹ Revised March 2000.