

Chapter 26

Options On Contracts Of Sale On Value Line Average Stock Index Futures Contracts

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Chapter 26

Options On Contracts Of Sale On Value Line Average Stock Index Futures Contracts

2600.00 Options On Contracts Of Sale On Value Line Average Stock Index Futures Contract. This chapter is limited in application to trading "put" and/or "call" options on the Value Line Average Stock Index Futures Contracts traded on the KCBT. The procedures for KCBT government, rule enforcement, membership or other rights with privileges and obligations for trading options hereunder, and the procedures for trading, clearing, delivery, and settlement and all other matters not specifically covered herein shall be governed by and be subject to the general rules, regulations and resolutions of the KCBT or such other rules hereafter adopted by the Board of Directors ("Board") pertaining thereto. Whenever the rules of other chapters use words such as "grain", "wheat", or "commodity", those rules shall be deemed to refer to this Contract as well, if and as the context indicates. However, if there is any conflict between this chapter and the general rules and regulations of the KCBT, the provisions of this chapter shall take precedence.

2601.00 Additional Rules. The Board of Directors ("Board") of the KCBT has the authority to adopt additional rules and regulations, and alter existing rules and regulations, including the rules of this chapter, on ten (10) hours notice, subject to Commodity Futures Trading Commission approval, if required. Changes which materially alter the rights of the parties with open contracts must be delayed until there are no open contracts, except in the event of a market emergency.

2602.00 Options. Options may be written and traded in the "Value Line Average Stock Index Futures Contract" pursuant to Chapter 24 of the KCBT Rules and Regulations as they exist or are amended from time to time.

2603.00 Transfer, Assignment Or Disposal Of Options. Options shall not be transferred, assigned or otherwise disposed of other than on or subject to the rules of the KCBT, the Commodity Exchange Act and the rules and regulations of the Commodity Futures Trading Commission and may be exercised only by the establishment, by book entry, in the Clearing Corporation of positions in the underlying futures contracts.

2603.01 Limitations On Option Transactions. No individual shall solicit or accept orders (other than in a clerical capacity) for the purchase or sale of the Value Line Option Contract, or to supervise any person so engaged, unless that individual meets the requirements of Section 33.3(b) of the regulations of the Commodity Futures Trading Commission.

2603.02 Prohibition On Order Acceptance. FCM members of the KCBT (or others who may trade the Value Line Option Contract pursuant to Rule 2603.01) are prohibited from accepting customer orders from another FCM which does not qualify to trade the Value Line Option Contract as prescribed in Rule 2603.01.

2604.00 Reserved.

2605.00 Trading Hours. The trading hours shall be from 8:30 A.M. to 3:15 P.M. local time. The trading hours may be varied by the Board of Directors.

2605.01 Extension Of Closing Time. The closing time may be extended to correspond with the extended closing time for the Value Line Average Stock Index Futures Contract.

2605.02 Daily Price Limits And Trading Halts. The daily price limit shall be the same as that of the underlying futures contract. There shall be no trading in any option contract when the lead month of the underlying futures contract is limit bid or offered, except that this provision shall not apply on an option's last day of trading. There shall be no trading in any option contract during a period when trading in the underlying futures contract is terminated pursuant to Rule 2413.00.

2606.00 Location. Trading will occur on the Electronic Trading System, provided however, that trading may be conducted by open outcry in the Value Line pit on the trading floor only during times when the Electronic Trading System is unavailable (due to technical failure, etc.) and only between the hours of 8:30 a.m. and 3:15 p.m. Central time.

2607.00 Trading Months. Options trading shall be for the current calendar month, and in no more than the following six (6) calendar months, and in the March, June, September and December cycle months for no more than an eighteen (18) calendar month period corresponding to the underlying futures contract. The Board of Directors may permit trading in the quarterly cycle on the basis of eight (8) quarterly delivery months at a later date, resulting in a maximum forward contract term of twenty four (24) calendar months, provided the underlying futures have been extended the same pursuant to Rule 2410.00.

2607.01 Underlying Futures Contract. For options that expire in the March quarterly cycle (i.e., March, June, September and December), the underlying futures contract is the futures contract corresponding to the option expiration month. For example, the underlying futures contract for an option contract expiring in March is the March futures contract. For options that expire in months other than those in the March quarterly cycle (i.e., January, February, April, May, July, August, October and November), the underlying futures contract is the next futures contract in the March quarterly cycle nearest the option expiration month. For example, the underlying futures contract for an option contract expiring in January or February is the March futures contract.

2608.00 Trading Unit. The trading unit shall be an option to buy in the case of a call, or an option to sell in the case of a put, one Value Line Average Stock Index Futures Contract of a specified contract month.

2609.00 Deep-Out-Of-The-Money Options. For purposes of this options contract, "Deep-out-of-the-money options" are defined as when the option strike price is greater in the case of a call option, or less in the case of a put option, than the price of the futures contract underlying the option by thirty-five (35%) percent or more of the contract value of the underlying futures contract

2610.00 Option Premium — Definition. The "option premium" shall be the sum paid to the writer of a call option who agrees to deliver the underlying futures contracts against payment of the exercise price upon being assigned an exercise notice. The premium with respect to the writer of a put option is the sum paid to the writer of the put option who agrees to purchase the underlying futures contract on which the put is written at the exercise price upon being assigned an exercise notice. Both put options and call options may be written.

2610.01 Option Premium Payment. The Clearing Corporation must receive from each of its clearing members, and each clearing member must receive from each other party for whom it clears commodity option transactions, and each futures commission merchant must receive from each of its option customers, the full amount of each option premium at the time the option is purchased, or within a reasonable time thereafter.

2611.00 Strike Price. The strike price is the price at which a party may purchase or sell the underlying futures contract upon exercise of an option. The strike price will be determined as follows:

2611.01 Strike Price Interval. The dollar amount of the interval between strike prices shall be \$125; equivalent to five point (5.00) intervals. (For example, strike prices could be 1800, 1805, 1810, 1815). At the commencement of trading a new option month, the following strike prices shall be listed: the strike price nearest the previous day's settlement price for the underlying futures contract, the next **twenty-four (24)** higher and **twenty-four (24)** lower strike prices. If the previous day's settlement price is midway between two strike prices, the closest strike shall be the next highest strike. (For example - futures settlement is 1807.50, **the next highest** strike is 1810.00.

2611.02 New Options. A new option based on a particular futures month will be introduced the day after trading has commenced in the underlying futures for that contract month.

2611.03 New Strike Price. Any close which causes there to be less than **twenty-four (24)** strike prices available either to the upside or downside will cause new strike prices to be added the next day in order to have at least **twenty-four (24)** strike prices available above and below the settlement price.

2611.04 Horizontal Option Strike Price. Reserved

2611.05 Limit On New Strike Prices. No new strike prices may be introduced during the last six (6) trading days of the expiring option.

2611.06 Delisting. An index option having a particular strike price shall be delisted if for ten (10) consecutive days no transaction is made, and there is no open position in such strike price; provided, however, that no option shall be delisted if it has a strike price which is required by Rules 2611.01, 2611.03 or 2611.04.

2611.07 Relisting. Any strike price which has been delisted under Rule 2611.06 shall thereafter be relisted at any time any such option has a strike price which is required by Rules 2611.01, 2611.03 or 2611.04.

2611.08 Price Display And Dissemination. Each series of options and prices opened for trading shall be displayed on the price display system of the KCBT floor and disseminated in such other manner as is deemed appropriate by the Board of Directors.

2612.00 Bids And Offers. Bids and offers for options shall be measured and expressed in increments of .50 points (\$12.50) per option on one futures contract. However, for options valued at less than .50 points, the option premium may be equal to \$1.00 (one dollar) per option contract.

2613.00 Margin Requirements. The margin requirements will be set by the Board of Directors of the KCBT, and may be changed from time to time in like manner.

Note: See Resolution 11-1160.00-1

2614.00 Last Day Of Trading And Expiration. For options that expire in the March quarterly cycle, options trading shall terminate at the same date and time as the underlying futures contract. For options that expire in months other than those in the March quarterly cycle, options trading shall terminate on the third Friday of the contract month at 3:15 P. M. If that day is not a business day, then options trading shall terminate at 3:15 P. M. on the preceding business day. Any option contracts in the expiring month that are not exercised pursuant to Rules 2615.00 or 2615.01 shall expire at 4:00 P. M. on the last trading day.

2614.01 Settlement Price Procedure. The settlement price of the option contract shall be determined using a computer model to calculate each settlement based on consensus input in satisfaction of the model variables, provided such settlement does not violate an existing bona-fide CTI type 2 or 4 order. The information input should yield a settlement that reflects the average of the fair value bid/ask for each strike. If technical problems preclude the use of the computer model, the settlement price of the option shall be determined by the same procedure used to determine the settlement price of Value Line Average Stock Index Futures Contract.

2614.02 Settlement Of Trades. Trades made in put and call options shall be settled at the end of each day's trading. Positions in the underlying futures contract as a result of the exercise of options shall be made by book entry in the books of the Clearing Corporation and settled not later than the close of trading on the business day following the exercise date.

2615.00 Exercise. Options are exercisable at any time prior to the expiration thereof by notification to the Clearing Corporation by 4:00 P. M. central time in a manner specified by the Clearing Corporation. Options so exercised will be settled not later than the close of trading on the business day following the exercise date.

2615.01 Automatic Exercise. All open long option contracts in the March quarterly cycle on the day following the last trading day for which the exercise price is less, in the case of call options, or greater, in the case of put options, than the Final Settlement Price of the underlying futures contract, and all open long option contracts other than those in the March quarterly cycle for which the exercise price is less, in the case of call options, or greater, in the case of put options, than the settlement price of the underlying futures contract on the last trading day of the expiring option, shall be automatically exercised unless instructions to the contrary are delivered to the Clearing Corporation by 4:00 p.m. on such day.

2615.02 Allocation Of Exercise Notice By Clearing Corporation. The Clearing Corporation shall assign an exercise notice to the clearing member's account with the Clearing Corporation selected on a random non-preferential basis (as is determined by the Clearing Corporation) from among all clearing member accounts reflecting the writing of options of the same maturity month and strike price as the exercised option. The clearing member to whose account the exercised notice is assigned will be notified of such assignment prior to the opening of trading the business day following the exercise date. The writer of a call option is assigned a short Value Line Average Stock Index Futures position at the striking price of the option. The writer of a put option is assigned a long Value Line Average Stock Index Futures position at the striking price of the option. If the exercise notice was assigned to the clearing member's customer account, the clearing member in turn shall allocate the assignment to one of its customers who is a writer of options of the same maturity and strike price as the exercised option. Such allocation shall be made on a random, non-preferential basis. The clearing member should make an attempt in good faith to promptly notify any customer who has been allocated an option assignment.

2615.03 Allocation Of Exercise Notices By Members. Members must implement fair non-preferential procedures for the allocation of exercise notices among their accounts and accounts they carry. Such procedures must be in writing. Such allocation is subject to review by the KCBT Compliance Department.

2615.04 Due Diligence In Exercise Procedures. KCBT member FCM's shall exercise due diligence in monitoring accounts of its customers trading in the Value Line Stock Index Options to ensure that, in the case of options the in-the-money by less than the firm's commission charges for exercising such options, instructions have been given to the Clearing Corporation so that such option contracts are not automatically exercised pursuant to Rule 2615.01.

2615.05 Notice To Customers. FCM members shall use their best efforts to promptly notify customers of exercise notices.

2615.06 Clearing Corporation To Monitor Delivery Procedure. The KCBT and Clearing Corporation shall monitor the delivery procedure to ensure proper exercise of the options.

2616.00 Failure To Perform. If the clearing member with a delivery commitment fails to perform all acts required by this chapter, then that clearing member shall be deemed in default, which may be punishable as a major violation. In the event of default, any defaulting party shall be liable for damages and any loss sustained as a result of the default, if any, by the Clearing Corporation, an FCM, or any other FCM or customer thereof, plus a penalty of not less than \$500 per defaulted contract. An additional fee or penalty may also be imposed through KCBT disciplinary procedures. The defaulting party may petition the Board for reconsideration of any penalty so assessed. Whenever, in the judgment of the Board, upon consideration, the default was not due to the fault of the appealing party, or for other good cause shown, the Board may, in its discretion, waive or reduce the penalty.

2617.00 Procedures For Complaints. Each futures commission merchant who is a member of the KCBT and engages in the offer or sale of commodity options shall, with respect to all written option customer complaints, comply with Rules 2617.01 through 2617.03.

2617.01 Complaints. Retain all such written complaints; and

2617.02 Records. Make and retain a record of the date the complaint was received, the associated person who serviced the account, or the introducing broker who introduced the account, and a general description of the matter complained of, and what, if any, action was taken by the futures commission merchant in regard to the complaint; and

2617.03 Copies. Immediately send a copy of any such complaint to the FCM's "Designated Self-Regulatory Organization" (DSRO) and, upon final disposition thereof, immediately send a copy of the record of such disposition to the DSRO.

2618.00 Futures Commission Merchants. Each FCM who is eligible to trade options pursuant to Rule 2603.01 shall comply with the following:

2618.01 Written Procedures. Adopt and enforce written procedures pursuant to which it will be able to supervise

adequately each option customer's account, including but not limited to the solicitation of any such account, provided that "option customer" does not include another futures commission merchant; and

2618.02 Written Record. Immediately upon the receipt of a customer's order, prepare a written record of the order. Said order shall be dated and time stamped when the order is received and shall show the account designation. In addition, such written record also shall show the time to the nearest minute, the order is transmitted for execution; and

2618.03 Notification. Give immediate written notification to the FCM's "Designated Self-Regulatory Organization" (DSRO) of any disciplinary action taken against the futures commission merchant or any of its associated persons by the commission or by another self-regulatory organization; and

2618.04 Disclosure. Each member FCM which engages in the offer or sale of commodity options shall enforce the disclosure requirements set forth in CFTC Regulation Section 33.7; and

2618.05 Option Promotional Material. Each FCM which engages in the offer or sale of option contracts traded on the KCBT shall promptly submit to the member's DSRO all promotional material pertaining to trading in such options. For the purposes of this rule, the term "promotional material" shall include those items described in CFTC Regulation 33.1(b); and

2618.06 Discretionary Accounts. With respect to option customer accounts for which discretion is given for option trading:

- (i) Provide the option customer with an explanation of the nature and risks of the strategy or strategies to be used in connection with the option customer's account; and
- (ii) Require an officer, general partner, sole proprietor, or branch office manager of the futures commission merchant (other than any individual authorized to exercise discretion in trading the account) to approve, in writing, the discretionary authority prior to any trading for the account involved; and
- (iii) Identify as discretionary each order for a discretionary account on the order at the time of entry and an officer, general partner, sole proprietor, or branch office manager of the futures commission merchant (other than any individual authorized to exercise discretion in trading the account) must approve, initial, and date all orders for a discretionary account; and
- (iv) Review frequently discretionary accounts pursuant to Commodity Futures Trading Commission rules and regulations.

Provided that the provisions of Rule 2618.06 shall not apply to any Option customer account:
(A) of a commodity pool, the operator of which is registered with the Commission as a commodity pool operator;
(B) where the person who has the discretionary authority is the spouse, parent, or child of the Option customer, or
(C) which is an omnibus account of another futures commission merchant.

2618.07 Prohibition. Prohibit fraudulent or high pressure sales communications relating to the offer or sale of option contracts; and

2618.08 Sales Practice Audits. Comply with KCBT procedures and permit the KCBT or its agent to conduct sales practice audits of member futures commission merchants which engage in the offer or sale of the options contracts. The sales practice procedures with which member futures commission merchants must comply will be those in effect by the KCBT from time to time as adopted by the Board of Directors; and

2618.09 Applicable CFTC Rules. Comply with all applicable regulations and rules of the Commodity Futures Trading Commission and the National Futures Association applicable from time to time to trading in the options governed by this contract.

2619.00 Advertising Guidelines. Advertising, market letters, and similar information issued by the KCBT, its members, and their associates should not be false or misleading.

2619.01 File Copies. All members, clearing members, commodity representatives, and other employees of members must file within seven (7) days after publication copies of all promotional material including prepared radio or television scripts, prepared lectures, mail solicitations, and market letters relating to commodities traded on the KCBT with the KCBT.

2620.00 Contract Fee. A KCBT Contract fee will be set by resolution of the Board to cover KCBT expenses. The Board may change the fee at any time on at least thirty (30) days notice, such changes to be effective on the first of a month.

2621.00 Position Limits And Reporting Levels. See Resolution 26-2621.01.

2621.01 Compliance with CFTC Regulation 16. Each clearing member and each FCM member that has customers trading options shall provide such information as the KCBT shall require to comply with the requirements that the CFTC may require of the KCBT pursuant to Part 16 of the Regulations of the CFTC.

2622.00 Trading Limits. There shall be no trading in any option contract when the Value Line Average Stock Index Futures Contract's lead month is limit bid or offered (except on an option's last trading day), or trading has been halted in the underlying futures pursuant to Rule 2413.00.

2623.00 Recording Options Orders. See Resolution 11-1130.00-1

2624.00 Trading Ahead of Customer. Each floor broker is prohibited from trading ahead of a customer order:

- (i) **Own Account; No Purchasing.** Each floor broker is prohibited from purchasing any commodity for future delivery, purchasing any call commodity option or selling any put commodity option for the broker's own account, or for any account in which such broker has an interest, while holding an order of another person for (1) the purchase of any future, (2) purchase of any call commodity option, or (3) sale of any put commodity option, in the same commodity which is executable at the market price or at the price such purchase can be made for the broker's own account or an account in which such broker has an interest.
- (ii) **Own Account; No Selling.** Each floor broker is prohibited from selling any commodity for future delivery, selling any call commodity option, or purchasing any put commodity option, for the broker's own account or for any account in which such broker has an interest, while

holding an order of another person for (1) the sale of any future, (2) the sale of any call commodity option, or (3) the purchase of any put commodity option, in the same commodity, which is executable at the market price or at the price which such sale can be made for the broker's own account or an account in which such broker has an interest.

2625.00 Class C Trading Privilege. A personal privilege designated as a Class C Trading Privilege is hereby created to promote orderly and liquid markets in options on Value Line futures contracts. A holder of a Class C Trading Privilege shall have the right and only the right, subject to the provisions of the Certificate of Incorporation, the By-Laws, rules, and regulations of this Corporation, to trade as principal and as broker for others and to solicit orders from others in the area or areas designated by the Board of Directors (in Chicago, Illinois) for the trading of Value Line options on futures.

Class C Trading Privileges may be purchased for \$10,000 by any person who meets the requirements of Rule 106.00.

Class C Trading Privileges may be purchased for \$500 by owners of Chicago Board of Trade memberships and membership interests, including full memberships; Associate Memberships; Conditional Associate Memberships; Government Instruments Market Membership Interests; Index, Debt, and Energy market Membership Interests; and Commodity Options Market Membership Interests. Only owners of Chicago Board of Trade memberships or membership interests in good standing with the Chicago Board of Trade shall be allowed to purchase a Class C Trading Privilege for \$500. Class C Trading Privileges may not be purchased by owners of fractional memberships or membership interests at the reduced price until such time as the fractional memberships or membership interests are combined and registered with the Chicago Board of Trade as complete memberships or membership interests. Chicago Board of Trade Permit Holders may not purchase Class C Trading Privileges at the reduced price.

A Class C Trading Privilege purchased for \$500 shall become an indivisible part of the Chicago Board of Trade membership or membership interest to which it attaches and may not be sold, transferred, or delegated separately from such membership or membership interest.

2625.01. Termination Of Class C Trading Privileges. No additional Class C Trading privileges may be purchased by anyone nor sold by the KCBT or anyone else after the 8th day of January, 1992. This rule should not affect any Class C trading privileges that were issued prior to this date.

Resolutions

RES 26-2600.00-1 Class B Members. Class B members may trade Value Line Futures Options pursuant to Chapter 26.

RES 26-2621.01-1 Position Limits - Value Line Futures Options.

- (a) Definitions. For purposes of this Resolution:
1. The word "person" shall include individuals, associations, partnerships, corporations and trusts.
 2. An option contract's "futures-equivalency" shall be based on the prior day's delta factor for the option series, as published by the KCBT Clearing Corporation. For example, 8 long put contracts, each with a delta factor of .5, would equal 4 futures-equivalent short contracts.
 3. Long futures contracts shall have a delta factor of +1, and short futures contracts shall have a delta factor of -1.
 4. Long call options and short put options shall have positive delta factors.
 5. Short call options and long put options shall have negative delta factors.
 6. An eligible "option/option" or "option/futures" spread is defined as an intra-month or inter-month position in the same KCBT commodity in which the sum of the delta factors is zero.
- (b) General Applications. The maximum futures-equivalent positions which any person may own or control in Value Line Futures Options traded at the KCBT, is 5,000 long put options, 5,000 short put options, 5,000 long call options and 5,000 short call options in all months combined.
- (c) Exception for Option/Option or Option/Futures Spreads. A person may own or control 10,000 additional futures-equivalent options in any of the four categories in subsection (b) of this Resolution, and 10,000 futures contracts in addition to those allowed under Rule 2415.02, provided that the contracts are part of an eligible option/option or option/futures spread as defined in subsection (a) of this Resolution. The maximum number of option contracts which any person may own or control, in all months combined, in each of the four categories is 50,000.
- (d) Commercial Exemption. The foregoing limits on options positions shall not apply to positions which are economically appropriate commercial transactions or positions within the meaning of Resolution 26.2621.03 provided that the provisions of Resolution 26.2621.04 have been satisfied.
- (e) Compliance. The KCBT may direct any member, registered partnership, or registered corporation owning, controlling or carrying a position for a person in excess of the limits set forth in this Resolution to liquidate or otherwise reduce the position to achieve conformity with this Resolution. However, for any option position that exceeds position limits for passive reasons such as a market move or exercise assignment, the person shall be allowed one business day to liquidate the excess position without being considered in violation of the limits. In addition, if at the close of trading, an option position exceeds position limits when evaluated using the previous day's delta factors, but does not exceed the limits when evaluated using the delta factors for that day's close of trading, then the position shall not constitute a position limit violation.

- (f) Aggregation. In determining whether any person has exceeded the limits established under this Resolution, all positions in accounts for which such person by power of attorney or otherwise directly or indirectly controls trading shall be included with the positions held by such person; such limits upon positions shall apply to positions held by two or more persons acting pursuant to an expressed or implied agreement or understanding, the same as if the position were held by a single person.
- (g) Enforcement. The carrying member, registered partnership or registered corporation shall maintain books and records in the United States, available to the KCBT, upon request, which disclose the identity of and positions held by any person carried by such member, registered partnership or registered corporation.

RES 26-2621.02. Reportable Positions - Value Line Futures Options

- (a) Definition. A "reportable position" shall be a position of fifty (50) or more put or call options on the KCBT, long or short, in any one month, which is owned, controlled or carried by any person defined in RES 26-2621.01 subsection (a).
- (b) Reporting of Reportable positions. Every member, registered partnership or registered corporation shall report reportable positions as defined in subsection (a) of this Resolution to the Department of Audits and Investigations at such times and in such form and manner as shall be prescribed.²⁶¹⁴

RES 26-2621.03 Economically Appropriate Commercial Transactions and Positions in Options.

- (a) General Definition. Economically appropriate commercial transactions and positions shall mean transactions or positions in options on contracts for future delivery on the KCBT, where such transactions or positions normally represent a substitute for transactions to be made or positions to be taken at a later time in a physical marketing channel, and where they are economically appropriate to the reduction of risks in the conduct and management of a commercial enterprise, and where they arise from:
 - (1) The potential change in the value of assets which a person owns or anticipates owning,
 - (2) The potential change in the value of liabilities which a person owes or anticipates incurring, or
 - (3) The potential change in the value of services which a person provides, purchases or anticipates providing or purchasing.

Notwithstanding the foregoing, no transactions or positions shall be classified as economically appropriate unless their purpose is to offset price risks incidental to cash or spot operations and such positions are established and liquidated in an orderly manner in accordance with sound commercial practices and unless the provisions of Resolution 26-2621.04 have been satisfied.

- (b) Enumerated Commercial Transactions. Pursuant to the requirements of Resolution 26-2621.04, the definition of economically appropriate commercial transactions and positions in subsection (a) includes, but is not limited to, the following specific transactions and positions:
 - (1) Purchases of put options on futures contracts and sales of call options on futures contracts, which do not exceed in quantity ownership of the same cash commodity by the same person;

- (2) Sales of put options on futures contracts and purchases of call options on futures contracts which do not exceed in quantity fixed-price sales of the same cash commodity by the same person;
- (3) Sales and purchases of options on contracts for future delivery described in subsections (b)(1) and (b)(2) may also provide substitutes for other than the same quantity of the same or a different cash commodity, provided that the fluctuations in the value of the commodity underlying the option contract are substantially related to the fluctuations in the value of the actual cash position.
- (c) Non-Enumerated Cases. The Board or a committee authorized by the Board, may recognize transactions and positions other than those enumerated in subsection (b) as economically appropriate, in accordance with the general definition of economically appropriate commercial transactions and positions in subsection (a) of this Resolution upon the filing of an initial statement in accordance with Resolution 26-2621.04. Such positions may include:
 - (1) Anticipatory short positions (long put options or short call options) of twelve months' unsold anticipated positions in the same commodity by the same person;
 - (2) Anticipatory long positions (long call options or short put options) of twelve months' unfilled anticipated requirements of the same cash commodity by the same person;
 - (3) Anticipatory short and long cross-hedging positions, provided that the fluctuations in the value of the option positions are substantially related to the fluctuations in the value of the anticipated cash positions; and
 - (4) Any other transactions or positions in options on futures contracts, including those established under the concept of "delta-ratio hedging", under such terms and conditions as it may specify.
- (d) Double Hedging. No cash market position shall be deemed to be hedged simultaneously by both futures and options positions.

RES 26-2621.04 Reporting Requirements for Economically Appropriate Commercial Option Transactions or positions in Excess of Limits.

- (a) No member, registered partnership or registered corporation may own, control, or carry, on behalf of a person, any transaction or position in options on futures contracts traded on the KCBT, in excess of the position limits then in effect, unless the transactions or positions owned or controlled by such person are economically appropriate within the meaning of Resolution 26-2621.03, or unless a person has obtained an exemption under the provisions of Resolution 26-2621.04.
- (b) Each member, registered partnership or registered corporation which owns, controls, or carries, on behalf of any person, positions which are claimed to be economically appropriate must file an initial satisfactory statement with designated staff or a committee authorized by the Board in order to establish such person's transactions or positions as economically appropriate, within the meaning of Resolution 26-2621.03. The initial statement, which need not be filed if anticipated positions or transactions would not exceed the limits then in effect, shall include:

- (1) A description of the kinds of intended positions or transactions and their potential size;
 - (2) A statement affirming that these kinds of intended positions or transactions are economically appropriate positions or transactions; and
 - (3) Only with respect to the kinds of intended positions or transactions that are described as non-enumerated cases under Resolution 26-2621.03, a justification that the kinds of intended positions or transactions are economically appropriate within the meaning of Resolution 26-2621.03.
- (c) Supplemental Statements. Whenever there is a material change in the information provided in the person's most recent filing pursuant to subsection (b), or on or before January 1 of each year thereafter, a supplemental statement which updates previous information shall be filed with designated staff or a committee authorized. Any supplemental statements shall be filed in a timely manner by each member, registered partnership or registered corporation owning, controlling or carrying such person's position prior to the date that the person wishes to change his classification of economically appropriate commercial transactions or positions. A "timely manner" shall generally mean at least 10 days in advance of the date on which positions or transactions may exceed the level specified in the person's most recent filing; provided that if conditions preclude such a timely filing, the supplemental filing shall be made as soon as practicable, but in no event later than ten business days after the day in which the position would be in excess of the level specified in the most recent filing.
- (d) Designated staff, as directed by the Board, or a committee authorized by the Board, will monitor the transactions and positions maintained by persons who own or control economically appropriate commercial transactions or positions, through confidential reports submitted by members, registered partnerships and registered corporations. The KCBT may request additional relevant information necessary to ensure compliance with this Resolution. On and after the effective date of this provision, the KCBT may direct any member, registered partnership or registered corporation owning, controlling or carrying a position in excess of the position limits then in effect to liquidate or otherwise reduce the position to achieve conformity with this Resolution.