

Chapter 13

Financial Requirements

All Members

1300.00	Financial And Reporting Requirements.....	1302
1301.00†	Guaranty Of Futures Trades.....	1302
1301.01	Withdrawal Of Guaranty.....	1302

Futures Commission Merchant Members

1305.00	Financial Reports.....	1302
1306.00	Minimum Financial Requirements.....	1302

Non-Futures Commission Merchant Members

1310.00	Financial Statement.....	1302
1310.01	Annual Financial Statement.....	1303
1310.02	Additional Financial Statement.....	1303
1310.03	Certification.....	1303
1310.04	Further Financial Information.....	1303
1310.05	Extension Of Time To File.....	1303
1311.00	Notice Of Net Worth Reduction.....	1303

Insolvency; Failure To Pay Obligations

1320.00	Finance Committee; Threat Of Insolvency.....	1303
1321.00	Complaint.....	1303
1322.00	Notice Of Insolvency By Member.....	1304
1323.00	Knowledge Of Insolvency By Member.....	1304
1324.00	Business Conduct Committee Action.....	1304
1325.00	Hearing.....	1304
1326.00	Member's Duties On Suspension.....	1304
1327.00	Closing Contracts.....	1304
1328.00	Suspended Member Subject To Discipline.....	1305

Resolutions

RES 13-1301.00-1	Futures Pit Traders' and Brokers' Financial Guidelines (Non-FCM, Non-Clearing Members & Non-Grain Merchants)	
------------------	---	--

Form

Primary Clearing Member Authorization

Chapter 13

Financial Requirements

All Members

1300.00 Financial and Reporting Requirements. Financial requirements for all members shall be established based on recommendations of the Finance Committee and approved by the Board of Directors, provided that such requirements for futures commission merchants must be the same as, or more stringent than, those adopted by the regulations of the CFTC, and provided further, that such requirements as approved by the Board of Directors, are approved by the CFTC. When used in this rule, the word "member" refers to the business unit guaranteeing and represented by a member, whether an employee, officer or partner, and also refers to an individual member who is doing business as a sole proprietor.

Note: The financial and reporting requirements do not apply to those non-futures commission merchant members whose trades are guaranteed by another member; in that event these rules apply to the guarantor. See Rules 1301.00† and 1310.00.

1301.00† Guaranty Of Futures Trades. A guaranty of trades protects the other side of a futures trade made in the pit by a guaranteed member until the trade has been accepted for clearing. At that point the trade becomes the responsibility of the clearing member accepting the trade. Usually such clearing member will also be the guarantor, but this may not be the case. Trades made by a guaranteed member at another futures market are not covered by such guaranty (as adopted by Board of Directors' Resolution, June 29, 1976).

1301.01 Withdrawal Of Guaranty. Except as otherwise provided in these rules, privileges accorded a member shall terminate when the member's guaranty of trades is withdrawn by such member's guarantor.

Futures Commission Merchant Members

1305.00 Financial Reports. Futures commission merchant members must furnish the Exchange the reports as set forth in Regulation Section 1.10 of the Commodity Futures Trading Commission Regulations, except however, as provided in Regulation Section 1.52. The Finance Committee may, in its discretion, require such additional reporting requirements as the Committee deems necessary.

1306.00 Minimum Financial Requirements. Regulation Section 1.17 of the Commodity Futures Trading Commission is adopted by the Exchange for its minimum financial requirements. The Finance Committee may, in its discretion, require such additional financial requirements as the Committee deems necessary.

Non-Futures Commission Merchant Members

1310.00 Financial Statement. All non-futures commission merchant members shall submit to the exchange an annual financial statement, and at least one (1) additional financial statement during the following fiscal year, in such form as the Finance Committee may prescribe. All financial statements must be submitted in a manner acceptable to

the KCBT. The Finance Committee may, in its discretion, require lesser or no financial information from members whose trades are guaranteed by another member filing financial statements and/or from inactive members who conduct no cash grain and/or futures business. However, if inactive members are not filing financial statements as described above, they may not transact any such business until they file the appropriate statement and meet applicable standards.

1310.1 Annual Financial Statement. The annual financial statement shall be submitted to the Exchange on or before one hundred twenty (120) days after the end of the business year. Such annual statement shall be based on an examination made by and be accompanied by an opinion of an independent certified public accountant.

1310.2 Additional Financial Statement. The additional financial statement shall be as of a date six (6) months subsequent to the end of the business year. Such additional statement shall be submitted within ninety (90) days from the date of the additional financial statement.

1310.3 Certification. The annual statement and the additional financial statement shall be certified by an officer, partner, or sole owner of the firm.

1310.4 Further Financial Information. The Finance Committee can require additional financial statements as are necessary.

1310.5 Extension Of Time To File. Upon request, for good cause shown, the Finance Committee can extend the time for the filing of an annual or additional financial statement.

1311.00 Notice Of Net Worth Reduction. Non-futures commission merchant members must immediately notify the Finance Committee of any material reduction of net worth, including in such reduction the incurring of a contingent liability which would materially affect capital should such liability become fixed. A reduction in net worth of twenty percent (20%) or more shall be deemed "material". Such notice must be in writing and signed by an executive of the member, firm, or corporation, or by a member representing such firm or corporation. Failure to give such notice shall be considered an act detrimental to the interest and welfare of the KCBT.

Insolvency; Failure To Pay Obligations

1320.00 Finance Committee; Threat Of Insolvency. When the Finance Committee, from a preliminary investigation or otherwise, has reason to suspect that any member is threatened with insolvency, it shall cooperate with such member, in any feasible manner not contrary to the rules and regulations to save such member from open and judicial bankruptcy. When this is not practicable, the Committee shall then take such other action as will in its judgment assist in securing a prompt, efficient, and economical administration of the member's assets for the bankrupt, as well as for the members of the Board of Trade and the customers of such bankrupt who are creditors. Nothing herein, however, shall authorize such Committee to bind the KCBT to any precuniary obligation.

1321.00 Complaint. Where a member fails or refuses to perform a KCBT contract with or pay obligations arising out of such contracts to another member, the defaulting member, on complaint to the Business Conduct Committee by the other member, shall be suspended, after hearing in accordance with Chapter 14, until the contract is performed or the debt is satisfied. Registered firms and corporations shall be deemed members under this rule. If

the member alleged to be in default denies the default, such member shall be entitled to have the claim arbitrated. If the claim is admitted or established by final arbitration award, the defaulting member shall be suspended until such member has satisfied and discharged all debts owing to members on Exchange contracts. Application for reinstatement shall allege, under oath, that all such debts have been discharged, and notice of such application shall be posted on the bulletin board fifteen (15) business days prior to the hearing of such application.

1322.00 Notice Of Insolvency By Member. A member who fails to perform contracts or is insolvent, or who is a partner in a member firm or who is registered for a corporation, which fails to perform its contracts or is insolvent, shall immediately inform the Secretary in writing that the member, firm, or corporation is unable to meet its engagements, and prompt notice thereof shall be given to the stockholders. The member shall thereby become suspended from membership until, after having settled with the member's, the firm's, or corporation's creditors, such member has been reinstated by the Board of Directors, with the approval of the Business Conduct Committee.

1323.00 Knowledge Of Insolvency By Member. When any member knowing themselves, the firm in which the member is a partner, or the corporation of which the member is an executive officer, to be in an insolvent condition shall make any contract on such member's own account or on account of such firm or corporation, the member shall be suspended or expelled at the discretion of the Business Conduct Committee; or, when any member knowing themselves, the firm in which the member is a partner, or the corporation of which the member is an executive officer, to be in an insolvent condition shall accept on such member's own account, or on account of any such firm or corporation, any money, security, or securities as margins from any customer on any trade(s) made under the rules of the KCBT, such member shall be suspended or expelled at the discretion of the Business Conduct Committee.

1324.00 Business Conduct Committee Action. Whenever the Business Conduct Committee has been advised by the Finance Committee or by the Board of Directors of the Clearing Corporation that a member, firm, or corporation is in such financial condition that such member, firm, or corporation cannot be permitted to continue in business with safety to such member's or entity's creditors or to the KCBT, the Business Conduct Committee may announce the suspension of such member, firm, or corporation.

1325.00 Hearing. A hearing before the Business Conduct Committee pursuant to Chapter 14 shall be conducted prior to the suspension or other disciplinary action set forth by Rules 1320.00, 1321.00, 1322.00, 1323.00, and 1324.00, unless immediate action is necessary to protect the best interest of the marketplace. In that event, a hearing shall be permitted subsequent to the suspension in accordance with Chapter 14. The suspension announced shall continue until the member has been reinstated as provided in Rules 192.00-197.00.

1326.00 Member's Duties On Suspension. Every member suspended under the provisions of this Chapter shall immediately afford every facility required by the Business Conduct Committee for the investigation of the member's affairs, and shall, after the announcement of the suspension, file with the Secretary a written statement covering all information required by the Business Conduct Committee, including a complete list of such member's creditors and the amount owing to each.

1327.00 Closing Contracts. When announcement is made of a suspension of a member, firm, or corporation pursuant to the rules, members having KCBT contracts with the member, firm, or corporation may proceed to close the same on the KCBT or in the best available market, except insofar as the By-laws and resolutions of the Clearing Corporation are applicable and provide the method of closing. Should a contract not be closed, as above provided, the price of settlement shall be fixed by the Board of Directors.

1328.00 Suspended Member Subject To Discipline. A member suspended under the provisions of these rules may be proceeded against by the Business Conduct Committee for any offense committed by such member either before or after the announcement of suspension, in all respects as if such member were not under suspension.

Resolutions

RES 13-1301.00-1 Futures Pit Traders' and Brokers' Financial Guidelines (Non-FCM, Non-Clearing Members & Non-Grain Merchants)

- A. **Minimum Financial Requirements for Futures Pit Traders and Brokers** — Such members may meet financial requirements by either (1) filing a certified financial statement which sets forth working capital and net worth of \$25,000 respectively; or, (2) obtain a guarantee from a clearing member (who is meeting financial requirements by filing certified financial statements).
- B. **Clearing Guarantee** — Such member must also have written authority from a Futures Commission Merchant clearing member that all of such member's trades will be accepted for clearing until further notice.* This FCM then becomes such member's primary clearing member. Such FCM may withdraw this authority at any time by delivering three (3) copies of such withdrawal notice to the office of the KCBT. One copy will be retained by the KCBT and placed in the member's file, one (1) copy returned to the FCM and one (1) copy delivered to the member. The latter two (2) copies will be dated, timed, and signed by a representative of the Secretary's office acknowledging receipt therefor. A list of each floor trader and their primary clearing member will be posted on the trading floor.
- C. **Other Clearing Members** — The primary clearing member is not responsible for trades of such member cleared with any other clearing member unless the primary clearing member has agreed in writing to be responsible.
- D. **Brokers** — In the event of an error by a broker, resulting in a loss for which he/she is responsible, the liability shall be: First, the pit broker who made the error. Next, the guarantor, up to a maximum of \$25,000. Next, the broker's direct customer.
- E. **Losses** — Shall be paid by 4:00 P.M. local time of the business day following the day on which the transaction giving rise to the loss was made. Any claim against a guarantor resulting from failure to satisfactorily settle a loss must be made in writing by 5:00 P.M. local time of the same day. Such claim must be made by written notice to the office of the Secretary of the KCBT. A signed, dated and timed receipt must be given to the claimant by a representative of the Secretary's office. (See Rule 1137 and note following on time of advising brokers of errors.)
- F. **"Hair Cuts", or changes to Financial Statements** — A member who meets financial requirements by filing certified financial statements must have a unit of working capital and net worth of \$25,000 respectively for each member who represents the firm and/or is guaranteed by the firm. Working capital and net worth as shown by the audited financial statements may be increased in the following instance.
1. For all exchange memberships valued at cost, if such cost is below 75% of the market value for such memberships, the working capital and net worth may be increased by the difference.
 2. If marketable securities are valued at cost, and such cost is below market, the working capital and net worth may be increased by the difference.

*See Next Page For Proper Authorization Form

PRIMARY CLEARING MEMBER AUTHORIZATION

To the Secretary
The Board of Trade of Kansas City, Missouri, Inc.

I (we), the undersigned clearing member FCM, hereby agree to accept for clearing the trades transacted for the account of the undersigned non-clearing member or member firm. I (we) understand that this agreement designates me (us) as the Primary Clearing Member for the undersigned non-clearing member or member firm and that said non-clearing member firm may not clear trades through any other clearing member without prior written notice to me (us), the Primary Clearing Member.

This agreement may be withdrawn at any time by the clearing member FCM by written notice delivered to the Office of the Secretary of the Kansas City Board of Trade. A signed, dated and timed receipt will be subsequently issued by a representative of the Secretary's office to the withdrawing clearing member FCM.

_____	_____	_____
Clearing Member FCM Authorized Signature	Title	Date

_____	_____	_____
Non-Clearing Member Authorized Signature	Title	Date

Date Received by Secretary's Office