

Chapter 11

Trading Practice

Transactions Subject To Rules

| | | |
|---------|---------------------------------|------|
| 1100.00 | Contracts Subject To Rules..... | 1105 |
|---------|---------------------------------|------|

Time And Place

| | | |
|----------|--|------|
| 1101.00 | Time Of Trading..... | 1105 |
| 1102.00 | Place Of Trading..... | 1105 |
| 1103.00 | Change Of Time And Place..... | 1105 |
| 1104.00 | Prohibition; Exceptions..... | 1105 |
| 1104.01† | Members Not Trading; Open And Close..... | 1105 |

U.S. Grain Standards

| | | |
|---------|-----------------------|------|
| 1106.00 | Change Of Grades..... | 1105 |
|---------|-----------------------|------|

Trading For Customers

| | | |
|---------|---|------|
| 1108.00 | Registration; Futures Commission Merchants..... | 1105 |
|---------|---|------|

Trading Rules

| | | |
|----------|--|------|
| 1110.00 | Trades Executed Openly And Competitively..... | 1106 |
| 1111.00 | Open And Close..... | 1106 |
| 1111.01† | Official Opening And Closing..... | 1106 |
| 1111.02† | Closing Period; Time..... | 1106 |
| 1111.03† | Settlement Price Appeal..... | 1106 |
| 1111.04 | Post Settlement Session..... | 1107 |
| 1112.00 | Limitation On Fluctuation Of Prices..... | 1107 |
| 1112.01† | Daily Trading Limits..... | 1107 |
| 1112.02† | Minimum Price Fluctuation..... | 1107 |
| 1113.00 | No Trading During End Of Delivery Month..... | 1107 |
| 1114.00† | Orders And Cancellations Accepted On A "Not Held" Basis..... | 1107 |
| 1114.01† | Member To Member Verbal Orders..... | 1107 |
| 1114.02 | Opening And Closing Orders..... | 1108 |
| 1115.00† | Trading Records..... | 1108 |
| 1115.02 | Collection And Accountability Of Trading Records..... | 1108 |
| 1116.00† | Optional Timing Requirements..... | 1109 |
| 1117.00† | Volume Bids And Offers..... | 1109 |
| 1118.00† | Dissemination Of Prices..... | 1109 |
| 1118.01 | Quotations; No Change..... | 1109 |
| 1119.00 | Fast Market..... | 1109 |
| 1119.01 | Not Held, No Readjustment..... | 1109 |
| 1119.02 | No Cancellation..... | 1109 |
| 1119.03 | Fast Symbol..... | 1110 |
| 1119.04 | Intervening Prices..... | 1110 |
| 1119.05 | Not Retroactive..... | 1110 |

Chapter 11 – Trading Practice

| | | |
|----------|-------------------------------------|------|
| 1119.06 | End..... | 1110 |
| 1120.00† | Give-ups..... | 1110 |
| 1120.01 | Give-ups via Same Day Transfer..... | 1110 |
| 1120.02 | Average Price..... | 1111 |

Trading Rules; Exceptions

| | | |
|----------|---|------|
| 1127.00 | Transfer Trades; Exception..... | 1111 |
| | a. One Account To Another | |
| | b. One Office To Another | |
| 1127.01 | Clearing; Transfer Trades..... | 1111 |
| 1127.02† | Transfer Trades In A Delivery Month..... | 1111 |
| 1128.00 | Exchange Futures For Cash; Exception..... | 1112 |
| 1128.01 | Clearing; Exchange Futures For Cash..... | 1112 |
| 1128.02 | Evidence Of Cash Transaction..... | 1112 |
| 1129.00 | Exchange For Risk (“EFR”) Transactions..... | 1112 |
| 1129.01 | Clearing; Exchange For Risk..... | 1112 |
| 1129.02 | Evidence of OTC Transactions..... | 1112 |

Floor Brokers

| | | |
|----------|--|------|
| 1130.00 | Broker; Defined..... | 1112 |
| 1130.01† | Registration..... | 1113 |
| 1130.02 | Broker Associations..... | 1113 |
| 1131.00 | Trading Ahead Of Customer..... | 1113 |
| | a. Own Account; No Purchasing | |
| | b. Own Account; No Selling | |
| 1132.00 | Disclosure Of Orders..... | 1114 |
| 1133.00 | Taking Other Side..... | 1114 |
| 1134.00 | Prearranged Sale..... | 1114 |
| 1135.00 | Allocation Of Trades..... | 1114 |
| 1136.00 | Withholding Or Withdrawal Of Orders..... | 1114 |
| 1137.00 | Prompt Give-Up Of Clearing Member..... | 1114 |
| 1138.00 | Customer Discretionary Accounts..... | 1114 |

Spread Transactions

| | | |
|---------|---|------|
| 1144.00 | Strip Transactions; Permitted..... | 1114 |
| 1144.01 | Option Strip Transactions; Permitted..... | 1115 |
| 1145.00 | Spread Transactions; Permitted..... | 1116 |
| 1146.00 | Requirements..... | 1116 |
| | a. Same Account | |
| | b. Executed Competitively | |
| | c. Prices | |
| | d. Reporting | |
| | e. Designation | |
| 1147.00 | Option Spread Transactions: Permitted..... | 1116 |
| 1148.00 | Option Spreads: Requirements..... | 1116 |
| 1149.00 | Spread Transactions To Rectify Spreads..... | 1116 |

Controlled Accounts

| | | |
|---------|--------------------------|------|
| 1150.00 | Controlled Accounts..... | 1117 |
| 1151.00 | Requirements..... | 1117 |

Minimum Customer Margins

| | | |
|----------|----------------------------------|------|
| 1160.00 | Directors To Establish..... | 1118 |
| 1160.01† | Initial Margin Deposits..... | 1118 |
| 1160.02† | Inter-Market Spread Margins..... | 1118 |
| 1161.00 | Non-Clearing Member..... | 1118 |

Record Keeping

| | | |
|---------|--|------|
| 1165.00 | Non-Member Corporation Or Association; Orders..... | 1119 |
| 1165.01 | Time For Compliance..... | 1119 |
| 1166.00 | Confirmations..... | 1119 |

Prohibited Transactions

| | | |
|----------|--|------|
| 1170.00 | Member May Not Be Both Principal And Agent..... | 1119 |
| 1171.00 | Wash, Cross, Accommodation, Or Fictitious Trades..... | 1119 |
| 1172.00 | False Price..... | 1119 |
| 1173.00 | Detrimental Acts..... | 1119 |
| 1173.01 | Intermarket Trading Restrictions..... | 1120 |
| 1174.00 | Members Not Take Trades For Their Own Account..... | 1120 |
| 1175.00 | Match Trades..... | 1120 |
| 1175.01 | Open Outcry; Observer..... | 1120 |
| 1175.02 | Record..... | 1121 |
| 1175.03 | No Interest..... | 1121 |
| 1175.04 | Not Violate Rule 1170.00..... | 1121 |
| 1175.05 | KCBT Record..... | 1121 |
| 1176.00 | Other Prohibited Activities..... | 1121 |
| | a. Not Cheat | |
| | b. No False Report | |
| | c. Not Willfully Deceive | |
| | d. Not Bucket | |
| | e. Not Extort | |
| | f. Not Manipulate | |
| | g. No False Business Reports | |
| | h. No False Market Reports | |
| 1177.00† | Telephone. Hand-held and Headset Technology in Trading Pits..... | 1122 |

Clearing Trades

| | | |
|---------|---------------------------------------|------|
| 1185.00 | Clearing Contracts..... | 1122 |
| 1186.00 | Relation To Clearing Corporation..... | 1122 |
| 1187.00 | Daily Settlement..... | 1123 |

Fees And Charges

| | | |
|---------|-----------------------------------|------|
| 1190.00 | Discretion On Fees..... | 1123 |
| 1191.00 | Futures Trades..... | 1123 |
| 1191.01 | Redelivery..... | 1123 |
| 1192.00 | Financing Charges..... | 1123 |
| | a. Carried Over | |
| | b. Ten Day Lapse | |
| | c. Customer's Account; Redelivery | |

Chapter 11 – Trading Practice

| | | |
|---------|--|------|
| | d. Interest Rate | |
| 1192.01 | No Compulsory Financing..... | 1123 |
| 1193.00 | Grain In Store; Financing..... | 1123 |
| 1194.00 | Ordering Out..... | 1124 |
| 1195.00 | Receiving; Delivering Cash Grain On Futures..... | 1124 |
| 1197.00 | Fees And Charges On Futures Trades..... | 1124 |
| 1198.00 | Brokerage..... | 1124 |
| 1199.00 | Clearing Fee..... | 1124 |

Resolutions

- RES 11-1106.00-1 Futures Trading; Change Of Grades
- RES 11-1130.00-1 Written Record Of Customer Or Option Customer Order
- RES 11-1160.00-1 Futures Trading; Directors To Establish Margins

Interpretations

- INTRP 11-1115.00-1 Recording Trading Quantity
- INTRP 11-1128.00-1 Exchange Of Futures For Cash
- INTRP 11-1146.00-1 Futures Trading; Spread Requirements
- INTRP 11-1146.00-2 Futures Trading; Trading Requirements—Bid/Ask Differences

Chapter 11

Trading Practice

Transactions Subject To Rules

1100.00 Contracts Subject To Rules. All Contracts of a member, a firm having a member as a general partner, or any other corporation having membership representation incident to the purchase and sale of futures contracts are contracts subject to the rules of the Board of Trade.

Time And Place

1101.00 Time Of Trading. See Rules for the appropriate contract.

1102.00 Place Of Trading. See Rules for the appropriate contract.

1103.00 Change Of Time And Place. See Rules for the appropriate contract.

1104.00 Prohibition; Exceptions. See Rules for the appropriate contract.

1104.01† Members Not Trading; Open And Close. Members not actively trading should not be within the pit itself during the first ten (10) minutes and the last ten (10) minutes of trading each day (as adopted by Board of Directors' Resolution, July 22, 1975).

U.S. Grain Standards

1106.00 Change Of Grades. See Rules for the appropriate contract.

Trading For Customers

1108.00 Registration; Futures Commission Merchants. No account for the purchase and sale of commodities for future delivery at the KCBT shall be accepted or carried where the party in whose name the account is held is known to be acting for and on behalf of others unless such party is registered with the Commodity Futures Trading Commission as a futures commission merchant under the provisions of the Commodity Exchange Act, as amended.

Trading Rules

1110.00 Trades Executed Openly And Competitively. All orders received by any member, firm, or corporation doing business on the KCBT to buy or sell for future delivery any commodities dealt in on the floor of the KCBT (except transfer trades or when futures are exchanged for cash property as permitted by Rules 1127.00 and 1128.00) must be executed openly and competitively as to price, by open outcry in the trading pit or other place designated for such trading.

1111.00 Open And Close. Subject to the supervision of the Futures Committee, the pit reporter shall be the judge of the proper opening and closing range of quotations to be officially issued. Such quotations must be based upon transactions made in the pit on bids or offers made in such manner as to be open to all members.

Note: Futures traders and brokers on both sides of a trade are responsible, by trade custom, for reporting any trades missed by the pit reporter, particularly those which constitute a new high, a new low, an adjustment to the opening or closing range, or an opening trade or the only trade for the session for that contract. Such trades, if missed by the pit reporter, should be reported promptly to the pit reporter so the trade can be timed, recorded, posted, and disseminated. Failure to report such trades may result in a disciplinary action.

1111.01† Official Opening And Closing. The official opening and closing of the Kansas City Futures Market shall be understood to include all prices at which the opening and closing orders are executed, provided that in the opinion of the pit reporter, due promptness and diligence have been observed in handling such orders. In case of disagreement, an appeal may be taken to the Futures Committee, who shall determine the official opening or closing after hearing the interested parties. The size of the orders involved and the condition of the market shall be considered by the pit reporter and the Futures Committee in forming their decision (as adopted by Board of Directors' Resolution, May 9, 1923).

1111.02† Closing Period; Time. The close period for all contracts traded at the Exchange is as follows:

| <u>Contract</u> | <u>Close Period</u> |
|--------------------|-------------------------------|
| Wheat Futures | Last 30 seconds of trading ** |
| Wheat Options | Last one minute of trading |
| Value Line Futures | Last 30 seconds of trading |
| Value Line Options | Last one minute of trading |

** The closing period can be expanded by up to one minute on a particular trade date at the discretion of the Pit Committee to address unique market conditions. Any such expansion of the closing period must be communicated to the market at least five minutes prior to the beginning of the revised close for that date.

1111.03† Settlement Price Appeal. Any member can immediately appeal the settlement price orally to the Futures Committee, which will be convened on the spot. A quorum of at least three (3) Committee members (or alternates picked from members on the floor) shall immediately determine the settlement price which decision shall be final (as adopted by Board Directors' Resolution, June 23, 1973).

Note: By custom if the initial determination of the Chairman of the Futures Committee is appealed to the Committee, the Chairman does not vote on the final Committee determination.

1111.04† Post Settlement Session. As soon as practicable, following the posting of the settlement prices for all contract months, but no later than 15 minutes following the close of regular trading hours unless a later start time is approved by the Pit Committee, there shall be a two (2) minute trading period (the "post settlement session"). All trades which may occur during regular trading hours may occur during this post settlement session, under the following conditions:

- a. Trades may be made at any price within the established daily price limit for the contract.
- b. New customer orders may be entered into the session for execution.
- c. Members may trade in the pit as a principal and/or agent during the session.
- d. Orders entered for execution during normal trading hours remain eligible for execution during the session unless cancelled.
- e. Spread trades must be executed using prices within the daily price limit.
- f. The prices at which trades occur during the post settlement session may establish a new high or low in an outright contract month or quoted spread or combination transaction.
- g. Except as otherwise set forth in this Rule and Rule 1114.02, the rules applicable to trading during regular trading hours shall be applicable to trading during the post settlement session.

This post settlement session rule is applicable to all contracts traded at the KCBT with the exception of wheat futures options contracts.

1112.00 Limitation On Fluctuation Of Prices. See Rules for the appropriate contract.

1112.01† Daily Trading Limits. See Rules for the appropriate contract.

1112.02† Minimum Price Fluctuation. See Rules for the appropriate contract.

1113.00 No Trading During End of Delivery Month. See Rules for the appropriate contract.

1114.00† Orders And Cancellations Accepted On A "Not Held" Basis. All orders and cancellations that reach the trading floor fifteen (15) minutes or less before the opening of the market and all orders and cancellations that reach the trading floor fifteen (15) minutes or less before the close of the market may involve extraordinary problems and hence will be accepted solely at the risk of the customer on a "not held" basis (as adopted by Board of Directors' Resolution, January 15, 1980, and approved by the CFTC, December 22, 1980).

1114.01† Member To Member Verbal Orders. Member to member verbal orders (Type 3 trades as defined in CFTC Regulation Section 1.35 (e)) shall be handled the same as customer orders. The executing member must have in their possession, or lacking that, must prepare a written order in non-erasable ink conforming with the requirements of KCBT Resolution 11-1130.00-1 before executing such order. The requirements of this rule shall not apply to transactions that are executable as part of intermarket spread transactions or option offset transactions.

1114.02† Opening And Closing Orders. Floor brokers who are unable to execute price limit or stop orders during the opening, reopening following a trading halt, closing period or post settlement session, while using due diligence in handling such orders, shall not be held liable. Nothing herein shall preclude the Futures Committee (pursuant to Rules 1111.00 & 1111.01) from considering the circumstances pursuant to which such orders were not executed in determining the proper prices to be officially quoted during such periods.

1115.00† Trading Records.

(a) Each member who executes purchases or sales of any contract traded on the KCBT, shall prepare regularly and promptly in non-erasable ink a trading record showing such purchases and sales. Such trading record shall show the member's trading initials, the clearing member's code, transaction date, time to the nearest minute, quantity, commodity, delivery month, price or premium, put or call, strike price, opposite floor trader or broker's trading initials with whom the transaction was executed and the opposite clearing member's code. Such trading record must reflect all purchases on the buy side of the record in order of occurrence and all sales on the sell side of the record in order of occurrence, without skipping lines between trades: Provided, however, that trades recorded on order tickets must reflect both purchases and sales in order of occurrence without skipping lines between trades, and provided further, however, that spread transactions executed in accordance with Rules 1145.00 and 1146.00 may be recorded on one side of the trading record corresponding to the front month of the spread. Such trading record shall also identify the purchases and sales executed during the opening and closing periods by drawing a line to separate those trades from other trades recorded on the record. The opening and closing periods are defined in Rules 1111.01 and 1111.02.

(b) In addition to the requirements in subsection (a) above, each member recording purchases and sales for the members' personal account (Type 1 trades as defined by CFTC Regulation Section 1.35 (e)) shall:

- (i) Correct errors by crossing out erroneous information or rewriting the trading card. The member is accountable pursuant to paragraph (b) (vi) of this Rule for any card that is subsequently rewritten;
- (ii) If lines remain after the last execution recorded on a trading card, the remaining lines must be marked through;
- (iii) Use trading cards that are pre-printed with the member's trading initials;
- (iv) Use trading cards that contain pre-printed sequence numbers that will permit the intra-day sequencing of the cards. The pre-printed sequence numbers must distinguish each of the trading cards prepared by the member from other such trading cards for no less than a one-week period;
- (v) Use a new trading card at the beginning of each designated 30-minute interval unless no trades were recorded during the preceding 30-minute interval;
- (vi) Be accountable for all such trading cards in exact numerical sequence, whether or not such trading cards are relied on for entering trade data into the clearinghouse;
- (vii) Submit such trading cards to a clearing member (acting as custodian for the cards) in accordance with the provisions of Rule 1115.02 (a).

1115.02† Collection And Accountability Of Trading Records.

(a) Trading records prepared by a member which are relied upon for entering trade data into the clearinghouse shall be submitted to the clearing member as often as is practicable, but no later than 15 minutes following the end of each 30-minute interval, commencing with the beginning of each trading session. Trading records prepared in the 30-minute interval during which the close occurs shall be submitted to the clearing member no later than 15 minutes

following the close of trading. Partially-filled orders are exempt from the above submission requirements until completely filled, provided however, that partially-filled orders must be submitted no later than 15 minutes following the close of trading.

(b) Trading records submitted to a clearing member pursuant to paragraph (a) above, shall be time stamped promptly to the nearest minute by the clearing member upon collection.

(c) Each clearing member acting as custodian for the trading cards of a member prepared pursuant to Rule 1115.00 (b), shall be accountable for such trading cards in exact numerical sequence on at least a daily basis, whether or not such trading cards are relied on for entering trade data into the clearinghouse. Accountability means that the clearing member must be able to produce all sequentially-numbered trading cards for a given day or provide an acceptable explanation as to why a trading card is missing or missequenced.

1116.00 Optional Timing Requirements. See Rules for the Appropriate Contract

1117.00† Volume Bids And Offers. Members in the pit who make volume bids or offers will be required to accept against such bids or offers, any and all lesser offers or bids, as appropriate, up to the quantity quoted. This also means that "all or none orders" will not be accepted (as adopted by Board of Directors' Resolution, May 8, 1974).

1118.00† Dissemination Of Prices. The KCBT will record, post on the board, and disseminate the price of all trades and changes in bids and offers, including "volume" bids and offers (these being bids or offers for multiples of 1 contract) (as adopted by Board of Directors' Resolution, May 8, 1974).

1118.01 Quotations; No Change. Quotations based on transactions made in the open market after being officially issued shall not be cancelled or changed.

1119.00 Fast Market. A fast market situation exists when a condition in the market not necessarily limited to the following, but similar, exists;

1. Larger than normal price changes between pit reported prices.
2. Market is bid up or offered down rapidly.
3. Quotations, bids or offers are happening too rapidly to be fully reported.

1119.01 Not Held, No Readjustment. Whenever price fluctuations of the commodities dealt in on the KCBT are rapid and the volume of business is large, it is of common occurrence that different prices are bid and offered for the same delivery month in different parts of the pit at the same time. The normal result of such conditions is, at times, the execution by members of orders at prices not officially quoted, or the inability of a member to execute an order at a limited price. This is unavoidable, but is in nowise the fault of anyone, and it is not permissible for members to readjust the price at which orders have been filled, nor to report as filled orders that have not been filled. To do so is a grave offense.

1119.02 No Cancellation. Any quotations based on a transaction made in the open market, already distributed or sent out over the wire, shall not be cancelled.

1119.03 Fast Symbol. Whenever a fast market situation exists the symbol FAST shall be used.

Note: But see Rule 1119.05.

1119.04 Intervening Prices. The reporter, subject to supervision of the respective Pit Committee, shall be the judge of when the symbol should be used and any trades made at intervening prices are to be considered officially quoted. During this period of activity in all commodities, it only slows reporting of quotations on the ticker to utilize the symbol FAST. Thus, reporters will report the market to the best of their ability using FAST, and whenever possible, it shall be printed in the ticker.

1119.05 Not Retroactive. In no case shall a FAST MARKET be declared to have existed retroactively, but it may be presumed to have existed for a short period of time prior to its invocation.

1119.06 End. It shall also be the duty of the reporter, subject to the supervision of the respective Pit Committee, to declare an end to the FAST MARKET situation.

- Notes:
1. These rules apply to all futures contracts.
 2. In practice, the pit reporter consults with the Chairman of the respective pit committee prior to declaring the existence or end of a fast market, and would not make the determination alone.
 3. The Pit Committees normally function by the chairman or acting chairman consulting with available members and then advising the reporter. Should there be any uncertainty the members present will take an immediate vote. If less than three members are present, the chairman or acting chairman appoints one or more temporary members to consider and vote on the issue.
 4. A broker is not held for executions during a fast market.
 5. Rules 1119.00 and 1119.01 will be read together as alternative conditions indicating a fast market.

1120.00† Give-ups. A member must have **prior** permission from a clearing member to give up its name for a trade executed at the KCBT. A clearing member whose name is so given up in the pit must enter the trade into the Clearing Corporation in his name. Give up orders are prohibited when used as a pricing mechanism in connection with cash market contracts. Such transactions must be done only on a versus-cash basis.

Note: Approved by Board of Directors' action June 24, 1986, see page 1084 of Board's minutes.

1120.01† Give-ups via Same Day Transfer. Give-up transactions via same day transfer shall be allowed on the KCBT provided the following conditions are met:

- a. **Clearing** - The transaction must be cleared by the executing commission merchant and transferred that same day to the give-up commission merchant(s) on behalf of whom the trade was executed by means of inter-office transfer in accordance with KCBT rule 1127.00(b).
- b. **Record** - The transaction must be identified on the trading record of the executing commission merchant with the symbol "G". Transactions identified as such are cleared in a special give-up file for proper allocation and transfer.
- c. **Authorization** - The executing commission merchant must have written authorization from each give-up commission merchant prior to transferring any give-up positions in accordance with this rule. Such authorization must indicate the account(s) for whom the give-up commission merchant will receive positions from the executing commission merchant.
- d. **Average price** - When trades transacted in accordance with the provisions of this rule are executed at multiple prices, the give-up positions may be transferred at an average price, provided the provisions of Rule 1120.02 are met.

1120.02† Average Price. A member or person associated with a member or member firm may confirm to a customer an average price if an order or series of orders for a customer's account or group of accounts is executed at multiple prices, provided the following conditions are met:

- a. **Order** - Each such order or series of orders for futures, options or combination transactions must be for the same commodity and month for futures or for the same commodity, month, put or call, and strike price for options.
- b. **Designation** - Each such order or series of orders must be designated at the time of acceptance as an "Average Price" order. The designation must appear on the office order and floor order.
- c. **Record** - The transactions must be identified on the trading record of the executing commission merchant with the symbol "G". Transactions identified as such are cleared in a special file for price averaging.
- d. **Computation** - The average price is computed by the KCBT Clearing Corporation as the sum of the actual trade prices multiplied by the quantities at those prices, divided by the sum of all the trade quantities. The resulting average trade price is adjusted to the nearest price increment. Buy orders are adjusted up to the next price increment and sell orders are adjusted down to the next price increment. The resulting residual created by rounding must be paid to the customer. In allocating residuals to customers, residuals of less than one cent may be retained by the clearing member.
- e. **Confirmations** - Each member or person associated with a member or member firm that confirms to a customer an average price must indicate on the confirmation and monthly statement that the price is an average price.

Trading Rules; Exceptions

1127.00 Transfer Trades; Exception. Transfer trades are defined to be transactions in commodities for future delivery made for the purpose of:

- a. **One Account To Another.** Transferring existing trades from one account to another within the same office where no change in ownership is involved; or
- b. **One Office To Another.** Transferring existing trades from the office of one commission merchant to the office of another commission merchant where no change in ownership is involved.
Such trades shall not be deemed in violation of Rule 1110.00
Note: Old Rule 1819.3, Same Office, relating to commissions, has been deleted as a result of the Savett v. The Board of Trade of the City of Chicago, et al. settlement.

1127.01 Clearing; Transfer Trades. Transfer trades executed between two (2) commission merchants which meet the requirements of Rule 1127.00 must be cleared through the Clearing Corporation as required by Rule 1185.00. All such trades shall be identified on Clearing Corporation reports by appropriate symbol and supported by a report on a designated form.

1127.02† Transfer Trades in a Delivery Month. During the delivery month and two (2) business days prior to the first delivery day, transfer trades for the purpose of offsetting existing positions where no change in ownership is involved are prohibited when the date of execution of the position being transferred is not the same as the transfer date. Positions carried at different houses for the same owner two (2) business days prior to a delivery month and thereafter are required to be offset in the pit or through the normal delivery process. The receiving firm has the responsibility to assure compliance with this rule.

1128.00 Exchange Futures For Cash; Exception. Transactions in commodities for future delivery made in connection with cash commodity transactions, involving the exchange of futures for cash commodities, or to establish the price of cash commodities may be made. Such trades shall not be deemed in violation of Rule 1110.00. Transactions involving the exchange of futures in connection with cash commodity transactions or the exchange of futures for cash commodities may be made at such prices as are agreed upon by the parties.

1128.01 Clearing; Exchange Futures For Cash. All such trades must be cleared through the Clearing Corporation as required by Rule 1185.00, appropriately identified by symbol on Clearing Corporation reports and supported by a report showing a description of the futures transaction with the price, the name of the opposite clearing member, and the amount and commodity involved in the cash transaction.

1128.02† Evidence of Cash Transaction. Upon request of the KCBT, each member shall provide documentation of cash transactions underlying exchanges of KCBT futures for cash commodities or exchanges of KCBT futures in connection with cash commodity transactions. For the purposes of this paragraph, documentation means those documents customarily generated in accordance with cash market practices which demonstrate the existence and nature of the underlying cash transactions, including, but not limited to, contracts, confirmation statements, telex, printouts, invoices and warehouse receipts or other documents of title.

1129.00† Exchange For Risk (“EFR”) Transactions. Transactions involving the exchange of futures or options contracts for or in connection with over-the-counter derivative (“OTC”) transactions shall be allowed, provided the provisions of Rules 1129.00 through 1129.02 are met. Such transactions (hereinafter referred to as “EFR”) may be made at such prices as are agreed upon by the parties. An EFR shall consist of two separate but related component transactions – an OTC transaction and a futures or options transaction. Each holder of futures or options contracts involved in an EFR must also be the holder of the economically offsetting OTC transactions involved in such EFR. The OTC component shall involve the commodity underlying the futures or options contracts (or a derivative, by-product or related product of such commodity). The quantity covered by the OTC component must be approximately equivalent to the quantity covered by the futures or options contracts. The OTC component of an EFR must comply with any applicable regulatory requirements prescribed by the Commodity Futures Trading Commission.

1129.01† Clearing; Exchange For Risk. All such trades must be cleared through the Clearing Corporation as required by Rule 1185.00, appropriately identified by the symbol “Z” on Clearing Corporation reports.

1129.02† Evidence of OTC Transaction. Upon request of the KCBT, each member shall provide all documentary evidence of OTC transactions underlying an EFR. For the purposes of this paragraph, documentary evidence means those documents customarily generated in accordance with market practices, which demonstrate the existence and nature of the underlying OTC transactions, including, but not limited to a master swap agreement and any supplements thereto.

Floor Brokers

1130.00 Broker; Defined. A floor broker is defined to be a member who buys and sells futures contracts in the trading pit, not for the member's account, but as an agent of another member, where the name of the principals are announced on making of the futures contract, and the broker at no stage of the transaction becomes the actual owner of the property.

1130.01† Registration. No member shall act as a futures or options floor broker unless that member is registered with the Commodity Futures Trading Commission as a futures or options floor broker, and such registration has not expired nor been suspended (and the period of such suspension shall not have expired) nor been revoked; and such floor broker shall properly file with the KCBT a copy of any Form 3-R required to be filed under appropriate regulations. Each KCBT member registered as a floor broker must file biennial updates with the National Futures Association (NFA) using Form 8-R within thirty (30) days following a date specified by the NFA. Failure to file the biennial Form 8-R within the aforementioned time frame shall be deemed to be a request to withdraw from registration. Voluntary withdrawal of floor broker registration can be accomplished by completing Form 7-W and filing such with the NFA in accordance with Commission Regulation 3.33(e), a copy of which must be provided to the KCBT.

1130.02† Broker Associations. Members of "broker associations" shall comply with the following provisions of this rule in registering and updating information pertaining to their association.

- a. **Definition.** "Broker Association" is defined as two or more KCBT members with floor trading privileges, of whom at least one is acting as a floor broker, who: (1) Engage in floor brokerage activity on behalf of the same employer, (2) have an employer and employee relationship which relates to floor brokerage activity, (3) share profits and losses associated with their brokerage or trading activity, or (4) regularly share a deck of orders.
- b. **Registration required.** It shall be unlawful for any member of a broker association to receive or to execute an order unless the broker association is registered with the KCBT Compliance Department.
- c. **Information to register.** The following information must be supplied in writing to the KCBT Compliance Department no later than ten (10) calendar days following the establishment of such relationship in order for such broker association to be considered properly registered with the KCBT:
 - (1) Name;
 - (2) Form of organization, e.g., partnership, corporation, trust, etc.;
 - (3) Name of each person who is a member or otherwise has a direct beneficial interest in the association;
 - (4) Badge symbols for all members;
 - (5) Account numbers for all accounts of any member, accounts in which any member(s) has an interest, and any proprietary or customer accounts controlled by any member(s);
 - (6) Identification of all other broker associations with which each member is associated; and
 - (7) Individual(s) authorized to represent the association in connection with its registration obligations.
- d. **Updating registration information.** Any registration information provided to the KCBT Compliance Department which becomes deficient or inaccurate must be updated or corrected within ten (10) calendar days.

1131.00 Trading Ahead Of Customer. Each floor broker is prohibited from trading ahead of a customer order:

- a. **Own Account; No Purchasing.** Each floor broker is prohibited from purchasing any commodity for future delivery for the broker's own account, or for any account in which such member has an interest, while holding an order of another person for the purchase of the same commodity which is executable at the market price or at the price at which such purchase can be made for the member's own account or the account in which such member has an interest.
- b. **Own Account; No Selling.** Each floor broker is prohibited from selling any commodity for future delivery for the broker's own account or for any account in which such member has an interest, while holding an order of another person for the sale of the same commodity which is executable at the market price or at the price at which such sale can be made for the member's own account or the account in which such member has an interest.

1132.00 Disclosure Of Orders. Each floor broker is prohibited from disclosing at any time that such broker is holding an order of another person or from divulging any order revealed to such broker by reason of the broker's relationship to such other person except at the request of an authorized representative of the CFTC or the contract market.

1133.00 Taking Other Side. Each floor broker is prohibited from taking, directly or indirectly, the other side of any order of another person revealed to such member by reason of the member's relationship to such other person.

1134.00 Prearranged Sale. Each floor broker is prohibited from making any purchase or sale which has been prearranged.

1135.00 Allocation of Trades. Each floor broker is prohibited from allocating trades among accounts.

1136.00 Withholding or Withdrawal of Orders. Each floor broker is prohibited from withholding or withdrawing from the market any order or part of an order of another person for the convenience of another member.

1137.00 Prompt Give-Up Of Clearing Member. Each floor broker is required to promptly give up the clearing member for each transaction executed on the floor. On failing to do so, the floor broker shall thereafter be held responsible for such trade at the option of the party with whom the trade was made. The floor broker shall also be held liable for acceptance of such trade by the principal.

1138.00 Customer Discretionary Accounts. Each floor broker is prohibited from executing any transaction for any customer discretionary account except that orders for such an account may be placed with another member for execution. The phrase "customer discretionary account" means an account with a floor broker on behalf of a customer other than the broker's employer, partnership, or corporation.

- Notes:
1. "Discretionary Accounts" under the KCBT rules do not include members of a floor broker's immediate family, so that a broker holding such orders would have to treat them as if they were orders of non-members and execute them ahead of the broker's own trades.
 2. The CFTC has granted the KCBT an exemption from the CFTC Regulation Section 155.2(c) "handing off" requirement for discretionary orders originated by a floor broker for the individual, partnership, or corporation which the floor broker represents within the meaning of the KCBT rules. Under the KCBT rules a floor broker is permitted to execute discretionary orders on behalf of only one person or one entity which the broker represents. As a result a broker may only execute discretionary orders on behalf of those categories of persons or entities who are either contract market members or entities vested with membership privileges. This means that if the broker is also an account executive with an FCM and has trading authority over any discretionary accounts, that broker cannot execute trades for those accounts.

Spread Transactions

1144.00† Strip Transactions; Permitted. A strip transaction is permitted at the KCBT provided the following conditions are met. The Board of Directors shall determine which contracts may offer strip transactions

pursuant to this Rule.

- a. **Definition.** A strip transaction shall consist of either the simultaneous purchase or sale of an equal number of contracts in each of two or more consecutive futures contract months. For Western Natural Gas futures, a strip may also consist of the simultaneous purchase or sale of an equal number of contracts each calendar day over two or more consecutive futures contract months.
- b. **Account.** All of the two or more consecutive futures contract months representing the strip purchase or sale must be for the same account.
- c. **Price.** A strip shall be quoted and traded at a single price (generally such price approximates the average of the outright futures prices for the months comprising the strip transaction). Such price must be in line with prevailing contract prices for strip transactions.
- d. **Open Outcry.** All strip transactions must be executed by open outcry in the trading pit.
- e. **Record.** When strip trades are transacted, the executing member on each side of the transaction shall record on the trading record (in addition to quantity, opposite broker, time and opposite clearing firm) the first and last month of the strip in the month box, the single price reported in the price box, and the **strip symbol** in the code box. When strip trades are entered for clearing, the price assigned to each month comprising the strip shall be the trade price. For strip trades of an **equal number of monthly contracts** in each of two or more consecutive months, the **strip symbol "M"** shall be recorded in the code box. For strip trades of an **equal number of calendar day contracts** in each of two or more consecutive futures contract months, the **strip symbol "C"** shall be recorded in the code box. In the latter case, the number of daily contracts is what is recorded in the amount column of the trading record and when entering for clearing must be multiplied by the number of calendar days to arrive at the number of contracts applicable to each contract month of the strip transaction.
- f. **Reporting.** A strip transaction shall be reported, recorded, and publicized as a strip at the single price quoted, traded and reported.
- g. **Stop Orders.** Strip transactions shall not set off stop orders in any contract.

(Note: As of January 30, 1996, strip transactions may only be offered in the Western Natural Gas futures contract.)

1144.01† Option Strip Transactions; Permitted. Option strip transactions are permitted at the KCBT provided the following conditions are met. The Board of Directors shall determine which contracts may offer option strip transactions pursuant to this Rule.

- a. **Definition.** A strip transaction shall consist of either the simultaneous purchase or sale of an equal number of options contracts of the same strike price in each of two or more consecutive option contract months. For Western Natural Gas options, a strip may also consist of the simultaneous purchase or sale of an equal number of options contracts of the same strike price each calendar day over two or more consecutive option contract months.
- b. **Account.** All of the option contracts representing the strip purchase or sale must be for the same account.
- c. **Price.** A strip shall be quoted and traded at a single price (generally such price approximates the average of the options premiums for the strike prices of the months comprising the strip transaction). Such price must be in line with prevailing contract prices for strip transactions.
- d. **Open Outcry.** All strip transactions must be executed by open outcry in the trading pit.
- e. **Record.** When strip trades are transacted, the executing member on each side of the transaction shall record on the trading record (in addition to quantity, opposite broker, time and opposite clearing firm) the first and last month of the strip in the month box, the single price reported in the price box, and the **strip symbol** in the code box. When strip trades are entered for clearing, the price assigned to each month comprising the strip shall be the trade price. For strip trades of an **equal number of monthly contracts** in each of two or more consecutive months, the **strip symbol "M"** shall be recorded in the code box. For strip trades of an **equal number of calendar day contracts** in each of two or more consecutive months, the **strip symbol "C"** shall be recorded in the code box. In the latter case, the number of daily contracts is what is recorded in the amount column of the trading record and when entering for clearing must be multiplied by the number of calendar days to arrive at the number of contracts applicable to each contract month of the strip transaction.

- f. **Reporting.** A strip transaction shall be reported, recorded, and publicized as a strip at the single price quoted, traded and reported.
- g. **Stop Orders.** Strip transactions shall not set off stop orders in any contract.

(Note: As of January 27, 1998, option strip transactions may only be offered in the Western Natural Gas options contract.)

1145.00 Spread Transactions; Permitted. A spread transaction involving the purchase and sale of different futures at a price difference is permitted at the KCBT.

1146.00 Requirements. A spread transaction at the KCBT must meet the following conditions:

- a. **Same Account.** Each side of the spread must be for the same account;
- b. **Executed Competitively.** Such trades must be executed competitively by public outcry in the pit;
- c. **Prices.** Both sides of the spread transaction must be assigned prices within the daily price limit
- d. **Reporting.** The transaction shall be reported, recorded, and publicized as a spread; and
- e. **Designation.** The transaction shall be designated as a spread on the trading cards by an appropriate word or symbol clearly identifying such transaction.

Note: A spread is designated by the symbol S on the trading card.

1147.00 Option Spread Transactions; Permitted. A spread transaction involving the purchase and sale of different options or the purchase and sale of options and the underlying futures, at a price difference, is permitted at the KCBT provided the conditions of Rule 1148.00 are met.

1148.00 Option Spreads; Requirements. Spreads allowed under Rule 1147.00 must meet the following conditions:

- a. All sides of the spread must be for the same account;
- b. Such spread must be executed competitively by public outcry in the pit;
- c. All sides of the spread must be executed at prices within the daily price limit;
- d. The transaction shall be reported, recorded, and publicized as a spread in the ratio in which it was executed, provided such spread was executed simultaneously at a price difference.
- e. When spread transactions are executed simultaneously, the executing member on each side of the transaction shall designate each part of the trade as a spread on the trading cards by an appropriate word or symbol clearly identifying each part of such transaction;

Note: An option spread is designated by the symbol R on the trading card.

- f. Only the futures which underlie the options may be included in spreads traded at a price difference;
- g. Spreads that involve the trading of futures and options contracts that do not offset to reduce economic risk shall not be executed simultaneously at a price difference. Each side of such spread trade must be executed separately in the respective designated trading area for such contract.

1149.00† Spread Transactions To Rectify Errors. A spread transaction executed at a differential pursuant to

Rule 1146.00 or 1148.00 must be for the same account, except, however, that in the event an order was executed in the wrong month or strike price, a spread transaction at a differential may be executed to both fill the terms of the original order and liquidate the erroneous trade previously executed, provided the following conditions are met:

- a. If the error was on the part of a floor broker not employed by the clearing member representing the order:
 1. The floor broker places the position erroneously acquired and the subsequent offsetting position entered into as part of a spread transaction into his error account; and
 2. A member representing (employed by) the clearing firm initiating the mishandled order approves the execution price used in the spread transaction (for filling the order erroneously handled) by initialing the trading card used to record the spread transaction.
- b. If the error was on the part of a clearing member representing the order or its floor broker employee:
 1. The clearing member places the position erroneously acquired and the subsequent offsetting position entered into as part of a spread transaction into its error account; and
 2. The Pit Chairman (or a member of the Pit Committee in his absence) reviews the propriety of the execution price used in the spread transaction (for filling the order erroneously handled) using Time and Sales information, the time received stamped on the order and any other relevant information. If a dispute arises between the Pit Chairman and the clearing member, the matter may be appealed to the full Pit Committee present for a final decision in the matter. The chairman or any other member of the Pit Committee may not take part in the review or resolution in the case of an appeal, if such member has a financial, personal or other direct interest in the matter under consideration.
- c. The circumstances surrounding the nature and resolution of the error are clearly documented by the floor broker or clearing member, as the case may be, and such document is provided to the Exchange Compliance Department the same day the error occurred.

Controlled Accounts

1150.00 Controlled Accounts. No account for the purchase and sale of commodities for future delivery on this Board of Trade shall be accepted or carried for any person who has given trading authority to another person, not a member of the same family, unless the requirements of Rules 1108.00 and 1151.00 are observed.

1151.00 Requirements. No controlled account shall be accepted or carried unless trading authority pursuant to Rule 1150.00 has been obtained, the registration requirement of Rule 1108.00 has been met, and each of the following conditions has been fulfilled:

- a. A monthly statement shall be sent directly to the customer showing the exact position of the account, including all open trades figured to the market;
- b. Each transaction shall be specifically designated with the customer's name at the time the order is accepted;
- c. No transaction shall be held open in the customer's account which can be closed by making up an account purchase and sale; and
- d. Confirmations of all trades shall be sent promptly to both the customer and the party acting for the

customer.

Minimum Customer Margins

1160.00 Directors To Establish. No member may accept or carry an account for a customer, whether a member or non-member, without proper and adequate margin. The Board of Directors shall have the power, and it shall be the duty of said Board, to establish and declare from time to time by resolution what margins shall be proper and adequate within the meaning of this rule.

Notes: 1. See Resolution 11-1160.00-1
2. The Clearing Corporation sets clearing margins separate from those established by the KCBT.

1160.01† Initial Margin Deposits. Initial margin requirements must be met by one or more of the following:

- a. Cash
- b. The following government securities valued at market: U.S. Treasury bills, U.S. Treasury notes, and U.S. Treasury bonds.
- c. The following securities valued at 70% of their market price; Stocks listed in the Value Line Index, stocks listed on the New York or American Stock Exchange, and "OTC Margin Stock" as defined by Federal Reserve System Regulation G Section 207.2(k).
- d. Letters of Credit; provided however, that such letters of credit may not be passed through to the Clearing Corporation by a clearing member for purposes of satisfying clearing margin requirements.

Note: Approved by Board of Directors October 31, 1986 and amended by the Board on December 23, 1986 and May 30, 2006.

1160.02† Inter-Market Spread Margins. Inter-market spread margins may be charged by a Commission Merchant provided that both sides of the spread are on the same Commission Merchant's books. One exception to the requirement of having both sides on the same books is for a Commission Merchant clearing through a KCBT Clearing Member on an omnibus basis, provided the following requirements are met:

- a. All trades to be afforded the inter-market spread rate must be kept in a separate account designated as an "Omnibus Spread Account".
- b. The omnibus firm must furnish the KCBT Clearing Member with a letter stating that all trades executed for this account are spread against "like contracts" carried on the omnibus firm's books, and that both sides of each spread are owned by the same customer within the omnibus account.
- c. "Like contracts" shall mean those contracts for which the KCBT has an established spread rate.
- d. The letter must also state that the omnibus firm agrees to make their books open for review to the KCBT Audits and Investigations Department, upon request, for verification of the above requirements.

Note: Approved by Board of Directors October 31, 1986. See page 1101 of the Board's minutes.

1161.00 Non-Clearing Member: See Rules for the appropriate contract.

Record Keeping

1165.00 Non-Member Corporation Or Association; Orders. No member, firm, or corporation represented by membership, in the Board of Trade shall accept from a non-member corporation or association orders for the purchase or sale of any of the commodities dealt in under the rules of the KCBT for future delivery, unless there be on file in the records of such member, firm, or corporation a certified copy of the resolution of the board of directors of such corporation or association authorizing some designated representative of such corporation or association to place such orders for its account and naming some other representative of such corporation or association to receive duplicate confirmations of all trades made for its account. Members must handle their confirmations in accord with this rule.

1165.01 Time For Compliance. Members receiving orders from non-member corporations or associations who do not have a resolution from such corporation's or association's board of directors on file in their own records shall be allowed a reasonable time within which such authorization may be obtained.

1166.00 Confirmations. Whenever a member acting on his or her own behalf, or as the representative of a firm or corporation, shall have made a purchase or sale for another party for future delivery of contract grades of commodities dealt in at the KCBT, such member, or the firm or corporation which such member represents, shall on the day of the purchase or sale notify in writing the party for whom such purchase or sale was made. The notice shall include the price at which the purchase or sale was made, the commodity, and the quantity. Noncompliance with this rule shall be deemed uncommercial conduct subject to the disciplinary procedures set forth in Chapter 14.

Prohibited Transactions

1170.00 Member May Not Be Both Principal And Agent. No member is allowed, under any circumstances, knowingly and willfully, to be both principal and agent in any transaction in any of the commodities dealt in under the rules of the Board of Trade (except when futures are exchanged for cash, Rule 1128.00).

1171.00 Wash, Cross, Accommodation, Or Fictitious Trades. It shall be a violation of these rules to enter into or confirm the execution of any transaction, if such transaction is of the character of, or is commonly known to the trade as a "wash trade," "cross trade," "accommodation trade," or is a fictitious sale.

Note: It is a violation of this rule for a member to give a name and thereby make accommodation trades, offsetting two (2) opposed trades for the purpose of concealing the true nature of the crossed transactions.

1172.00 False Price. It shall be a violation of these rules to enter into or confirm the execution of any transaction if such transaction is used to cause any price to be reported, registered, or recorded which is not a true and bona fide price.

1173.00 Detrimental Acts. It shall be a violation of these rules if a member is or has engaged in conduct that is detrimental to the best interest of the KCBT, impairs the good name of the KCBT, or is inconsistent with just and equitable principles of trade.

1173.01† Intermarket Trading Restrictions. If a member or person associated with a member or member organization executes or causes to be executed, for an account in which such member or person has a direct or indirect pecuniary interest or for an account with respect to which such member or person exercises investment discretion, any transactions described below to take advantage of material, non-public information which can reasonably be expected to have an immediate, favorable impact in relation to such transactions, such member or persons may be in violation of this rule which prohibits certain types of intermarket trading activity:

- (i) a transaction in any stock index futures contract, or option on a stock index future when such member or person has acquired knowledge of the imminent execution of another person's stock program transaction;
- (ii) stock program transactions, when such member or person has acquired knowledge of the imminent execution of another person's order(s) in stock index futures contracts or options on stock index futures; or
- (iii) a transaction in any stock index option, when such member or person has acquired knowledge of the imminent execution of another person's order(s) in stock index futures contracts or options on a stock index future.

In determining whether a member or person has taken advantage of material, non-public information, it is not necessary for the KCBT to demonstrate that another person has been disadvantaged. Further, such member or person may be in violation of just and equitable principles of trade regardless of whether the other person has given permission for such trading.

However, nothing herein shall prevent such member or person from establishing, in a futures market, a bona fide hedge of risk such member or person may have assumed or agreed to assume in facilitating the execution of any other person's stock program or stock index option orders. The risk to be hedged must be the result of having established a position or having given a firm commitment to assume a position, and the offsetting hedging transaction must be commensurate with such risk.

In addition, a member or person associated with a member organization who implements a proprietary market strategy involving a stock program or stock index option transaction(s) and a related stock index futures transaction by executing the stock index futures trade(s) prior to the execution of the stock program or the stock index option transaction(s) will not be deemed to be in violation of this policy. However, if the member or person executes or causes to be executed a transaction in one market to take advantage of such member's or person's imminent transaction in a related market, that member or person may be engaging in manipulative activity.

1174.00 Members Not Take Trades For Their Own Account. No member, firm, or corporation, under any circumstances, shall assume to have executed any order(s) or portion thereof, by knowingly and willfully taking the trades, or any portion of them, for their own account, either directly or indirectly, in their own name or that of an employee, broker, or other member.

1175.00 Match Trades. A member having in hand, at the same time, both buying and selling orders from different principals for the same commodity in the same delivery month, may execute such orders directly between such principals at the market price if the requirements of Rules 1175.01 through 1175.05 are met.

1175.01 Open Outcry; Observer. To execute a valid match ("ring") trade, the orders must first be offered openly and competitively in the trading pit by bidding and offering the orders at the same price at least two times, and if neither the bid nor offer is accepted by another member, the orders may be executed directly, followed immediately by an announcement of the quantity matched. This transaction must be executed in the presence of the

pit reporter.

For example, a broker having a buy order for 100 Dec wheat at 4.55 per bushel and an order to sell 50 Dec wheat at 4.55 per bushel, would shout (witness by a pit reporter):

"Buy or sell Dec at 5,"

"Buy or sell Dec at 5,"

"Ring 50"

1175.02 Record. The member executing a valid match trade must clearly identify all such transactions on the trading card by appropriate descriptive word or symbol. The trading card shall be made at the time of execution and shall record the exact time of execution. The trading card shall be promptly presented to the pit reporter for verification and initialing.

1175.03 No Interest. The futures commission merchant or floor broker receiving or executing such orders shall have no interest therein, directly or indirectly, except as futures commission merchant or floor broker.

1175.04 Not Violate Rule 1170.00. The execution of orders in accordance with the conditions described in Rules 1175.00 through 1175.03 will not be deemed to be the filling of orders by offset within the meaning of Rule 1170.00 or to be cross trades within the meaning of Section 4c of the Commodity Exchange Act, as amended.

1175.05 KCBT Record. Each valid match trade executed shall be made a matter of permanent record by the KCBT, showing the date, price, quantity, commodity, delivery month, by whom executed, and the exact time of execution.

1176.00 Other Prohibited Activities. No member in connection with any order or contract for or on behalf of any person shall:

- a. **Not Cheat.** Cheat, defraud, or attempt to cheat or defraud such person;
- b. **No False Report.** Willfully make or cause to be made to such person any false report or statement thereof, or willfully to enter or cause to be entered for such person any false record thereof;
- c. **Not Willfully Deceive.** Willfully deceive or attempt to deceive such person by any means whatsoever in regard to any such order or contract, the disposition of or execution of any such order or contract, or in regard to any act of agency performed with respect to such order or contract for such person;
- d. **Not Bucket.** Bucket such order, fill such order by offset against the order(s) of any other person, willfully and knowingly become the buyer in respect to any selling order of such person, become the seller in respect to any buying order of such person, or knowingly trade with or be associated with persons engaged in such activities;
- e. **Not Extort.** Be guilty of any extortion or attempted extortion, or of any fraudulent, corrupt, uncommercial, or dishonest practices in any business dealings with members or others;
- f. **Not Manipulate.** Attempt to manipulate the prices of grain or other commodities, or corner, or attempt to corner any grain or other commodities.

- g. **No False Business Reports.** Be guilty of making or circulating any false or slanderous reports relative to the business affairs of other members, or relative to the officers, appointees, and committees of the Board of Trade, or the general management of the market; and
- h. **No False Market Reports.** Knowingly disseminate any false, misleading, or inaccurate report concerning crop or market information or conditions that affect or tend to affect the price of any commodities in interstate commerce or otherwise.

1177.00† **Telephone, Hand-held and Headset Technology in Trading Pits.**

1. **Corded Devices -** No member or any other person holding a telephone or any other device with a cord that can cause a safety hazard may enter any of the exchange trading pits.
2. **Wireless telephone, hand-held and headset technology –** All members and member firms are eligible to receive authorization to utilize wireless technology in the trading pits. Only members may operate approved wireless technology in the trading pits. The use of wireless technology is subject to an application and approval process through the exchange Rules Committee, who may establish reasonable, non-discriminatory guidelines for the approval and use of such technology. Members and member firms employing individuals utilizing wireless technology either in the trading pits or at their floor booth are responsible for ensuring that such individuals comply with the exchange's guidelines. Use of wireless technology involving customer orders is subject to the following:
 - a. Any member using a wireless telephonic link between such member's floor booth and a broker in the trading pit for the transmission of customer orders must ensure that the requisite information pursuant to Resolution 11-1130.00-1 (**Written Record Of Customer Or Option Customer Order**) is being properly recorded by such member's floor personnel at the booth.
 - b. Any member using a wireless telephonic link that involves the transmission of customer orders directly to a broker in the trading pit from other than a floor booth must simultaneously have the member's floor booth linked so that floor personnel can record the information required by Resolution 11-1130.00-1.
 - c. Any member using technology that transmits customer orders electronically to a hand-held device operated by a broker in the trading pit is not required to maintain a floor booth link provided that such technology captures the requisite information pursuant to Resolution 11-1130.00-1. Further, such broker is not required to record such trades on a trading card provided the hand-held device captures the requisite information pursuant to Rule 1115.00 (**Trading Records**).

Clearing Trades

1185.00 Clearing Contracts. Futures contracts between members of the KCBT, whether for their own account or for the account and risk of any other person, firm, or corporation, shall be cleared through the Clearing Corporation by the offset of one trade against another.

1186.00 Relation To The Clearing Corporation. After clearing members report their trades to the Clearing Corporation and they are accepted, the Clearing Corporation shall assume the position of buyer from or seller to the clearing member, and the clearing member shall look to the Clearing Corporation for the settlement of all differences arising from such trades, except as otherwise provided by the rules and regulations.

1187.00 Daily Settlement. All clearing members shall settle their futures trades each day with the Clearing Corporation to the settlement price of that day's market.

Note: See Rules under the appropriate contract for settlement procedures.

Fees And Charges

1190.00 Discretion On Fees. Commissions or charges permitted to be charged by these rules shall be in such amounts as the members shall charge in their discretion, and their imposition shall not violate these rules.

1191.00 Futures Trades. A commission shall be charged for buying and selling, or selling or buying, grain for future delivery. Such commission shall include the service of taking delivery of the grain on the futures contract, and such delivery shall, for the purpose of these rules, be deemed completed by acceptance of the warehouse receipts and payment therefor.

1191.01 Redelivery. A futures commission charge shall be made for making delivery on futures contracts when the grain to be delivered has previously been obtained by delivery on futures contracts.

1192.00 Financing Charges. A charge shall be made to non-members, resident members, and non-resident members as a financing commission in addition to interest charges for:

- a. **Carried Over.** Financing grain delivered on contract during on (1) contract delivery month and carried to another contract delivery month and redelivered;
- b. **Ten Day Lapse.** Where the grain taken on delivery is not redelivered and payment from the principal or otherwise is not received until more that ten (10) days have elapsed from the time of acceptance of delivery;
- c. **Customer's Account; Redelivery.** When grain taken on delivery is carried for the customer's account and redelivered in the same contract month, the said financing charge shall not be made. In such cases a futures commission charge shall be made on each transaction in addition to interest charges; and
- d. **Interest Rate.** Interest charged according to the provisions of these rules shall be computed from the time of delivery until reimbursement is made.

1192.01 No Compulsory Financing. Nothing herein contained shall be construed as making it compulsory for a member to finance deliveries.

1193.00 Grain In Store; Financing. In addition to the finance charge provided for in Rule 1192.00, a charge shall be made for selling grain while in store represented by warehouse receipt(s) obtained by the taking of delivery on futures contracts when financed by a commission merchant or when financed by a customer. However, if the holder of the grain obtained the same by taking delivery of the futures contracts executed by the same member, firm, or corporation, there shall be deducted the futures commission previously paid on such transaction.

1194.00 Ordering Out. A charge equal to the commission on consignments shall be made for ordering out and supervising the loading and/or shipping of grain delivered on futures contracts, whether financed by the member, firm, or corporation making such charge, or financed by the customer holder of such receipts. The charge shall be in addition to the finance charge provided for in Rule 1192.00. If the futures contract has been executed by the same member, firm, or corporation, the commission for such futures contract shall be deducted from the charge provided in this rule.

1195.00 Receiving; Delivering Cash Grain On Futures. A consignment selling commission shall be charged for receiving cash grain, arranging for the storage thereof, selling the futures and delivering the cash grain on the futures contracts so made. If a storage commission charge has been made previously on the same cash grain, there shall be deducted from the charge herein provided for the amount previously collected.

1196.00 Reserved

1197.00 Fees And Charges On Futures Trades. All taxes, KCBT fees, and regulatory charges, if any, on a sale for future delivery shall be charged to the party for whom the sale is made.

1198.00 Brokerage. Members registered with the CFTC shall charge a brokerage commission or fee for execution of futures orders in the trading pit.

1199.00 Clearing Fee. Clearing members shall charge a fee for reporting and clearing trades, and may charge a larger fee for carrying a trade overnight.

Resolutions

**RES 11-1106.00-1 Futures Trading; Change Of Grades –
Maximum Moisture; Wheat**
(See RES 20-2005.00-1)

RES 11-1130.00-1 Written Record Of Customer Or Option Customer Order

Immediately upon receipt on the floor of the KCBT of a Customer's or Option Customer's order, the member or its designee shall prepare a written record of such order including the Account Identification, Order Number and the Date and Time, to the nearest minute, such order was transmitted or received on the floor of the KCBT. The Date and Time shall be recorded thereon by a time stamp or other timing device.

Such order may then be transmitted physically, verbally or by hand signals to the floor broker by the member or its designee. If such order is not transmitted immediately to the floor broker, the order must be time stamped when it is transmitted.

- (a) If the order is transmitted physically to the floor broker, when the order is received back from the floor broker, the order must also be time stamped;
- (b) If the order is transmitted verbally or by hand signals to the floor broker, when a report of execution, or the fact that it is unable to be executed is received from the floor broker, the order must also be time stamped.

All members shall initiate written procedures to ensure compliance with this rule.

RES 11-1160.00-1 Futures Trading; Directors To Establish Margins

In accordance with Rule 1160.00 the Board of Directors has established and declared the following margins as the minimum amounts that are proper and adequate. These margin requirements are subject to change at any time by the Board. Margin requirements shall at all times be those requirements most recently adopted by the Board.

- a. **Margins On Futures. (continued on next page)**

Chapter 11 – Trading Practice

As of 8/6/2010:

Hard Winter Wheat

| | | Initial * | Maintenance |
|---|---|------------------|--------------------|
| Old Crop & New Crop Contract Months: | | | |
| 1. | Speculative | \$ 2,500 | \$ 2,000 |
| 2. | Hedge | 2,000 | 2,000 |
| 3. | Omnibus Account | 2,000 | 2,000 |
| 4. | Member - for own account | 2,000 | 2,000 |
| 5. | Intra-Crop Year Spread ** | 200 | 200 |
| | K.C. Floor Trader | 0 | 0 |
| 6. | Old Crop / New Crop Spread | 400 | 400 |
| | K.C. Floor Trader | 0 | 0 |
| 7. | Inter-Market Spread Credit - (K.C. Side only) | | |
| | vs. CBT Wheat | 80% | 80% |
| | vs. MGE Wheat | 80% | 80% |
| | vs. KCBT Wheat Calendar Swaps | 90% | 90% |

Wheat Calendar Swaps

| | | Initial * | Maintenance |
|---|----------------------------|------------------|--------------------|
| Old Crop & New Crop Contract Months: | | | |
| 1. | Speculative | \$ 2,500 | \$ 2,000 |
| 2. | Hedge | 2,000 | 2,000 |
| 3. | Omnibus Account | 2,000 | 2,000 |
| 4. | Member - for own account | 2,000 | 2,000 |
| 5. | Intra-Crop Year Spread ** | 200 | 200 |
| 6. | Old Crop / New Crop Spread | 400 | 400 |
| 7. | Inter-Market Spread Credit | | |
| | vs. KCBT Wheat Futures | 90% | 90% |

Value Line®

| | | Initial * | Maintenance |
|----|--|------------------|--------------------|
| 1. | Speculative | \$ 1,000 | \$ 800 |
| 2. | Hedge | 800 | 800 |
| 3. | Omnibus Account | 800 | 800 |
| 4. | Member - for own account | 800 | 800 |
| 5. | Intra-Market Spread Credit | 87.5% | 87.5% |
| 6. | Inter-Market Spread Credit - (KC Side) | | |
| | 1 VL vs. 1 Dow (\$5) futures | 87.5% | 87.5% |
| | 2 VL vs. 1 Dow (\$10) futures | 87.5% | 87.5% |
| | 1 VL vs. 1 e-Mini S&P 500 | 87.5% | 87.5% |
| | 2 VL vs. 1 e-Mini S&P 500 | 87.5% | 87.5% |
| | 1 VL vs. 1 e-Mini S&P 400 MidCap | 87.5% | 87.5% |
| | 2 VL vs. 1 e-Mini S&P 400 MidCap | 87.5% | 87.5% |
| | 3 VL vs. 2 e-Mini S&P 400 MidCap | 87.5% | 87.5% |
| | 1 VL vs. 1 Russell 2000 *** | 87.5% | 87.5% |
| | 2 VL vs. 1 Russell 2000 *** | 87.5% | 87.5% |
| | 3 VL vs. 2 Russell 2000 *** | 87.5% | 87.5% |

* Initial to Maintenance ratio is 1.25:1

** Crop year is defined as July to May

*** Applies to any Russell 2000 contract traded with a multiplier of 100

b. Margins On Options

In accordance with Rule 1160.00, the Board hereby establishes that minimum margins for options transactions will be determined by the Standard Portfolio Analysis of Risk (SPAN[®]) margin calculations.

Maintenance margin will equal the maximum of:

- a. Market Risk Margin Calculation
- b. Extreme Market Risk Calculation
- c. Gross Short Option Calculation

Initial margins for each commodity are identified in subsection (a) above.

The values of the following policy variables will be determined by the Board of Directors:

1. Normal range of futures prices
2. Normal range of implied volatility changes.
3. Intermonth spread margin for determining intermonth spread risk.
4. Extreme range of futures price changes.
5. Backup margin collection ratio for the extreme calculation.
6. Gross short option assessment level.

[®]SPAN and Standard Portfolio Analysis of Risk are trademarks of the Chicago Mercantile Exchange. The Chicago Mercantile Exchange assumes no liability in connection with the use of SPAN by any person or entity.

c. Cross-Margining

Qualifying accounts may avail themselves of the beneficial margins allowed under cross-margining. Qualifying accounts, qualifying contracts, margin rates and all other specific provisions shall be determined by the Cross-Margining Agreement entered into between the KCBT Clearing Corporation and another Cross-Margining Clearing Organization pursuant to Article XIII of the By laws of the KCBT Clearing Corporation.

Interpretations

INTRP 11-1115.00-1 Recording Trading Quantity

Effective Friday, January 2, 1998, the term "quantity," as used in Rule 1115.00 respecting the items required to be recorded on a trading record, shall mean "number of contracts."

Note: Prior to 1/2/98, wheat futures quantity was recorded in thousands of bushels rather than contracts.

INTRP 11-1128.00-1 Exchange Of Futures For Cash

Rule 1128.00 pertaining to the exchange of futures for cash commodities or in connection with cash commodity transactions may only occur between two parties wherein one of the parties is the buyer of the futures contracts and the seller of the cash commodity and the other party is the seller of the futures contracts and the buyer of the cash commodity. The transaction must be submitted to the Clearing Corporation by a clearing firm acting on its own behalf or for the beneficial account of a customer who is a party to the transaction. Pass-through of futures is prohibited. (Approved by the Board of Directors 12/18/90, by the CFTC 3/4/91 and effective on 3/4/91.)

INTRP 11-1146.00-1 Futures Trading; Spread Requirements

Intramarket Spreads; Market Up The Limit

Question: When the market is up the limit, can a futures trader enter into spreads with one side of the spread being lower than the current price which was up the daily limit?

Answer: Rule 1146.00 permits such spreading transactions provided there is an open outcry in the pit and the pit reporter is advised of the spread transaction. The restrictions of Rule 1146.00 apply to all such transactions (June 5, 1973).

INTRP 11-1146.00-2 Futures Trading; Trading Requirements - Bid/Ask Differences

The Board of Directors in its meeting on December 30, 1983 interpreted Rule 1146.00(c) to mean the following:

"Spread transactions occurring in contract months which have no daily quotation range, must be concluded at prices which reflect the bid/ask differences available by open outcry in the pit."