



Special Executive Report

S-7552

January 19, 2016

Amendments to Spot Call Butter Contract

Effective Sunday, January 31, 2016 for trade date Monday, February 1, 2016, Chicago Mercantile Exchange Inc. ("CME" or "Exchange") will amend the Spot Butter Call contract (Rulebook Chapter: 11; Trading Floor Code: Butter (AA)).

In addition to a USDA grading certificate, a Certificate of Analysis ("COA") will also be an acceptable document for deliverable loads of butter in the spot market. This amendment will allow more eligible loads of butter to be transacted in the spot market.

Butter sold with a COA will continue to meet the grading standards of a USDA Grade AA certificate. The rules will continue to allow buyer's to call for an inspection of the butter via a USDA grader or independent laboratory to certify that the butter is Grade AA or meets the specifications of the COA.

Also at this time, the Exchange is implementing other harmonizing amendments to the product chapter. The amendments appear below in blackline format.

The Commodity Futures Trading Commission ("CFTC") will be notified of the amendment during the week of February 8, 2016, via the weekly notification procedures set forth in Part 40 of the CFTC Regulations.

Additions to the rules have been underlined and deletions overstruck below.

CME Chapter 11 CME SPOT MARKET TRADING

1105. SPOT CALL BUTTER

1105.A. COMMODITY SPECIFICATIONS

Definitions

1. The "spot call" is the procedure for trading and delivering cash butter as more fully set forth in this chapter. ~~The day of sale is the day on which trading on the spot call is conducted.~~
2. Butter shall be salted butter that conforms to the definition of butter contained in 21 U.S.C. § 321a, is made entirely from sweet cream, and, if graded by USDA, would be certified Grade AA Butter.

23. A "carlot" consists of between 40,000 and 43,000 pounds, net weight, of salted butter in not more than three lots, none under 100 boxes, which may be manufactured by different plants. No carlot shall consist of more than three brand names. The butter must be uniform in color and salt. The butter must be manufactured on or before the date of sale.

34. "Certificate of Analysis" means a document certifying the following with respect to the butter being offered for sale: (a) the warehouse or plant location; (b) the storage lot, and if applicable, release number; (c) the number of boxes and the marked weight; (d) the date in storage; (e) that the butterfat content of the butter is equal to or greater than eighty (80) percent by weight of milkfat; (f) that the moisture content is less than or equal to eighteen (18) percent by weight; (g) that the salt content is not less than 1.2 percent nor more than two (2) percent by weight; (h) that the standard plate count is less than five thousand (5,000) per gram; (i) that coliforms are less than 10 per gram; and that the yeast and mold count is less than twenty (20) per gram.

5. "Fresh Butter" shall be butter that, on the day of sale, has been in cooler rooms or freezer rooms of approved plants for 15 calendar days or less, or cold storage warehouses for 24 calendar days or less from date of manufacture of the earliest churning in the carlot at temperatures not to exceed 45 degrees Fahrenheit.

46. "Storage Butter" shall be butter that, on the day of sale, has been in cold storage or an approved plant 25 calendar days or longer from the date of manufacture of the earliest churning in the carlot at temperatures not to exceed 45 degrees Fahrenheit. Commencing on the 30th calendar day after the date of manufacture of the earliest churning in the carlot, the butter shall be held at temperatures not to exceed 0 degrees Fahrenheit. Storage Butter may not be delivered if the day of sale is later than the 10th business day of the 12th month after the month of manufacture of the earliest churning in the carlot. Effective March 1, 2001, to be eligible for sale on or after March 1 of a given year, the butter shall not have been produced or stored prior to December 1 of the previous year.

7. The "day of sale" is the day on which trading on the spot call is conducted.

8. The "day of tender" is the first business day after the day of sale.

1105.B. SPOT CALL

Trading Schedule

Contracts shall be scheduled for trading and delivery during such hours and days as determined by CME Spot Market.

Price Fluctuations

The minimum price fluctuation shall be \$.0025 per pound.

The first posted bid (offer) of each trading session shall not be more than \$.01 higher (lower) than the last market price noted for the previous session. Subsequent bids (offers) that would establish or change the market price for the current session, or any responses to posted offers (bids) higher (lower) than the last market price, shall be made in price increments not to exceed \$.01 per pound from the last market price.

Posting Bids and Offerings

A spot load can only be sold in CME Spot Market when, at the time of offering, the seller has documented possession/ownership of a deliverable load.

Quantities Bid and Offered

An offer to sell or bid to buy more than one carlot may be accepted in part or in full.

Contract Modifications

All deliveries must conform to government regulations in force at time of delivery. If any federal governmental 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.

1105.C. SETTLEMENT PROCEDURES

Seller's Duties

1. The seller shall provide details about the butter, to the Clearing House by 3:00 p.m. (Chicago time) on the day of sale

The seller shall also, by 3:00 p.m. (Chicago time) on the day of sale, submit to the Clearing House the identity of the seller.

2. The seller shall make the butter available for shipment on the day of sale.

3. The seller shall, by 3:00 p.m. (Chicago time) on the day of tender, ~~which shall be the first business day after the day of sale,~~ deliver to the Clearing House the following:

- a) A tender notice.
 - b) A copy of the USDA grading certificate or a copy of the USDA worksheet indicating that the carlot grades USDA grade AA- Or a copy of the Certificate of Analysis that shows the results of the tests for butterfat, moisture content, standard plate count, coliform, yeast and mold, and salt. The seller ~~will~~ shall deliver to the buyer either the USDA grading certificate, or a copy of the USDA worksheet, or the Certificate of Analysis.
 - c) Any other documentation required by the Spot Call Market.
4. A keeping quality test shall not be necessary for delivery on the spot call. However, the seller of a carlot of Fresh Butter Grade AA ~~carlot~~ warrants that, should a 7-day 72 degree Fahrenheit keeping quality test be completed by the USDA within 14 calendar days of day of tender, the tendered carlot would pass such test. Failure to pass such test, if conducted within the prescribed period, shall result in replacement of the failed churnings by the seller and compensation to the buyer for expenses and losses, according to normal industry practices. If the seller elects to have USDA conduct such test ~~at the time of original inspection, favorable results therefrom shall be conclusive~~ the results shall be final and binding on both the buyer and the seller.
5. Sellers who submit late, materially incomplete or erroneous delivery forms or who cause material adjustments to delivery forms shall be fined \$200 per contract per day, payable to the buyer.

Buyer's Duties

1. The buyer shall, by 3:00 p.m. (Chicago time) on the day of sale, submit to the Clearing House the identity of the buyer.
2. The buyer shall, by 3:00 p.m. (Chicago time) on the day of tender, notify the Clearing House if the butter is to be inspected.
- ~~23.~~ The buyer shall be responsible for arranging and providing transportation for the butter.
- ~~24.~~ The buyer's clearing firm shall make payment by certified check or wire transfer of same day funds to the seller's clearing firm in the amount due as shown by the seller's tender notice by 3:00 p.m. (Chicago time) on the first business day after the day of tender.

Clearing House Responsibilities

The Clearing House shall make available an invoice that specifies the date and price of sale. The freight differential or discount, if any, shall be credited to the buyer on the invoice.

1105.D. DEVIATIONS AND ALLOWANCES

Discounts for Frozen and for Storage Butter

If the carlot tendered is ~~f~~fresh ~~b~~Butter located in a freezer room, it shall be discounted \$.005 per pound. If the carlot tendered is ~~s~~Storage ~~b~~Butter located in a cooler room, it shall be discounted \$.005 per pound. If the carlot tendered is ~~s~~Storage ~~b~~Butter located in a freezer room, it shall be discounted \$.01 per pound.

Discount for In-Plant Delivery

If the carlot tendered is located in a plant, it shall be discounted \$.03 per pound.

Weight

The delivered carlot may vary between 40,000 and 43,000 pounds in net weight. Payment shall be made on the basis of the exact weight delivered.

Delivery Points

Delivery may be made only from approved locations in the contiguous 48 states.

Par delivery of butter shall be made from approved warehouses or approved plants in Chicago. Deliveries made from approved warehouses or approved plants outside of Chicago shall be subject to a freight allowance determined by the CME Spot Market as follows: up to 400 miles outside Chicago with a discount of \$.0125 per pound; between 400 and 800 miles outside Chicago with a discount of \$.025 per pound; between 800 and 1200 miles outside Chicago with a discount of \$.0325 per pound; between 1200 and 1600 miles outside Chicago with a discount of \$.040 per pound; and beyond 1600 miles outside Chicago with a discount of \$.055 per pound. The allowance shall be figured on the net weight delivered plus a two pound per box tare.

1105.E. PACKAGING

Butter shall be packaged to conform to the packaging specifications of the Commodity Credit Corporation for bulk butter in force on the date of manufacture, as contained in "Announcement DAIRY-7, Purchase of Bulk Dairy Products", as amended, or in such other document or announcement as may supersede this publication. In addition, each carlot shall contain only one type and marked weight of box 25 kilograms or 68

pounds net capacity; all the boxes in a churning shall be consecutively numbered; the butter in each box shall be one solid piece and no bulging or misshapen boxes shall be permitted.

1105.F. INSPECTION

Buyer may require that seller obtain an inspection for grade of the butter before it is shipped. Such inspection for grade shall occur prior to shipment at seller's facilities or at a warehouse near the seller's facilities. Inspection for grade shall include completion of keeping quality test, and may be performed either by a USDA grader or by an independent laboratory chosen or agreed to by the buyer. The results of such grading shall be final and binding on both parties.

If buyer requires that the butter be inspected for grade, the following deadlines shall apply:

1. Buyer shall pay 90% of the amount invoiced within three (3) business days after the day of invoice, and the balance when inspection is complete.
2. Seller shall contact USDA grading service or the independent laboratory within one (1) business day of buyer's demand and shall arrange for the inspection for grade. Seller shall notify buyer and Clearing House of the date on which the inspection for grading is scheduled to occur.
3. If the butter fails inspection for grade:
 - a. Seller shall make a replacement load available for pick-up not later than three (3) business days after USDA or independent laboratory discloses the results of the inspection for grade.
 - b. Buyer shall pick up the replacement load not later than three (3) business days after the load is made available by the seller; and
 - c. Buyer shall send documentation of replacement and pick-up to the Clearing House within two (2) business days after pick-up.

The costs of all inspections, documentation and related services performed by USDA grading services or by the independent laboratory, the costs of CME Spot market documentation, and the costs of any related services, such as repackaging after inspection, shall be borne by the buyer if USDA certifies the butter Grade AA, or if the independent laboratory certifies that the butter meets the standards in seller's Certificate of Analysis; or by the seller, if USDA or inspection service, whichever has been chosen, does not certify.

If the buyer inspects and accepts the butter or waives inspection, the buyer cannot therefore dispute the grade of the butter delivered.

Any butter in dispute shall be properly stored by the person having possession.

A USDA grading certificate shall not be valid for delivery if the butter has been moved from the location indicated on the certificate. The USDA grading certificate shall indicate state(s) of manufacture. Sample containers shall be drawn randomly in conformance with DA Instruction 918 00 of the Dairy Division, Agricultural Marketing Service (AMS), USDA, or in such other document or announcement as may supersede this publication.

1105.G. GRADING-DELIVERY PROCEDURES

~~The buyer shall have the right to call for one USDA grading of the carlot at the buyer's destination, either by a USDA grader or by an independent laboratory. Following notification by the buyer, the Clearing House shall within one (1) business day, promptly request the USDA or independent laboratory to conduct the grading at the buyer's destination and notify the seller. Grading at destination shall be completed within 16 calendar days of the day of tender, including completion of a keeping quality test.~~

~~Failure of any churning to meet all the requirements of this Section shall result in replacement of, or reimbursement for, the failed churnings by the seller and compensation to the buyer for expenses, or reimbursement to the buyer of the entire contract price, and losses. Establishment of losses shall be based on the closing prices of the most recent spot call.~~

~~Any claim regarding performance by the buyer or seller of the Rules of this Section shall be reporting to the Clearing House within ten (10) calendar days of delivery.~~

Proper Handling by the Seller

The seller shall be responsible for loading according to industry practice. The bill of lading shall be prepared by the seller and shall provide instructions regarding trailer precooling and temperature maintenance during transit. In addition, the bill of lading shall state the time of completion of loading and shall be signed by the seller and the driver, with the seller retaining one copy and the driver three copies. The seller and the driver shall jointly seal the truck promptly upon completion of loading. The buyer may, at his option, request check loading by the USDA at origin.

Proper Handling by the Buyer

The buyer shall be accountable for proper handling during transit and storage until the conclusion of the

grading at destination and appeal grading, if any.

In particular, the truck shall be a properly refrigerated vehicle and shall be cooled prior to loading to a temperature not to exceed 45 degrees Fahrenheit if the butter is fresh and to a temperature not to exceed 0 degrees Fahrenheit if the butter is frozen.

The bill of lading shall state that the truck was properly pre-cooled and that the applicable temperature was maintained throughout transit. Transit time between origin and destination, as evidenced by ICC logs, shall be normal for the weather and other conditions prevailing. Upon arrival at destination, the buyer and the driver shall jointly unseal the truck. The seller may, at his option, request check loading by the USDA at destination.

The driver's copies of the bill of lading shall be endorsed by both the driver and the buyer upon arrival stating the time of arrival at destination, the time unloading commenced and the time unloading was completed. The buyer shall indicate the condition of the butter upon arrival at destination on the bill of lading and the driver shall indicate the place of unloading (i.e. dock, cooler or freezer). The buyer shall keep one copy, the driver one copy and one copy shall be sent by the buyer to the Clearing House.

The buyer shall be able to produce evidence in the form of affidavits that unloading into proper refrigerated storage with temperatures prevailing as above was prompt and according to normal industry practice. The buyer shall be able to produce evidence in the form of affidavits that storage thereafter until completion of grading at destination and appeal grading, if any, was within applicable temperatures as above and in all other ways conformed to normal industry practice.

Failure by the buyer to meet the conditions of Rule 1105.G shall result in forfeiture of the right to compensation for expenses and losses.

Appeal Grading

Following grading at destination, the Clearing House shall promptly inform the seller of the results. A request may then be made by the seller for appeal grading. Requests for such appeal must be presented to the Clearing House no later than 11:00 a.m. Chicago time, one business day after notification to the seller of the results of the grading at destination.

Appeal grading shall be conducted by a grader(s) assigned by the Regional Director of Dairy Inspection and Grading, AMS, USDA. Applications for appeal grading will be accepted or rejected in accordance with AMS regulations. The results of the appeal grading shall be final.

Revocation of Plant Approval

If upon valid grading at destination according to these Rules, portions of three or more carlots from the same manufacturing plant grade lower than USDA Grade AA within a single 12 month period, then the delivery approval of the plant may be revoked. Any butter originating in such plant after the date of such revocation and put into storage shall also be ineligible for delivery on the spot call.

1105.H. ASSOCIATED COSTS

Delivery from Warehouse

The seller shall assume storage charges until 5:00 p.m. on the third business day after the date of tender. The buyer shall be responsible for charges for the remainder of the storage month. The buyer's share shall be computed by dividing the prevailing monthly storage rate by 30, raising the quotient to the nearest five cents and multiplying by the number of days remaining until the next expiration date (all months figured as 30 days). Storage charges shall be paid in advance by the seller and the pro rata share due from the buyer shall be added to and shown on the tender notice. All charges for handling prior to the date of tender shall be borne by the seller. All charges incurred thereafter shall be borne by the buyer.

Delivery from Plant

If the buyer does not remove the butter from the plant of the seller on or before 3:00 p.m. local time on the third business day after the day of tender, the buyer shall be obligated to pay \$.005 per pound for each calendar day subsequent thereto, up to and including the day the butter is removed. The seller must within two business days after removal of the butter invoice such amounts to the buyer and send a copy of such invoice to CME Spot Market. The buyer shall make payment through CME Spot Market.

The original manufacturing plant can only deliver the carlot from its plant. If that carlot is to be resold on CME Spot Market it must be moved to an approved warehouse before it can be sold.

Costs of Inspection

~~The costs of all examinations, documentation and related services performed by the USDA grader and the costs of CME Spot Market documentation and related services, such as repackaging after examination, shall be borne by the seller.~~

Costs of Grading and Appeal Grading

The costs of all examinations, documentation and related services performed by the USDA grader for grading at destination and appeal grading, if any, and the costs of CME Spot Market documentation and related services, such as repackaging after examination, shall be borne by the buyer if the original grade for each churning is upheld, and by the seller if it is not.

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