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Special Executive Report

S-4026

November 24, 2003

REMINDER

AMENDMENTS TO LIVE CATTLE FUTURES EFFECTIVE WITH DECEMBER 2003 DELIVERIES

As you were previously notified in Special Executive Reports S-3901 dated January 13, 2003 and S-3906 dated January 24, 2003, a series of Live Cattle futures amendments will become effective beginning with the December 2003 contract month. These amendments:

1. Increase spot month position limits to 450 contracts for contracts *in the even month cycle only* between first notice day and the day before the last five business days of the contract month;
2. Introduce a new discount category for 950-1000 pound carcasses in carcass graded deliveries;
3. Increase the upper limits on deliverable live weights in live graded deliveries by 25 pounds, to an average weight of 1,350 pounds and an individual weight of 1,400 pounds;
4. Restore Guymon, Oklahoma and add Texhoma, Oklahoma as live graded delivery points;
5. Allow access to water in live graded deliveries except between grading and weighing;
6. Implement a uniform USDA live grading fee of \$100 per load at all delivery points;
7. Give the USDA grader discretion to impose penalties on delivering shorts and receiving longs in live graded deliveries if they delay or otherwise disrupt the delivery process; and
8. Prohibit live graded deliveries on certain days for certain locations at which deliveries would not be feasible due to auctions or other activities.

The amendments are noted below, with deletions bracketed and overstruck and additions underlined.

CHAPTER 101—LIVE CATTLE

10102. FUTURES CALL

E. Position Limits

1. For futures contracts in the even month cycle

No person shall own or control more than:

- a. 3,300 contracts long or short in any contract month;

- b. ~~450~~ [300] contracts long or short in the expiring contract month as of the close of business on the first business day following the first Friday of the contract month; [-]
- c. 300 contracts long or short in the expiring contract month as of the close of business on the business day immediately preceding the last five business days of the contract month.

(Remainder of Rule 10102.E. unchanged)

10103. SETTLEMENT PROCEDURES

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 report. This is referred to hereafter as the Live Equivalent Choice-Select Spread (LECSS) and is computed by subtracting the "Select Boxed Beef Cut-Out Value" from the "Choice Boxed Beef Cut-Out Value" and multiplying that result by 0.0063. Boxed Beef Cut-Out Values from the 600/750 pound category are used for live-graded delivery units with an average live weight less than 1,190 pounds and for carcass-graded delivery units with an average carcass weight less than 750 pounds. Boxed Beef Cut-Out Values from the 750/900 pound category are used for live-graded delivery units with an average live weight greater than or equal to 1,190 pounds and for carcass-graded delivery units with an average carcass weight greater than or equal to 750 pounds.

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 National Weekly Direct Slaughter Cattle – Premiums and Discounts report. The Prime, Standard, Yield Grade 1, Yield Grade 2, Yield Grade 4, Yield Grade 5, 550-600 lbs., ~~and~~ 900-950 lbs. and 950-1000 lbs. factors are calculated by multiplying the reported simple 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.

B. Live Graded Deliveries

4. Par Delivery and Substitutions.

- a. Par Delivery Unit. A par delivery unit is 40,000 pounds of USDA estimated Yield Grade 3, 55% Choice, 45% Select quality grade live steers, averaging between 1,100 pounds and ~~[1,325]~~ 1,350 pounds with no individual steer weighing more than 100 pounds above or below the average weight for the unit. No individual animal weighing less than 1,050 pounds or more than ~~[1,375]~~ 1,400 pounds shall be deliverable.

(Remainder of Rule 10103.B.4.a. unchanged)

- b. Weight Deviations. Steers weighing from 100 to 200 pounds over or under the average weight of the steers in the delivery unit shall be deliverable at a discount of 3¢ per pound provided that no individual animal weighing less than 1,050 pounds or more than ~~[1,375]~~ 1,400 pounds shall be deliverable. For purposes of computing such discount, the weight of the over or under weight animals shall be considered the same as the average weight per head of the delivered unit. Steers weighing more than 200 pounds over or under the average weight of the load are not acceptable. The judgment of the grader as to the number of such overweight or underweight cattle in the delivery unit shall be final and shall be so certified on the grading certificate.
- g. Delivery Points and Allowances. A par delivery of live beef cattle shall be made from approved livestock yards in Syracuse, Kansas; Tulia, Texas; Columbus, Nebraska; Dodge City, Kansas; Amarillo, Texas; Norfolk, Nebraska; North Platte, Nebraska; Ogallala, Nebraska; Pratt, Kansas; Guymon, Oklahoma; Texhoma, Oklahoma; and Clovis, New Mexico.

5. Procedures and Standards for Grading, Estimating Yield and Weighing.

- c. Weighing. Weighing shall be done within one hour following the completion of grading. The cattle must stand without feed ~~[or water from 9:00 a.m. on the day of delivery until weighing, unless both the buyer and seller agree that the cattle]~~ but shall receive water during the interval between 9:00 a.m. and grading. However, in no event shall the cattle receive feed or water during the interval between grading and weighing.

Weighing shall be done by the approved livestock yards company on officially approved scales and recorded on the official scale ticket or official weight sheets which shall show total net weight and number of head of cattle, lot number and/or pen number and the date weighed. After grading and weighing, the cattle shall be sealed in a holding pen.

7. Cost of Inspection, Weighing and Storage

All yardage costs, including driving of livestock, feeding, bedding, weighing, insurance and any other required services up to and including weighing shall be borne by the seller in accordance with the published rates as set forth in the tariff of the livestock yard. The seller shall also bear the costs of grading and documentation~~[-]~~, which will be established annually by the Exchange.

Any charges accruing after delivery by seller to the buyer's holding pen shall be borne by the buyer.

8. Penalties.

If, in the opinion of the USDA grader, the seller fails to present a load of cattle, or fails to present cattle which have been properly sorted prior to arrival at the delivery point stockyards and are suitable for delivery [deliverable cattle] on the date at the place specified in [his]the Certificate of Delivery, [he]the seller shall be penalized[. The penalties shall be \$.005] \$.015 per pound each business day [that a load of cattle is presented but fails to pass inspection] until proper delivery is made. [However, for each business day that the seller fails to present a load of cattle the USDA grader can inspect (according to the provisions of Rule 10103.B.5.b.) the penalty shall be \$.015 per pound.]

If, in the opinion of the USDA grader, the buyer or his agent delay, disrupt, or otherwise interfere with the delivery process in any manner, the buyer shall be penalized \$.015 per pound on each delivery unit delivered to the buyer.

In these and all other delivery matters, the determination of the USDA grader shall be final and binding on all parties.

C. Carcass Graded Deliveries

5. Par Delivery and Substitutions.

- b. Weight Deviations. Resulting carcasses weighing less than 550 pounds or more than ~~[950]~~1000 pounds shall be deliverable at a per pound discount of 20% of the settlement price. Resulting carcasses weighing more than or equal to 550 pounds but less than 600 pounds shall be deliverable at a per pound adjustment equal to the 550-600 lbs. factor described in Section 10103.A. Resulting carcasses weighing

more than 900 pounds but less than or equal to 950 pounds shall be deliverable at a per pound adjustment equal to the 900-950 lbs. factor described in Section 10103.A. Resulting carcasses weighing more than 950 pounds but less than or equal to 1000 pounds shall be deliverable at a per pound adjustment equal to the 950-1000 lbs. factor described in Section 10103.A. The per animal carcass weight adjustment shall equal the per pound adjustment multiplied by the average live weight of the delivery unit.

INTERPRETATION OF RULE 10104.A.—TENDERING A CERTIFICATE

The seller is responsible for determining, in advance of tendering a Certificate, if the delivery point stockyards will be able to accommodate a live-graded delivery on the sixth business day following the day of tender (fourth business day following the day of tender if tender is on or after the last trading day) should the buyer request one. If the buyer requests a live-graded delivery which the stockyards is unable to accommodate, then this will be deemed a failure by the seller to present a load of cattle for USDA inspection under Rule 10104.B.8. In addition, the Exchange may prohibit deliveries on certain days for certain locations at which it deems deliveries would not be feasible due to auctions or other activities.

If the buyer elects carcass grading, slaughter shall not occur prior to the second business day following the buyer's notification of the CME Clearing House. The buyer shall notify the Clearing House of the approved slaughter facility and slaughter day no later than 10:00 a.m. Chicago time, at least two business days prior to the slaughter day.

If you have any questions, please contact Mr. Paul Peterson, Director, Commodity Product Development, at 312-930-4587.