# Chapter 24
# Value Line Average Stock Index Futures Contract

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# Chapter 24
# Value Line Average Stock Index Futures Contract

## Contract

**2400.00 Stock Index Futures Contract**. The Value Line Average Stock Index Futures Contract ("Contract") is based on the Value Line's composite stock arithmetic average (VLA) in index form. Any changes made in the VLA such as changes in the stocks included in the VLA will be automatically reflected by the Contract without any action on the part of the Kansas City Board of Trade. (See Rule 2411.00 Contract Size.)

Note: The index and its compilation are the exclusive property of Value Line, Inc. (formerly Arnold Bernhard & Co., Inc.) or its successor.

a. **Definition of the Stock Index Futures Contract.** The Value Line Average Stock Index Futures Contract ("Contract") is based on the Value Line's composite stock arithmetic average (VLA) in index form. Any changes made in the VLA such as changes in the stocks included in the VLA will be automatically reflected by the Contract without any action on the part of the Kansas City Board of Trade. (See Rule 2411.00 Contract Size.)

b. **Definition of Index.** The Value Line Composite Average is an equally weighted arithmetic index of stock prices. The companies included in the Average are those reviewed in the Value Line Investment Survey and represent the actively traded and widely held shares.

Potential additions to the Value Line Investment Survey and the Value Line Composite Average are evaluated with the following criteria:

— Market Capitalization: greater than $100 million.
— Monthly Trading Volume: greater than 200,000 shares.
— Annual Sales: greater than $75-100 million.
— Annual Net Income: at least $5-10 million preferably, but not necessarily, growing.
— Share Price: above $10 per share.
— Shares Outstanding: greater than 5 million.
— Insider Holdings: limited (but "float" is the key).

Note: Prospects don't have to meet all these criteria, especially if the company is very visible or growing rapidly.

Stocks are deleted due to merger, liquidation, bankruptcy or going private. Stocks are also dropped due to lack of investment interest, as measured by trading volume or stock price.

The Value Line Composite Index is computed by dividing the latest price of each stock by the preceding closing price. These price ratios are added together to get a price ratio sum. Then the arithmetic average of the ratios is derived by dividing this sum by the total number of stocks in the Composite. The arithmetic average of the price ratios is multiplied by the preceding close of the Composite to get the current value of the Composite. For listed stocks, the latest price is the last trade. If a listed stock does not trade, it is considered to be unchanged and its price ratio is 1.00. For over-the-counter stocks, all prices are the bid from the NASDAQ system.

The Value Line Composite Average is adjusted for stock dividends and stock splits by adjusting the preceding closing price in proportion to the distribution. No adjustment is made for cash distributions.
There is no fixed number of stocks in the Value Line Composite. Stocks may be added or deleted by including or omitting them from the calculation of the arithmetic average of the price ratios.

## Applicable Rules

**2402.00 Rules and Regulations**. The Contract and transactions under this Chapter are subject to the general rules of the KCBT. 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 of the KCBT, the provisions of this Chapter shall take precedence with respect to the Contract.

**2403.00 Additional Rules**. The Board of Directors has the authority to adopt additional rules and regulations, and to alter existing rules and regulations, including the rules of this Chapter, on ten (10) hours' notice, subject to CFTC 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.

**2404.00 Advisory Committee**. The Chairman may appoint an Advisory Committee ("Committee") to consult with and advise the KCBT with respect to the Contract. Consultations may occur by telephone conference calls, meetings with the whole Committee or individual members thereof, or other appropriate or convenient means.

## Time and Place

**2406.00 Trading Hours**. Trading hours shall be from 8:30 a.m. to 3:15 p.m. local (Central) time. The trading hours may be varied by the Board of Directors.

**2406.01 Extension Of Closing Time**. The closing time may be extended to correspond with the closing time for the primary securities market.

**2406.02 Holidays**. The contract market will observe the same holidays as those observed by the New York Stock Exchange.

**2407.00 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.

## Trading Conditions

**2410.00 Future Months**. Trading will be permitted on the basis of six (6) contract delivery months, giving a maximum Contract term of eighteen (18) months. The Board of Directors may permit trading on the basis of eight (8) quarterly delivery months at a later date, resulting in a maximum forward contract term of twenty-four (24) months.

**2410.01 Contract Delivery Months**. The Contract delivery months (sometimes called trading months) are March, June, September and December. The Board of Directors has the power to change the Contract delivery months.

**2411.00 Contract Size**. For the purpose of structuring this futures Contract, the numerical value of the VLA's Composite Index is arbitrarily defined as one "unit" of the index. The Contract size is designated as twenty five (25) "units" of the VLA Index. For trading purposes, the numerical value is assigned a dollar value. However, the Contract will be traded, and the price quoted, on the basis of one "unit" of the VLA. The actual price of the futures contract will be determined in the market by the bids, offers, and sales. As an example a contract quote of or sale at "1807.50" would reflect a contract value of $45,187.50.

**2412.00 Minimum Fluctuations**. The minimum fluctuation is measured in .50 in terms of the Value Line Index, or $12.50 per fluctuation in the contract value

**2413.00 Daily Price Limits and Trading Halts**. Daily price limits and trading halts of the Value Line Average Stock Index Futures Contract shall be coordinated with trading halts in the securities markets.

**Price Limits:** There shall be Price Limits corresponding to a market move of 10% and 20% **above or below** the previous day's settlement price calculated as provided below.

The 10% and 20% Price Limits shall be determined at the beginning of each calendar quarter, based upon the average settlement price of the index during the calendar month immediately preceding the beginning of such calendar quarter. The resulting value shall be referred to as the Quarterly Value. The Quarterly Value shall be multiplied by the applicable Price Limit, then rounded to the nearest integral multiple of 1.00 index point. For example, if the Quarterly Value was 1505.00, then the 10% Price Limit would be 151.00 and the 20% Price Limit would be 301.00.

**Rising Market Provisions (Market above previous day's settlement price)**

During trading times beginning when the primary securities market opens (8:30 a.m. Central time) and continuing until the close of the contract (3:15 p.m. Central time), the 10% Price Limit shall be in effect until either of the two nearest contract months is limit bid at such Price Limit, at which time trading shall be halted for a period of five (5) minutes. The 20% Price Limit shall apply to such reopening and shall be in effect until either of the two nearest contract months is limit bid at such Price Limit, at which time trading shall be halted for a period of five (5) minutes. There shall be no Price Limit above the previous day's settlement price in effect upon reopening.
During trading times other than 8:30 a.m. to 3:15 p.m. Central time, the 10% Price Limit shall apply.

**Declining Market Provisions (Market below previous day's settlement price)**

Prior to 1:30 p.m. Central time, the 10% Price Limit shall be in effect until a trading halt has been declared at the primary securities market.

After 1:30 p.m. Central time, if a trading halt has not yet been declared in the primary securities market, the 10% Price Limit shall be in effect until such time as either of the two nearest contract months is limit offered at the 10% Price Limit, at which time trading shall be halted for a period of five (5) minutes. The 20% Price Limit shall apply to such reopening.

If during the time the 10% Price Limit is in effect there is a trading halt declared in the primary securities market, trading shall be halted. Trading shall resume once trading has resumed at the primary securities market following such a trading halt. The 20% Price Limit shall apply to such reopening.

If during the time the 20% Price Limit is in effect there is a trading halt declared in the primary securities market, trading shall be halted. Trading shall resume once trading has resumed at the primary securities market following such a trading halt. The 20% Price Limit shall continue to apply subsequent to such reopening.

**2414.00 Last Trading Day**. The last trading day of a contract delivery month is the business day immediately preceding the day of determination of the Final Settlement Price.

**2415.00 Reportable Positions; Defined**. A position of 100 or more contracts, or such other amount as set by the CFTC whether long or short, and whether owned, controlled, or carried for any person, either alone or in conjunction with any other person, is a reportable position.

**2415.01 Reports To Be Filed By FCM**. Every Futures Commission Merchant ("FCM") shall file a report for each customer, including the house, having a reportable position. This report shall be filed with the Department of Audits and Investigations at such time and in such form and manner as shall be prescribed by the Board of Trade.

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**2415.02 Position Limits**.

a. **Position Limits** — The limit on the maximum net long or net short position which any one person may hold or control under contracts for future delivery is 5,000 contracts in any one future or in all futures combined.

b. **Application of Limits** — The foregoing limits upon positions shall be construed to apply to positions in accounts for which a person by power of attorney or otherwise directly or indirectly controls the trading and shall be included with the positions held by such person. In addition, the 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 positions were held by a single person.

**2415.03 Exemptions From Position Limits**. Position limits set forth in Rule 2415.02 shall not apply to transactions and positions as set forth below.

Hedging Transactions and Positions — Bona fide hedging transactions and positions in the Stock Index contract for future delivery shall mean transactions or positions which are economically appropriate to the reduction of risk in the conduct and management of a commercial enterprise which arise from the potential change in the value of assets owned or controlled by the same person where the fluctuations in the value of such assets are substantially related to the fluctuations in value of the contract. Upon specific request, the KCBT may recognize transactions and positions other than those enumerated above, as bona fide hedging in such amounts and under such terms and conditions as the KCBT determines are in accord with sound commercial practice or do not exceed an amount which may be established or liquidated in an orderly manner provided that such transactions and positions are in accord with the definition of hedging set forth in CFTC Regulation 1.3(z) (1).

Note: This definition of bona fide hedging is utilized only for the purpose of determining position limits. For the purposes of establishing margins refer to Rule 2421 for another definition of hedging. Note specifically that a person may not exceed the position limits unless they request an exemption from the KCBT, which is approved; whereas for the purposes of margins, a person can be treated as a hedger and utilize hedge margins. This distinction is only involved if a person desires a position above the 5,000 contract limit.

Exemption — A person may request of the KCBT an exemption from the position restriction of 5,000 contracts by a submission including the following:

(i) A description of the intended transaction(s) including potential size.

(ii) A statement that the intended transactions will be bona fide hedges.

(iii) A statement that the transaction(s) is (are) necessary or advisable as an integral part of his economic activities which may include the ownership or control of equity securities or options thereon by a person with an explanation of a person's stock ownership activities. Such request must also include a statement that a person will supply immediately any information indicating a change in circumstances affecting the reasonableness of his hedge position.

The KCBT shall, on the basis of the application, or such further information as the KCBT may request, determine whether the applicant shall be approved to exceed the position limits. The KCBT may impose such limitations as are commensurate with the applicant's economic situation, financial ability and other factors. The KCBT may from time to time review approvals and for cause revoke or alter, or place limitations thereon. The applicant may appeal any decision of the KCBT, which will normally be accomplished by the staff and the Business Conduct Committee, to the Board of Directors. Exemptions, if any, will be subject to being overruled by any market order in an emergency or other unusual situation wherein the market finds it necessary to limit by percentage or numbers of contracts the position any party may hold notwithstanding any other previously issued exemption or any other rule of the KCBT.

**2416.00 Recording Of Floor Transactions**. Floor traders and floor brokers shall record the following information on their futures trading cards (not necessarily in this order):

a. Identity of the clearing member or firm;
b. Broker or trader making the trade;
c. Date;
d. Time period of the trade;
e. Commodity;
f. Quantity;
g. Month;
h. Price;
i. Opposite clearing member or firm;
j. Opposite broker or trader; and
k. Type of transaction per CFTC category.

Such cards shall be in a form acceptable to the Clearing Corporation.

**2417.00 Price Value Delivery**. Futures contracts obligations are normally terminated by offsetting transactions "in the pit." However, contracts for a given maturity remaining open after the close of the market on the last trading day shall be terminated by price value delivery.

**2417.01 Price Value Delivery; Defined**. Delivery of a commodity contract is normally effected by delivery of the actual commodity being traded, in an amount equal to the contract size. However, this Contract is based on an arithmetic average stock price in index form, which is an abstract number representing "a dollar value of the market" and changes thereof relative to a base period (1961). Therefore, the delivery medium will be by cash settlement based on the Final Settlement Price.

**2417.02 Delivery Mechanism**. The delivery mechanism will operate in the following manner:

a. **Final Settlement Price**. The Final Settlement Price (FSP) shall be determined on the third Friday of the contract month. If the New York Stock Exchange (NYSE) does not open on the day scheduled for the determination of the FSP, then the NYSE-stock component of the FSP shall be based on the next opening prices for NYSE stocks. For any non-NYSE-stock components that do not open on the day scheduled for the determination of the FSP, the last sale price shall be used to determine the FSP. The FSP shall be a special quotation of the Value Line index based on the opening prices of the component stocks in the index, or on the last sale price of a stock that does not open for trading on the day of the determination of the FSP

b. **Settlement**. The FSP times $25 will be used to liquidate all remaining open positions. All balances due to and from the Clearing Corporation shall be established at that time and the clearing members so advised (subject to any corrections for errors). The settlement will be handled as if it were a variation deposit adjusted to also reflect proper credit for the initial deposit.

c. **Transfer of Funds**. The Clearing Firms and the Clearing Corporation shall deliver funds due to a designated bank account of the FCMs and/or the Clearing Corporation by 11:00 A.M. Central Time (12:00 noon Eastern time) of the business day next following the day of determination of the FSP.

**2417.03 Default**. A market default will occur whenever a clearing member fails to deliver the appropriate sums to the Clearing Corporation on the days and at the time required. In the event of default, any defaulting party shall be liable for damages 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 $100 per defaulted contract. An additional fee or penalty may also be imposed through KCBT disciplinary procedures (chapter 14). The defaulting party may petition the

Board of Directors for reconsideration of any penalty so assessed. Whenever, in the judgment of the Board of Directors, upon reconsideration, the default was not due to the fault of the appealing party, or for other good cause shown, the Board of Directors may, in its discretion, waive or reduce the penalty.

## Customer Margins

**2420.00 Minimum Customer Margins**. To be set by the Board of Directors . These margin levels may be varied by the Board of Directors. FCM's may require a larger margin from their customers. (See Rule 2421.00 for the definition of hedge and speculative trades.)

Note: See Resolution 11-1160.00-1

**2421.00 Hedging**. All trades not classified as hedges as provided in Rules 2421.01 through 2421.04 shall be deemed speculative trades for customer deposit purposes.

**2421.01 Hedge Transactions; Defined.** For the purpose of this Contract, hedging transactions and positions are defined in CFTC Regulation, Sections 1.3(z), 1.47, and 1.48. A hedge (long or short) will be construed to exist when the transaction offsets an opposite position (long or short) in common stocks so long as the position's value may reasonably be expected to be influenced by general market movements, and where the market value of such position is essentially equal to or greater than the value of the Contract(s) when initiated.

**2421.02 Hedger; Defined**. A hedger is defined as a person, firm, or institution engaged in buying, selling, issuing, underwriting, and/or owning common stocks (including options thereon) as part of its economic activities.

**2421.03 Anticipatory Hedge; Defined**. Anticipatory hedges defined in CFTC Regulation, Section 1.3(z), will be permitted in an amount equal to six (6) months' anticipated flow of funds, and where there exists a contractual right to funds.

**2421.04 Hedges; Stock Options**. Sales and purchases of the contract may also be used to offset positions in stock options where the value of the stocks underlying the options position equals or exceeds the value of the offsetting contract(s). (CFTC Regulation, Section 1.3(z)).

## Clearing

**2430.00 Clearing**. All trades must be cleared through the Clearing Corporation, which will establish clearing deposits, rules, and procedures.

**2435.00 Settlement Procedure**. In establishing the settlement price:

a. The settling price shall be the weighted average of the prices in the closing range except that the settling price shall be a price consistent with the minimum fluctuation of the commodity. If no sales occur in the closing range, then a higher bid or lower offering shall be the settling price, provided it is different from the preceding sale.

b. If no sale occurs during the day, the settlement price shall be set at a price which when compared to the settlement price of the next contract month reflects the same differential that existed between the two contract months on the previous day, except that a bid or offer in existence at the close shall be the settlement price, if, respectively, it is higher or lower than the last settlement price.

c. If such settlement price is not consistent with sales in other months during the closing range or with market information known to the designated Stock Index Futures official supervising the closing or to members of the Pit Committee, the designated official, with the advice of the Pit Committee, may establish a settlement price at a level consistent with such other sales or market information and shall cause to be prepared a written record setting forth the basis for any modification of such settlement price.

## Advertising

**2440.00 Advertising Guidelines**. Advertising, market letters, and similar information issued by the KCBT, its members, and their associates shall observe truth and good taste in order to promote the good name of the KCBT, use representative statistics to avoid unwarranted conclusions, make no promise as to profits, and always indicate the possibility of loss if profit is mentioned.

**2440.01 File Copies**. All members, clearing members, commodity representatives, and other employees of members must file copies of all advertising including prepared radio or television scripts, prepared lectures, mail solicitations, and market letters relating to commodities traded on the KCBT with the Department of Audits and Investigations within seven (7) days after publication.

**2441.00 Approval Of Advertising**. If the Department of Audits and Investigations finds any such market letters and other forms of solicitation or advertising unacceptable, it shall report such findings to the Stock Index Committee which may, in turn, require all such future material issued by that member to be submitted to the Department of Audits and Investigations for approval prior to release. A directive by the Stock Index Committee with respect to advertising material may be appealed to the Board of Directors. Failure to abide by any directive of the Department of Audits and Investigations or Stock Index Committee in accordance with this rule shall constitute a major offense.

## Fees

**2445.00 Contract Fee**. A KCBT Contract fee will be set by resolution of the Board of Directors to cover Exchange expenses. The Board of Directors 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.

## Class B Membership Privileges and Obligations

**2450.00 Stock Ownership Required**. Persons approved for Class B membership shall be required to purchase a share of Class B Common Stock of the Corporation. The share of Class B Common Stock shall be issued in the name of the individual person who has qualified for, and has been granted, membership and trading privileges by the Board of Directors. No membership privileges shall be conferred unless such share of Class B Common Stock has been issued in the name of a qualified Class B member (as adopted by Board of Directors' Resolution, May 26, 1981).

**2451.00 Privileges and Obligations**. Persons approved as qualified for Class B membership shall be entitled to the privileges and shall be subject to the obligations of all other memberships of this Board of Trade, except Class B memberships shall be subject to the restrictions and limitations set forth in Rule 2452.00 and the Certificate of Incorporation.

**2452.00 Restrictions and Limitations**. The privileges and obligations of persons qualified as Class B members shall be subject to the following restrictions and limitations.

a. **Trading Privileges**. Trading privileges granted Class B members shall be limited to trading in the VLA Stock Index Futures Contract and such other contracts as the Board may approve, except the Board cannot permit trading in wheat futures contracts by Class B members. Such members shall not be entitled to trading privileges for any other futures contract traded at this Board of Trade; however once granted, approval to trade a contract may not thereafter be revoked.

b. **Cash Market Transactions**. Class B members shall not be permitted to engage in any cash grain transactions on or subject to the rules of this Board of Trade.

c. **Clearing Privileges**. Holders of only Class B memberships or firms represented only by such holders shall not be entitled to clearing privileges through the Clearing Corporation.

d. **Rights On Dissolution Or Liquidation**. No share of Class B Common Stock shall participate in any distribution of assets on dissolution or liquidation.

e. **No Obligation to Repurchase**. The provisions of Rule 143.00 relating to the repurchase of shares by the Corporation and all other rules and resolutions relating to the repurchase of shares by the Corporation shall have no application to Class B Common Stock and there shall be no obligation on the Corporation to repurchase any shares of Class B Common Stock.

f. **Voting**. Each holder of Class B common stock in good standing shall be entitled to vote as follows:

   1) One (1) vote on the adoption, modification, or recision of any rules in Chapter 24, "Value Line Average Stock Index Futures Contract. KV"; Chapter 26 "Option Contract on Value Line Average Stock Index Futures", and any other chapter which set forth the Rules of a futures contract the Directors authorize "B" members to trade.

   2) One (1) vote on assessments imposed by the Corporation.

   3) One-fourth (1/4) vote for officers and directors of the Corporation.

g. **Election To Office**. Persons qualified as Class B members may serve on, or hold any and all offices of the Board of Trade, including membership on the Board of Directors and the committees.

h. **Death Benefits**. Persons qualified as Class B members shall not be entitled to death benefits granted other memberships (pursuant to Chapter 3 of the rules) nor shall Class B members be liable for assessments to pay death benefits of any other member.

i. **Liability for Dues And Assessments**. Class B Members shall be liable for all dues and assessments (except as noted in 2452.00h above) as may be imposed on all other members of the Board of Trade (as adopted by Board of Directors' Resolution, May 26, 1981).

# Resolutions

### RES 24-2400.00-1  Class B Members

Class B Members may trade the Value Line Contract

### Resolution 24-2451.00-1  Value Line Market Maker Program

The Board of Directors may authorize the issuance of up to three (3) Class B shares of stock to market makers as part of an incentive package offered pursuant to a market maker program, the specific terms, conditions and incentives of which shall be set forth in a separate agreement and approved by the Executive Committee.  The issuance of such Class B shares shall be at no cost to the market maker (including transfer and investigation fees). (approved at the 4/26/05 Board meeting)

# Interpretations

### INTRP 24-2452.00-1  Class B Member Rights

The words “trading privileges” and “trading in” as used in Rule 2452.00(a) shall mean any and all aspects of doing business while on the floor of the exchange, including the solicitation of customer business, but only relating to those contracts that the Board has specifically authorized Class B members to trade.  Thus, Rule 2452.00(a) prohibits Class B members from in any way conducting any business or function from the floor relating to products that Class B members are not authorized to trade in, including the performance of “floor clerk” duties as prescribed by KCBT Rule 402.05.