

Chapter 201

Random Length Lumber Futures

20100. SCOPE OF CHAPTER

This chapter is limited in application to futures trading of "S-Dry" random length lumber. The procedures for trading, clearing, inspection, delivery, settlement and any other matters not specifically covered herein shall be governed by the Rules of the Exchange.

20101. COMMODITY SPECIFICATIONS ¹

Each delivery unit shall consist of nominal 2x4's of random lengths from 8 feet to 20 feet. Each delivery unit shall consist of and be grade stamped #1 or #2 AND BETTER. Each delivery unit shall be manufactured in California, Idaho, Montana, Nevada, Oregon, Washington, Wyoming, or Alberta or British Columbia, Canada, and contain lumber produced from and grade stamped Hem Fir (except that Hem-Fir shall not be deliverable if it is manufactured in Canada; nor that portion of Washington including and to the west of Whatcom, Skagit, Snohomish, King, Pierce, Lewis and Skamania counties; nor that portion of Oregon including and to the west of Multnomah, Clackamas, Marion, Linn, Lane, Douglas and Jackson counties; nor that portion of California west of Interstate Highway 5 nor south of US Highway 50), Englemann Spruce, Lodgepole Pine, Englemann Spruce/Lodgepole Pine and/or Spruce Pine Fir (except that Spruce-Pine-Fir shall not be deliverable if it is manufactured in those portions of Washington, Oregon and California that are noted above).

20102. FUTURES CALL

20102.A. Trading Schedule

Futures contract shall be scheduled for trading and delivery during such hours and in such months as may be determined by the Board.

20102.B. Trading Unit ²³

The unit of trading shall be 110,000 board feet.

20102.C. Price Increments

Minimum price fluctuations shall be in multiples of \$.10 per thousand board feet.

20102.D. Daily Price Limits ⁴

There shall be no price limit in the spot month.

There shall be a daily price limit of \$10.00 per thousand board feet above or below the previous day's settlement price.

If the contract nearest to expiration that is subject to a daily limit settles on the limit bid for two successive days or on the limit offer for two successive days, then the price limit shall be raised to \$15.00 per thousand board feet for all contracts subject to a daily limit.

If the contract nearest to expiration that is subject to a daily price limit of \$15.00 does not settle at a limit bid or limit offer, without regard to market direction, the price limits shall revert to \$10.00 per thousand board feet on the next business day.

20102.E. Position Limits ⁵

A person shall not own or control more than:

- 1,000 contracts long or short in any one contract month;
- 435 contracts long or short in the expiring contract month as of the close of business on the first business day of the contract month.

For positions involving options on Random Length Lumber futures, this rule is superseded by the option speculative position limit rule.

¹ Revised May 2001; June 2002.

² Revised May 1987; December 1990; July 1995; April 1999.

³ Revised May 1987; December 1990.

⁴ Revised October 1984; March 1993; March 1999; June 2001.

⁵ Revised July 1995; April 1999; October 1999; July 2005.

20102.F. Accumulation of Positions¹

For the purposes of this rule, the positions of all accounts directly or indirectly owned or controlled by a person or persons, and the positions of all accounts of a person or persons acting pursuant to an expressed or implied agreement or understanding, and the positions of all accounts in which a person or persons have a proprietary or beneficial interest, shall be cumulated.

20102.G. Exemptions²

The foregoing limits shall not apply to bona fide hedging positions meeting the requirements of Regulation 1.3(z)(1) of the CFTC and the Rules of the Exchange and shall not apply to other positions exempted pursuant to Rule 543.

20102.H. Termination of Trading

Trading shall terminate on the business day immediately preceding the 16th calendar day of the contract month.

20102.I. Contract Modifications

Specifications shall be fixed as of the first day of trading of a contract except that all deliveries must conform to government regulations in force at the time of delivery. If any federal agency issues an order, ruling, directive or law that conflicts with the requirements of these rules, such order, ruling, directive, or law shall be construed to take precedence and become part of these rules, and all open and new contracts shall be subject to such government orders.

20103. SETTLEMENT PROCEDURES

In addition to the procedures and requirements of Chapter 7, the following shall specifically apply to the delivery of random length lumber.

20103.A. [Reserved]**20103.B. Notice of Intent to Deliver**

Seller shall give his Notice of Intent to Deliver to the Clearing House prior to 12:00 noon (Chicago Time) on any business day after termination of trading in the contract month.

20103.C. [Reserved]**20103.D. Seller's Duties**³

If the buyer's designated destination is east of the western boundaries of North Dakota, South Dakota, Nebraska, Kansas, Texas and Oklahoma, and the western boundary of Manitoba, Canada, the seller shall follow the buyer's shipping instructions within seven (7) business days after receipt of such instructions. In addition, the seller shall prepay the actual freight charges and bill the buyer, through the Clearing House, the lowest published freight rate for 73-foot railcars from Prince George, British Columbia to the buyer's destination. If the lowest published freight rate from Prince George, British Columbia to buyer's destination is a rate per one hundred pounds, the seller shall bill the buyer on the weight basis of 1,650 pounds per thousand board feet.

If, however, the buyer's destination is outside of the aforementioned area, the seller shall follow the same procedures except that the seller shall have the right to change the point of origin and/or originating carrier within 2 business days after receipt of buyer's original shipping instructions. If a change of origin and/or originating carrier is made, the seller shall then follow the buyer's revised instructions within seven (7) business days after receipt of such instructions.

If the freight rate to the buyer's destination is not published, the freight charge shall be negotiated between the buyer and seller in accordance with industry practice.

If within two (2) business days of the receipt of the Notice of Intent the buyer has not designated a destination, or if during that time the buyer and seller fail to agree on a negotiated freight charge, the seller shall treat the destination as Chicago, Illinois. If the buyer does not designate a carrier or routing, the seller shall select same according to normal trade practices.

To complete delivery, the seller must deposit with the Clearing House a Delivery Notice, a uniform straight bill of lading (or a copy thereof) and written information specifying grade, a tally of pieces of each length, board feet by sizes and total board feet. The foregoing documents must be received

¹ Revised September 1986.

² Revised September 1988; September 2001.

³ Revised December 1999; July 1995; April 1999; December 2002.

by the Clearing House postmarked within fourteen (14) business days of the date of receipt of shipping instructions.

In addition, within one (1) business day after acceptance by the railroad, the Clearing House must receive information (via a telephone call, facsimile or electronic transmission) from the seller giving the car number, piece count by length, unit size, total board footage and date of acceptance.

If the seller fails to fulfill any of the aforementioned duties within the prescribed time, penalties will be assessed by the Clearing House Manager in accordance with the current penalty schedule.

20103.E. Buyer's Duties¹²

The clearing member assigned the Notice of Intent shall deposit with the Clearing House no later than 10:00 a.m. (Chicago time) on the following business day a certified or cashier's check in an amount equal to 110 times the settlement price on the last day of trading in the contract month.

The buyer shall, within two business days of receipt of the Notice of Intent, submit to the Clearing House shipping instructions, to include consignee, point of destination, and routing acceptable to the originating carrier. In the event of a change in the point of origin and/or originating carrier by the seller, the buyer shall submit to the Clearing House, within two business days of receipt of that change, revised instructions for routing acceptable to the originating carrier but may not change consignee nor point of destination.

20103.F. Payment³

Upon the seller's fulfillment of the delivery, the Clearing House shall transfer to him the amount due, payment to be made in U.S. dollars. Any government duties, fees and charges shall be the responsibility of the shipper. Title shall pass to the buyer at the shipping point upon acceptance by the railroad of the loaded railcar which is being shipped in satisfaction of the delivery.

20103.G. - H. [Reserved]

20104. PAR DELIVERY AND SUBSTITUTIONS

20104.A. Par Delivery⁴⁵

Delivery shall be made on track at the producing mill. The lumber shall be wrapped in paper, poly or their industry recognized equivalents and loaded on a flat car.

1. Size⁶

A delivery unit shall be 110,000 board feet of random length 2x4's, provided the tally is within the following limits:

<u>Length</u>	<u>Percent of Total Board Feet Delivered</u>
8'	3% to 10%
10'	5% to 12%
12'	10% to 20%
14'	10% to 24%
16'	35% to 60%
18'	0% to 15%
20'	0% to 15%
16' + 18' + 20'	45% to 60%

The lumber shall be double end trimmed, surfaced four sides, eased edge and of minimum dressed dimensions, as specified in Voluntary Product Standard 20-94, American Softwood Lumber Standard, published by the United States Department of Commerce, or any subsequent revisions (hereinafter referred to as PS 20).

¹ Revised February 1981; May 1987; December 1990; July 1995; April 1999.

² Revised February 1981; May 1987; December 1990; December 2002.

³ Revised July 1986; June 1987; July 1995.

⁴ Revised December 1990; July 1995.

⁵ Revised December 1990.

⁶ Revised May 1987; December 1990; November 1997; April 1999.

2. Packaging ¹

The lumber shall be unitized; that is, steel banded. In addition, all units shall contain lumber of equal lengths, except 18 foot and 20 foot lengths which may be banded together. The units shall be individually wrapped in paper, poly or their industry recognized equivalents.

3. Quality ²

The lumber shall meet the requirements of PS 20 and shall comply with the requirements for inspection and reinspection of an agency recognized by the American Lumber Standards committee and/or Canadian Lumber Standards Committee.

4. Moisture Content

The moisture content of each piece shall not exceed 19% as determined by moisture meter readings in accordance with the "Standard Method of Tests for Moisture Content of Wood," Section 9, Method B of the American Society for Testing Material Standard, D2016-65.

5. Marking

All pieces shall be grade marked with the registered symbol of an agency recognized by the American Lumber Standards Committee and/or Canadian Lumber Standard Committee. All pieces shall be marked with the mill name and/or association identification number, grade, seasoning and species according to the stamping requirements of the Certified Inspection Agency, and shall meet all other requirements of state and federal law.

20104.B. Variations in Quantity ³

Variations in quantity of the delivery unit between 105,000 and 115,000 board feet shall be permitted without penalty, but payment shall be made on the basis of the exact quantity delivered.

20104.C. - D. [Reserved]

20105. INSPECTIONS⁴

Inspection shall conform to PS 20 and any other requirements that may thereafter be promulgated under PS 20. Inspection service and compliance shall be subject to the customer lumber industry practice, as provided in PS 20.

In case of claim on grade, moisture content, tally or manufacture, the buyer shall demand reinspection through the Clearing House to an agency recognized by the American Lumber Standards Committee and/or Canadian Lumber Standards Committee as provided for under the rules of those organizations and PS 20. Findings of the reinspection shall be final and binding upon the buyer and seller.

20106. RESERVED

20107. ASSOCIATED COSTS

The costs of all original grading and marking, documentation and related service shall be borne by the seller. The cost of reinspection shall be assessed as provided by the agency performing reinspection.

The seller shall assume demurrage charges up to the date of shipment. The buyer shall be responsible for any demurrage and diversion charges after shipment. The buyer shall be entitled to one reconsignment.

20108. ACTS IF GOVERNMENT, ACTS OF GOD AND OTHER EMERGENCIES

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

(End Chapter 201)

¹ Revised December 1990.

² Revised November 1997.

³ Revised May 1987; December 1990; July 1995; April 1999.

⁴ Revised November 1997.

INTERPRETATIONS & SPECIAL NOTICES RELATING TO CHAPTER 201

CLARIFICATION OF TRANSFERS OF CASH FOR RANDOM LENGTH LUMBER FUTURES BEFORE AND AFTER TERMINATION OF CONTRACT

(Special Executive Reports S-2326, December 17, 1990; S-2766, February 22, 1994)

The cash merchandise transferred for Random Length Lumber futures after termination of trading may only be deliverable species dimension lumber with variances for grade/size and tally; provided, however, that the quantities transferred both before and after termination of trading are comparable to the quantities specified in the futures contract and provided further, that there is an unconditional transfer of title to the buyer of the cash and the seller of the futures contract evidenced by, at a minimum, payment for the cash merchandise.

The shipment or transfer of the cash merchandise should be delivered to a destination normally used by the buyer or one that is common to the cash market. The buyer must retain ownership of the transferred product for personal use or resale to his customers and may not resell the product either directly or indirectly to the original seller.

CLARIFICATION OF "PAYMENT TO BE MADE IN U.S. DOLLARS" IN RULE 20103.F.

(Special Executive Report S-1216, May 12, 1983. Amended December 1990; and in Special Executive Report S-2766, February 22, 1994)

The phrase "payment to be made in U.S. dollars" in Rule 20103.F. means that "the lowest published freight rate" referred to in Rule 20103.D. is denominated in U.S. dollars with no exchange rate adjustment. The seller may not, however, bill the buyer for any surcharge for prepayment in Canadian dollars.

CLARIFICATION OF "DELIVERY ON TRACK AT THE PRODUCING MILL" IN RULE 20104.A.

(Special Executive Report S-1216, May 12, 1983. Amended December 1990; July 1995; February 1997; July 1998)

"Delivery on track at the producing mill" means that the car must be loaded at the on-site siding of the producing mill or, if a mill normally uses an off-site location for rail loading because rail access does not exist, then a delivery unit may be loaded on track at that designated off-site location by the producing mill. The unit must be shipped on an original bill of lading and the mill number must be noted on the bill of lading. A single delivery unit must be delivered from the same mill. Mills are limited to one location for purposes of delivery and, if off-site, must receive approval of the site from the Exchange prior to making delivery from that location.

CLARIFICATION OF RULE 20103.D.

(Special Executive Report S-1216, May 12, 1983. Amended December 1990)

A. Diversion

Any additional freight charges resulting from diversion by the buyer in excess of the actual charges for shipment to the destination specified in the shipping instructions submitted to the Clearing House are the responsibility of the buyer. Any reduction in freight charges that may result from a diversion is not subject to billing adjustment through the Clearing House.

B. Date of Acceptance

The date of acceptance by the railroad as used in Rule 20103.D. is the date of the bill of lading, signed and/or stamped by the originating carrier, except when determined otherwise by the Clearing House.

"TALLY REQUIREMENTS" IN RULES 20103.D. and 20104.A.1.

(Special Executive Report S-1216, May 12, 1983. Amended December 1990)

The tally (i.e., "piece count by length") reported to the Clearing House by the seller must meet the specifications of Rule 20104.A.1. If the seller's actual tally does not meet the specifications of Rule 20104.A.1., the seller may adjust the reported tally, as described below, to bring the reported tally into conformance with these specifications. If the reported tally is adjusted to meet contract specifications, the seller must provide the Clearing House with both the actual tally and the adjusted tally.

If the Clearing House must adjust a seller's reported tally or if the reported tally does not agree with the actual tally (actual wood received), the seller shall be charged with fines/penalties described below.

If the reported tally cannot be adjusted to meet contract specifications, or if the actual tally does not meet specifications and cannot be adjusted to meet specifications, the delivery unit may be rejected by the buyer. The seller would then be required to reship and be fined/penalized in accordance with Section VI.A. described below.

Delivery units (actual and reported tally) may be adjusted to meet contract specifications by deleting one or more banded units or individual pieces from the delivery unit, as long as such deletion does not cause the balance of the lumber to become inconsistent with any other rule in the Random Length Lumber contract. If lumber is deleted from the delivery unit in order to meet tally specifications, the buyer shall retain title to such lumber but shall not be billed for either the lumber which is to be disregarded or for the freight associated with it. A seller may not meet contract specifications by "pencil trimming" of lengths (e.g., assuming that a 20' piece is only an 18' piece). In addition, if a seller cannot meet tally specifications by deleting banded units or individual pieces, or if he cannot meet total board footage specifications even though tally specifications are met, the seller will be required to ship another car and be subject to appropriate fines, penalties and/or damages.

PENALTIES AND FINES

(Special Executive Report S-1216, May 12, 1983. Amended December 1990; February 1999, December 2005)

	<u>Cause</u>	<u>Penalty / Fine</u>
A.	1. Materially incomplete or erroneous shipping instructions or material adjustment to instructions.	\$200 per business day (assessed against the buyer and payable to seller).
	2. Failure by the seller to properly follow shipping instructions within seven business days after receipt of instructions.	\$200 per business day (assessed against the seller and payable to buyer).
B.	Failure by the seller to telephone, telex or telegram the required information within one business day of railroad acceptance.	\$100 per business day (assessed against the seller; and payable to the buyer).

- (Independent of A.)
- C. Failure by the seller to mail the prescribed documents to the Clearing House within fourteen business days of receipt of buyer's shipping instructions. \$100 per business day (assessed against the seller and payable to the Clearing House).
- D. Materially incomplete or erroneous delivery forms or material adjustment to delivery forms. \$150 per car (assessed against the seller and payable to the Clearing House).

CLARIFICATION OF "LOWEST PUBLISHED FREIGHT RATE" IN RULE 20103.D.

(Special Executive Report S-2677, July 6, 1993)

The term "lowest published freight rate" as used in Rule 20103.D. refers only to the lowest published "general through rate" and not to rates published in any other rate class.

CLARIFICATION OF RULE 20104.A-PAR DELIVERY

(Special Executive Report S-3775, February 20, 2002)

Participants in the delivery process for Random Length Lumber futures are reminded that, in keeping with past policy and practice, all lumber delivered shall include only pieces produced directly from logs or mill run rough lumber, with no pre-sorting for grade prior to planing. Remanufactured pieces made from previously planed lumber are not acceptable for delivery.

CLARIFICATION OF "FREIGHT RATE" IN RULE 20103.D

(Special Executive Report S-4228, March 4, 2005)

Participants in the delivery process for Random Length Lumber futures are reminded that, in keeping with cash market practice and past Exchange policy, any applicable surcharges noted by the rail carrier shall be considered as part of the freight rate and can be billed to the buyer through the CME Clearing House.