

procedures for the live cattle futures contract.

SUMMARY: The Chicago Mercantile Exchange (CME or Exchange) has requested that the Commission approve the subject proposed amendments for the live cattle futures contract. The proposals were submitted pursuant to the provisions of Section 5c(c)(2) of the Commodity Exchange Act (Act) and Commission Regulation 40.4(a). Under the proposals, the Exchange will:

1. Increase the maximum live cattle average deliverable live weight by 25 pounds to 1,350 pounds, and increase the maximum individual animal live weight by 25 pounds to 1,400 pounds for cattle graded on a live weight basis;
2. Establish a "scale down" spot month speculative position limit of 450 contracts which applies during the period beginning with the close of business on the first business day following the first Friday of the contract month until the close of business on the business day preceding the last five business days of the contract month, after which period existing 300 contract limit will apply through the last day of trading;
3. Add delivery locations at Guymon and Texhoma, Oklahoma;
4. Establish penalties to be imposed at the sole discretion of the United States Department of Agriculture (USDA) grader, on any seller who has not properly presorted cattle for grading, and on any buyer who disrupts the delivery process, at a rate of \$0.15 per pound of live cattle delivered;
5. Grant the CME the authority to prohibit futures delivery on "auction days" at delivery stockyards;
6. Provide for the establishment of an annual uniform grading and documentation fee per delivery unit;
7. Eliminate the requirement that live-graded delivery cattle stand without water during the time interval between 9 a.m. and the time of grading; and
8. Provide for the application of price differentials to the delivery of steer carcasses weighing between 950 and 1,000 pounds.

The Exchange intends to implement the amendments with respect to all newly listed futures contract months beginning with the December 2003 contract month.

The Director of the Division of Market Oversight (Division) of the Commission, acting pursuant to the authority delegated by Commission Regulation 140.96, has determined that publication of the Exchange's proposed amendments for comment is in the public interest, and will assist the

Commission in considering the views of interested persons.

DATES: Comments must be received on or before February 7, 2003.

ADDRESSES: Interested persons should submit their views and comments to Jean A. Webb, Secretary, Commodity Futures Trading Commission, Three Lafayette Centre, 1155 21st Street, NW., Washington, DC 20581. In addition, comments may be sent by facsimile transmission to (202) 418-5521 or by electronic mail to secretary@cftc.gov. Reference should be made to "CME Live Cattle Amendments."

FOR FURTHER INFORMATION CONTACT: Please contact Martin G. Murray of the Division of Market Oversight, Commodity Futures Trading Commission, Three Lafayette Centre, 1155 21st Street, NW., Washington, DC 20581, (202) 418-5276. Facsimile number: (202) 418-5527. Electronic mail: mmurray@cftc.gov

SUPPLEMENTARY INFORMATION:

Background

The CME's live cattle futures contract calls for delivery at par of 40,000 pounds of USDA estimated Yield Grade 3, 55% Choice, 45% Select quality grade live steers, averaging between 1,100 pounds and 1,300 pounds with an individual steer weighing more than 100 pounds above or below the average weight for the unit. No individual animal weighing less than 1,050 pounds or more than 1,350 pounds is deliverable.¹ The weighing and grading of cattle delivered on the futures contract is conducted by USDA graders. Delivery of live steers may be made at par at CME-approved livestock yards in Syracuse, Kansas; Tulia, Texas; Columbus, Nebraska; Dodge City, Kansas; Amarillo, Texas; Norfolk, Nebraska; North Platte, Nebraska; Ogallala, Nebraska; Pratt, Kansas; and Clovis, New Mexico.² The futures contract's rules currently specify an individual contract month speculative position limit of 3,300 contracts, and a spot month speculative position limit of 300 contracts that becomes effective at the close of business on the first business day following the first Friday of the contract month.³

¹ Beginning with deliveries on the June 2003 contract month, the average weight range will be between 1,100 pounds and 1,325 pounds, and no individual animal weighing greater than 1,375 pounds will be deliverable.

² At the buyer's option, cattle may be graded on a live basis at the delivery stockyard, or on a carcass basis at a CME-approved packing plant located within the originating stockyard's delivery region.

³ The last trading day of an expiring contract month is the last business day of the contract month. Delivery notices may be issued beginning

1. Deliverable Live Weight Range

The Exchange proposes to increase the maximum average deliverable live weight to 1,350 pounds, and increase the maximum individual animal live weight to 1,400 pounds, for cattle graded on a live weight basis. In support of the proposal, the Exchange states, "The increase is recommended due to an evident trend in increased weights for slaughter steers and will allow the contract to follow industry standards."

2. Spot Month Speculative Position Limit

The Exchange proposes a "scale-down" spot month speculative position limit of 450 contracts which would apply during the period that begins with the close of business on the first business day following the first Friday of the contract month and continues until the close of business on the business day preceding the last five business days of the contract month. The contract's existing 300-contract limit would be applicable from the close of trading on the business day preceding the last five trading days throughout the last day of trading. Currently, there is a signed 300-contract limit applicable throughout the spot month beginning with the close of business on the first business day following the first Friday of the contract month through the last day of trading.

In support of the proposal, the Exchange notes that a "scale down" limit of 600 contract during the first part of the spot month and a 300-contract limit thereafter had been eliminated in favor of a single 300-contract spot month limit for the December 2002 through October 2003 contract months as a result of deliverable supply concerns. The Exchange believes that its subject proposals to widen the range of deliverable live weights, add two new delivery locations, and make other changes in the delivery process as discussed below, "will create a more efficient delivery process, attract more people who are willing to deliver and increase the deliverable supply," thus justifying the establishment of the "scale down" limit of 450 contracts during the first part of the spot month.

3. Delivery Locations

The Exchange proposes to add Guymon and Texhoma, Oklahoma as delivery locations. In support of the proposal, the Exchange states that these locations would facilitate delivery from the Oklahoma panhandle. The Exchange further notes that Guymon had been a

with the first business day following the first Friday of the contract month.