



August 31, 2004

SENT VIA E-MAIL

Ms. Jean A. Webb
Secretary of the Commission
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, D.C. 20581

Re: Certification and Request for Approval of Electronic Trading Rules Pursuant to Commission Regulation Sections 40.6(a) and 40.5.

Dear Ms. Webb:

- I. **Rule Certification & Request for Approval.** The Kansas City Board of Trade ("KCBT") hereby gives notification to the Commission pursuant to Commission Regulation Section 40.6(a), of its intent to implement new Rules (Chapter 9) pertaining to the electronic trading of KCBT products. In addition, KCBT requests that the Commission approve KCBT's electronic trading rules contained in Chapter 9 pursuant to Commission Regulation Section 40.5.

The Board of Directors, in a regular meeting held on June 29, 2004, approved the Rules of Chapter 9 and submitted the Rules to all Class AA members/shareholders for a shareholder vote. The shareholders, in a special meeting held on August 30, 2004, ratified the Board action by a vote of 94 to 1. At a regular meeting of the Board of Directors on August 31, 2004, the Board, acting pursuant to authority granted them under Rule 901.01, added clarifying language to Rule 918.00 and amended Rule 912.00 by prohibiting pre-execution communications (similar to recent amendments made to Rule 9B.13 by the CBOT). KCBT hereby certifies to the Commission that the provisions of the Rules of Chapter 9 are in compliance with the Commodity Exchange Act and the regulations thereunder (hereinafter referred to as the "Act").

- II. **System Designation & Compliance Assurances.** KCBT hereby gives notification to the Commission of its intent to use the electronic trading platform operated by the Chicago Board of Trade under the name e-cbot® and powered by LIFFE CONNECT®. KCBT products will be made available for trading on the system pursuant to a hosting agreement between KCBT and the Chicago Board of Trade. Use of the system for the trading of KCBT products is estimated to commence in December of this year. KCBT is of the opinion that the use of the aforementioned system for the trading of KCBT products is not in violation of the Act. Further, KCBT assures the Commission of its intent to comply with the Act with respect to KCBT products traded on the system.

- III. **Date of Implementation.** The Rules of Chapter 9 pertaining to Electronic Trading shall become effective on Wednesday, September 1, 2004.
- IV. **Substantive Opposing Views.** To the knowledge of the Board of Directors and staff, no substantive opposing views were expressed by members or others regarding the Rules of Chapter 9.
- V. **Text of Chapter 9 Rules.** The full text of the Rules of Chapter 9 pertaining to Electronic Trading is shown on the following 9 pages.
- VI. **Rationale for Action Taken.** As previously announced, the KCBT has entered into a hosting agreement with the Chicago Board of Trade whereby KCBT products will be made available for trading on the CBOT's e-cbot® electronic trading system powered by LIFFE CONNECT®. As a result, the Board of Directors approved a new chapter of rules and regulations governing electronic trading on the CBOT system. Specifically, the Board's intent with respect to the Agreement and Rules is to provide the necessary contractual, regulatory and operational framework for the listing and trading of KCBT contracts on the aforementioned electronic trading system. The Rules were intentionally constructed to be as consistent as possible with those of the CBOT governing electronic trading. This was done for the benefit of market participants trading products of both exchanges electronically, to minimize, where possible, regulatory and procedural differences.
- VII. **Closing.** Any questions regarding this submission should be directed to the undersigned at 816-753-7500.

Sincerely,

Jeff C. Borchardt
President

Cc: Rick Shilts – CFTC Washington
Tom Bloom – CFTC Kansas City
Robin Hagedorn – CFTC Kansas City

Chapter 9

Electronic Trading

900.00 Electronic Trading System. The term Electronic Trading System, when used in this Chapter shall refer to the electronic trading platform operated by the Chicago Board of Trade under the name e-cbot® and powered by LIFFE CONNECT®. KCBT products are made available for trading on the Electronic Trading System pursuant to a hosting agreement between KCBT and the Chicago Board of Trade (“Provider”).

“[e-cbot®/CBOT/The CBOT Logo] is a service mark of the Board of Trade of the City of Chicago, Inc. and is registered in the United States”

LIFFE CONNECT® is a trademark of LIFFE Administration and Management and is registered in Australia, Hong Kong, Singapore, the United States and the United Kingdom, is a registered Community Trade Mark, and is the subject of a pending application for registration in Japan.

901.00 Rules & Regulations. The rules and regulations contained in this Chapter govern those KCBT contracts that are traded through the Electronic Trading System. To the extent that the provisions in this Chapter conflict with rules and regulations in other sections of this Rulebook, this Chapter supersedes such rules and regulations and governs the manner in which contracts are traded through the Electronic Trading System. Otherwise, contracts traded on the Electronic Trading System fully subject to applicable general rules and regulations of the KCBT unless specifically and expressly excluded therefrom.

901.01 Additional Rules or Amendments. The Board of Directors has the authority to implement additional rules and alter existing rules of this Chapter following notification to the membership, subject to CFTC approval, if required.

901.02 Electronic Trading System Procedures. The KCBT may immediately adopt, cancel or modify procedures of the Electronic Trading System, including but not limited to, access, order entry, open, execution, confirmation, closing, clearing, reporting, notification and recordkeeping procedures determined to be necessary so as to comply with the Commodity Exchange Act, Commission Regulations, KCBT Rules, Regulations, Resolutions and surveillance obligations, or other controlling or governing authority; or determined to be in the best interest of the KCBT, Membership, users or public; or required as a result of changes by the Electronic Trading System Provider.

902.00 Access. KCBT members and their non-member customers or affiliates may access the Electronic Trading System by establishing a business relationship with an entity that has authorized access to the Electronic Trading System.

902.01 Direct Access. KCBT clearing member firms are eligible to obtain a direct access connection to the Electronic Trading System. Additionally, KCBT clearing member firms may authorize the extension of a direct connection to non-clearing members and non-member customers or affiliates. Such authorizations shall be submitted by the Clearing Member to the Exchange in writing and signed by an authorized officer of the Clearing Member. The Clearing Member guarantees the financial obligations of each person or entity for which it has authorized a direct connection with respect to transactions executed under its Clearing Member ID; however, for give-out transactions, such guarantee is effective only until such time that the give-out transaction is accepted for clearing by another Clearing Member.

An authorized officer of the non-member for which a Clearing Member authorizes a direct connection must agree in writing that the non-member’s use of the Electronic Trading System is governed by KCBT rules and regulations and that the non-member shall be subject to the jurisdiction of the KCBT.

With respect to each non-member for whom the Clearing Member has authorized a direct connection, the Clearing Member must:

- (a) Provide such non-member with information concerning the use of the Electronic Trading System and the rules and regulations of the Exchange.
- (b) Assist the Exchange in any investigation into potential violations of Exchange rules and regulations or the Commodity Exchange Act. Such assistance must be timely and includes, but is not limited to, requiring the non-member to produce documents, to answer questions from the Exchange, and/or to appear in connection with the investigation.

(c) Suspend or terminate the non-member's Electronic Trading System access if the Exchange determines that the actions of the non-member threaten the integrity or liquidity of any contract, violate any Exchange rules or regulations or the Commodity Exchange Act, or if the non-member fails to cooperate in an investigation. If a Clearing Member has actual or constructive notice of a violation of Exchange rules or regulations in connection with the use of the Electronic Trading System by a non-member for which it has authorized a direct connection and the Clearing Member fails to take appropriate action, the Clearing Member may be found to have committed acts detrimental to the interest or welfare of the Exchange.

902.02 ITMs and Responsible Persons. Each person or entity that has a direct connection to the electronic Trading System will request one or more Individual Trade Mnemonics (ITMs) as needed to accommodate the nature and volume of the person's or entity's business. A Responsible Person and one or more Backup Responsible Person(s) must be registered with the Electronic Trading System Provider for each ITM. The Electronic Trading System Provider, at its sole discretion, may limit the number of, or require additional ITMs and Responsible Persons.

A Responsible Person (or in his absence, the Backup Responsible Person) must be reachable via telephone by the Electronic Trading System Provider at all times that any of the ITMs assigned to him are in use. A Responsible Person (or in his absence, his Backup Responsible Person) must:

- (a) have the authority, at the Electronic Trading System Provider's request, to modify or withdraw any order submitted under an ITM assigned to him; and
- (b) immediately identify, at the Electronic trading System Provider's request, the source of any order submitted under an ITM assigned to him.

902.03 User IDs. Each order entered through the Electronic Trading System must contain a User ID that identifies the participant who entered the order. Each member or non-member with a direct connection must utilize a client application that automatically populates the User ID for every order based on the client application login.

Members, non-member employees and proprietary traders of a member or member firm, and non-member employees and proprietary traders of each non-member with a direct connection must have a unique, Electronic Trading System Provider assigned, registered User ID. Such participants shall be referred to as Registered Users. The User ID for all other users need not be registered. Each member or non-member entity with a direct connection shall ensure the accuracy of a Registered User's registration information at all times.

A Registered User shall be subject to the rules of the KCBT, including, but not limited to, the rules of this Chapter and rules relating to order handling, trade practices and disciplinary proceedings. It shall be the duty of the entity or individual who employs the Registered User to supervise such user's compliance with KCBT rules and regulations, and any violation thereof by such Registered User may be considered a violation by the employer.

903.00 Clearing Member Authorization.

- (a) Primary Clearing Member – Each non-clearing member or non-member with a direct connection who enters transactions through the Electronic Trading System must obtain authorization from a Primary Clearing Member. The Primary Clearing Member shall guarantee and assume financial responsibility for all such transactions traded through the Electronic Trading System under its Clearing Member ID. The Primary Clearing Member shall be liable upon all such trades made by the non-clearing member or non-member and shall be a party to all disputes arising from such trades.
- (b) Other Clearing Members – A non-clearing member or non-member with a direct connection may be authorized to enter transactions through the Electronic Trading System by one or more clearing members, in addition to its Primary Clearing Member, in accordance with the requirements of Resolution 13-1301.00-1, provided that written permission has been granted by its Primary Clearing Member. Such other clearing member shall be liable upon all Electronic Trading System trades made by the non-clearing member or non-member under its Clearing Member ID and shall be a party to all disputes arising from such trades.
- (c) Revocation of Clearing Authorization – A clearing member that provides the Electronic Trading System Provider trading authorization to a non-clearing member or non-member may revoke such authorization without prior notice. Written notice of the revocation of clearing authorization shall be immediately provided to the Electronic Trading System Provider, which shall thereby terminate such connection and cancel all orders of the non-clearing member or non-member in the System under the revoking Clearing Member's ID. If the revocation is by the Primary Clearing Member, all Electronic Trading System

connections of the non-clearing member or non-member shall be terminated until another clearing member has designated itself as the Primary Clearing Member. Unless otherwise specified by the Primary Clearing Member, a member whose connection to the Electronic Trading System has been terminated shall not automatically be denied access to the Floor of the KCBT during Regular Trading Hours.

904.00 Authorized Products. The Board of Directors shall determine the contracts and/or products which shall be listed on the Electronic Trading System. The following products are authorized for trading:

- a. Wheat Futures
- b. Wheat Options
- c. Value Line® Futures
- d. Value Line® Options

905.00 Trading Hours. The Board of Directors shall determine the business day hours during which the Electronic Trading System shall operate for the trading of each contract or product. The trading hours for the authorized products are as follows:

- a. Wheat Futures – 7:32p.m. to 6:00a.m., Sunday through Friday
- b. Wheat Options – 7:34p.m. to 6:00a.m., Sunday through Friday
- c. Value Line® Futures – 7:15p.m. to 3:15p.m., Sunday through Friday
- d. Value Line® Options – 7:17p.m. to 3:15p.m., Sunday through Friday

906.00 Opening.

(a) During the Pre-Open period designated by the KCBT, traders may enter only Market on Open orders, Limit orders and GTC Limit orders for both outright and strategies. Order modifiers are not permitted on orders entered during the Pre-Open.

(b) Immediately upon the Market Open, the Electronic Trading System will apply an uncrossing algorithm to calculate the price at which the maximum volume will be traded. All orders executed pursuant to the uncrossing algorithm will be executed at a price equal to or better than that at which they were entered. Market on Open orders are processed immediately after the uncrossing. The KCBT does not guarantee the execution of any order at the opening price.

907.00 Orders.

(a) An Electronic Trading System order may contain one of the following designations:

(1) Market orders – Market orders are executed at the best price or prices available in the order book at the time the order is received until the order has been filled in its entirety. However, a market order will not trade outside of the dynamic price limits and any residual volume from an incomplete market order is canceled. Market orders are rejected if the market is not open.

(2) Market on Open (MOO) orders – Market on open orders can only be submitted for futures products, including strategies. Such orders are accepted only during Pre-Open and are intended for execution at the opening market price. MOO orders will be executed by the Trading Host at the opening price calculated after the uncrossing of limit orders in the market when the market opens. If an opening price cannot be calculated for the market when it opens, all MOO orders will be automatically canceled. Any residual MOO orders that are not matched on the opening will be converted automatically to limit orders at the opening price.

(3) Limit orders – Limit orders are orders to buy or sell a stated quantity at a specified price, or at a better price, if obtainable. Unless otherwise specified, any residual volume from an incomplete limit order is retained in the central order book until the end of the day unless it is withdrawn or executed.

(4) Good-Till-Canceled Limit (“GTC”) orders – GTC orders are eligible for execution for the current and all subsequent Electronic Trading System trade sessions until executed, canceled or the expiry month expires. GTC orders can be given an expiry date and are valid until the end of trading on that date.

(b) The following order modifiers are permitted:

(1) Minimum Volume – Minimum Volume orders are executed only if there is at least the designated minimum volume available at the stated price or better. If the designated minimum volume cannot be traded, the order is canceled. Any residual volume from a partially executed minimum volume order is

retained in the central order book. A Minimum Volume modifier may be used with limit orders, GTC limit orders and market orders.

(2) Complete Volume – Complete Volume orders are executed only if there is sufficient volume available, at the stated price or better, to execute the order in its entirety. If the order cannot be executed in its entirety, the entire order is canceled. A Complete Volume modifier may be used with limit orders and market orders.

(3) Immediate & Cancel – Immediate and Cancel orders are executed against any existing orders at the stated price or better, up to the volume designated on the order. Any residual volume on the order is canceled. An Immediate and Cancel modifier may be used with limit orders.

(c) Strategy Orders and Contingent Multiple Orders

(1) Strategy Orders – The Electronic Trading System allows for the creation of recognized strategies, including delta neutral strategies, and for the submission of orders in such strategies.

(2) Contingent Multiple Orders – A Contingent Multiple Order is an order that contains between two and eight component outright orders in up to two products. The permitted product pairs are pre-defined by the KCBT. Trading of any component order is contingent on all component orders being fully executed. Only one futures component is permitted if any component is an option. Each component order can be a limit order or a market order.

908.00 Order Entry.

(a) A member or Registered User who is registered as a floor broker or associated person, or in a comparable capacity under applicable law, may enter discretionary or non-discretionary orders on behalf of any account of a clearing member with the prior approval of the clearing member responsible to clear such orders.

(b) A member or Registered User who is not registered as a floor broker or associated person, or in a comparable capacity under applicable law, may enter non-discretionary orders on behalf of customers. Such member or Registered User may enter discretionary or non-discretionary orders for the account of his employer or for his own account provided he does not enter or handle customer orders.

(c) It shall be the duty of each member or Registered User to: (1) submit orders through the Electronic Trading System under his registered Electronic Trading System User ID and (2) input for each order the correct CTI code and appropriate account designation. A suspense account may be used at the time of order entry provided that a contemporaneous written record of the order, with the correct account designation, is made, time-stamped and maintained in accordance with Rule 911.00, and provided that the correct account designation is entered into the clearing system prior to the end of the trading day.

(d) With respect to orders received by a member or Registered User which are immediately entered into the Electronic Trading System, no separate record need be made. However, if a member or Registered User receives an order that is not immediately entered into the Electronic Trading System, a record of the order including the order instructions, account designation, date, time of receipt and any other information that is required by the KCBT must be made.

909.00 Priority of Execution. Orders received by a member or Registered User shall be entered into the Electronic Trading System in the sequence received. Orders that cannot be immediately entered into the Electronic Trading System must be entered when the orders become executable in the sequence in which the orders were received.

910.00 Good Faith Bids and Offers. A member or Registered User shall not knowingly enter, or cause to be entered, bids or offers into the Electronic Trading System other than in good faith for the purpose of executing bona fide transactions.

911.00 Records of Transactions Effected Through the Electronic Trading System. All written orders and any other original records pertaining to orders entered through the Electronic Trading System must be retained for five years. For orders entered into the Electronic Trading System immediately upon receipt, the data contained in the Electronic Trading System shall be deemed the original records of the transaction.

912.00 Trading Against Customer Orders, Crossing Orders and Pre-Execution Communications.

- (a) Trading Against Customer Orders – During an Electronic Trading System trading session, a member or Registered User shall not knowingly cause to be entered or knowingly enter into a transaction in which he takes the opposite side of an order entered on behalf of a customer, for the member’s or Registered User’s own account or his employer’s proprietary account unless the customer order has been entered immediately upon receipt and has first been exposed on the Electronic Trading System for a minimum 5 seconds for outright futures contracts and a minimum of 15 seconds for strategies and options contracts. Such transactions that are unknowingly consummated shall not be considered to have violated this regulation.
- (b) Crossing Orders – Independently initiated orders on opposite sides of the market for different beneficial account owners that are immediately executable against each other may be entered without delay provided that the orders did not involve pre-execution communications.
- Opposite orders for different beneficial accounts that are simultaneously placed by a party with discretion over both accounts may be entered provided that one order is exposed on the Electronic Trading System for a minimum of 5 seconds for outright futures contracts and a minimum of 15 seconds for strategies and options contracts.
- An order allowing for price and/or time discretion, if not entered immediately upon receipt, may be knowingly entered opposite a second order entered by the same firm only if the second order has been entered immediately upon receipt and has been exposed on the Electronic Trading System for a minimum of 5 seconds for outright futures contracts and a minimum of 15 seconds for strategies and options contracts.
- (c) Pre-Execution Communications Prohibited – Pre-execution communications are communications between two market participants for the purpose of discerning interest in the execution of a transaction prior to the entry of an order on the Electronic Trading System. Pre-execution communications and transactions arising from such communications are prohibited.

Violations of this rule shall be considered an act detrimental to the best interest and welfare of the KCBT.

913.00 Disclosure Statement. No member or clearing member shall accept an order from, or on behalf of, a customer for entry into the Electronic Trading System, unless such customer is first provided with the Uniform Electronic Trading and Order Routing System Disclosure Statement developed by the National Futures Association.

914.00 Disciplinary Procedures. All access denials, suspensions, expulsions and other restrictions imposed upon a member or Registered User by the KCBT pursuant to disciplinary procedures contained in Chapter 14 of the KCBT rules shall restrict with equal force and effect access to, and use of, the Electronic Trading System.

915.00 Misuse of Electronic Trading System. Misuse of the Electronic Trading System is strictly prohibited. It shall be deemed an act detrimental to the interest and welfare of the KCBT to either willfully or negligently engage in unauthorized access to the System, to assist any individual in obtaining unauthorized access to the System, to trade on the System without the authorization of a clearing member, to alter the equipment associated with the System, to interfere with the operation of the System, to use or configure a component of the System in a manner which does not conform to the System’s acceptable use policy, to intercept or interfere with information provided on or through the System, or in any way to use the System in a manner contrary to the rules and regulations of the KCBT.

916.00 Termination of Electronic Trading System Connection. The KCBT and/or the Electronic Trading System Provider, at its sole discretion, shall have the right to summarily terminate the connection of any member or non-member, or the access of any User. Additionally, the KCBT and/or the Electronic Trading System Provider, at its sole discretion, shall have the right to direct a member or non-member with a direct connection to immediately terminate access to the Electronic Trading System of any user.

917.00 Limitation of Liability. This Rule sets forth the disclaimer of warranties and the limitation of liability that shall apply to any provision, use, performance, maintenance or malfunction of the Electronic Trading System for trading:

- (1) Disclaimer of Warranties. The KCBT provides any licensed products, access to the interface, the equipment and the trading system “AS IS”. Except as specifically provided in any Interface Sublicense and Connection Agreement, the KCBT makes no, and hereby disclaims all, warranties, conditions, undertakings, terms or representations, expressed or implied by statute, common law or otherwise, in relation to any licensed products, equipment or trading system or any part or parts of the same. The KCBT specifically disclaims all implied warranties of merchantability, fitness for a particular purpose and non-

infringement. The KCBT further disclaims all warranties, implied or otherwise, relating to any third party materials.

(2) Liability

(i) **General Limitation.** Excluding a finding of gross negligence or willful misconduct, the KCBT, the agents, subcontractors and licensors of the KCBT, and the officers, directors, and employees of the KCBT, and its agents, subcontractors and licensors, shall have no liability, to any licensee or any other person, under any Interface Sublicense and Connection Agreement or in relation to the use, performance, maintenance, or malfunction of the equipment, any licensed products, or the trading system or any components thereof, for any losses, or other damage or injury, direct or indirect (including, but not limited to, consequential, incidental, and special damages and loss of profits, goodwill or contracts), which arising from negligence or breach of contract or otherwise, and whether or not such person (or any designee thereof) shall have been advised of or otherwise might have anticipated the possibility of such damages.

(ii) **Aggregate Liability.** In the event the limitation under paragraph (b)(2)(i) above is found by a court of competent jurisdiction to be invalid, unlawful, or unenforceable, the entire aggregate liability of the KCBT, its agents, subcontractors and licensors, and the officers, directors, and employees of the KCBT and its agents, subcontractors and licensors under or in connection with any Interface Sublicense and Connection Agreement shall not exceed \$10,000.

Notwithstanding any of the foregoing provisions, this Regulation shall in no way limit the applicability of any provision of the Commodity Exchange Act, as amended, and Regulations thereunder.

918.00 Error Trade Policy. In order to ensure fair and orderly market conditions, Market Operations, the KCBT, or designated staff, may cancel a transaction in accordance with the Error Trade Policy detailed as follows:

ERROR TRADE POLICY

The KCBT's error trade policy is designed to preserve the integrity of KCBT product markets by striking an appropriate balance between trade certainty and erroneous price discovery. The policy provides a mechanism to promptly address transactions that are executed at obviously erroneous prices substantially inconsistent with the last trade price of the contract or alternative determination of the contract's fair value. This policy does not relieve market participants from potential financial responsibility or liability for the execution of trades that are deemed an "error trade" if their actions caused financial loss to other parties whose transactions were busted.

KCBT specifically authorizes The Chicago Board of Trade Market Operations to administer the Error Trade Policy. KCBT senior management will be available during all market hours to interpret the Error Trade Policy and decide whether or not to bust a trade under that policy. In the absence of an authorized representative of the KCBT, The Chicago Board of Trade Market Operations is authorized, at their discretion, to interpret this policy, to apply it in specific instances and make final decisions as to whether or not the KCBT Error Trade Policy calls for a trade to be busted. The Chicago Board of Trade and its employees shall not be subject to any KCBT arbitration under KCBT Rules.

The CBOT is not liable to the KCBT for any claims related to the KCBT Error Trade Policy and the KCBT has agreed to indemnify the CBOT for any claims asserted by a third party against the CBOT relating to the KCBT Error Trade Policy.

1. Invoking the Error Trade Policy

If an Electronic Trading System user believes that he executed a trade through the System at a price that was in error, he must contact Market Operations ("Operations") at (312) 347-4600 without delay. If Operations is not notified within five minutes of the execution time of the asserted error trade, the trade will stand. A third party or Operations may also call a trade into question within five minutes of the execution. Trades called into question within five minutes will be evaluated in accordance with sections 2 and 3 of this policy. However, Operations has the authority, but not the obligation, to consider trades reported after the five minute deadline provided the trade price in question is grossly (i.e. multiple points) out of line with the last trade price or alternatively determined fair value of the respective contract. Trades resulting from quantity errors generally will not be called into question.

2. Trade Price Within the "No Bust Range"

a. **Futures** - If a futures transaction is asserted to be at a price that is in error, the trade shall not be considered for review by Operations unless the price of the asserted error trade is greater than the designated number of ticks (see chart below) from the reference price. The reference price will be the last trade price preceding the entry of the error trade or an alternatively determined fair value of the contract. Fair value for futures contracts may be determined by the last trade price, preceding settlement price, spread relationships and/or other variables deemed relevant by Operations. However, during side-by-side hours the reference price on a downside (upside) move will never be higher (lower) than the low (high) of the pit traded price for an equivalent contract during the time period that the prices of the contracts were disjointed. During non-side-by-side hours, the reference price will never be higher (lower) than the low (high) of an equivalently traded contract.

b. **Options** - If an option trade is asserted to be at a price that is in error, the trade shall not be considered for review by Operations unless the price of the asserted error trade conforms to the following guidelines:

- i. Trades must be greater than 2 ticks above or below the theoretical price in order to be eligible to be busted.
- ii. Trades greater than 2 ticks away from the theoretical price, but less than 20 ticks away from the theoretical price (40 ticks for Value Line), must be greater than 20% above or below the theoretical price, in order to be eligible to be busted.
- iii. Trades greater than 20 ticks above or below the theoretical price (40 ticks for Value Line), may be busted even if the tick disparity is less than 20% of the theoretical value.

No Bust Range by Product*

(* For options, the no bust range shown below is the greatest number of ticks defined as the no bust range pursuant to 2(b) above)

Product	Symbol	Minimum Tick Increment	No Bust Range	Tick Increment of No Bust Range
Wheat Futures	KE	1/4 cent	40 ticks	10 cents
Wheat Options	OKE	1/8 cent	20 ticks	2 1/2 cents
Value Line® Futures	MV	.05 Point	200 ticks	10 Points
Value Line® Options	OMV	.05 Point	40 ticks	2 Points

If an asserted trade entry error results in trade executions at multiple price levels, the last trade price (if used to determine the reference price) shall be the last trade price prior to the entry of the alleged error trade.

If the asserted error trade is the first trade in a contract that has not previously been opened, Operations will determine a fair value estimate for the contract, which then will be gauged against the error trade range to determine the final status of the trade.

If Operations contacts a member user regarding a suspicious order and the user states that the order is entered correctly, the order (if subsequently executed) may only be called into question by a third party.

Trades that are executed outside of the daily price limits will be busted by Operations irrespective of whether the trade(s) falls within the “no bust range” established above.

3. Trade Price Outside of the “No Bust Range”

If the price of the asserted error trade is more than the specified number of ticks from the reference price, Operations will send a broadcast message to the user community indicating that the trade has been called into question. If the asserted error trade is outside of the specified tick range and involves only two parties, Operations will attempt to contact the parties to the transaction. If both parties agree to bust or re-price the transaction, Operations shall send a broadcast message to the user community and an alert to the quote vendor network indicating that the trade was busted or re-priced.

If there is more than one contra-party to the order asserted to have been executed in error, Operations will gauge the erroneous transactions against the error trade range to determine the final status of the trades.

4. Operations Authority to Halt Markets

Operations shall have the authority to halt markets in any contract during extraordinary circumstances where there has been a major market movement without any apparent economic or fundamental basis for movement to have occurred.

5. Decisions of Operations

- a. Operations will review the circumstances surrounding the alleged error trade to determine whether it should be deemed an error trade and busted. However, subject to the mutual agreement of both parties, the trade may be re-priced in line with the contract's fair value. If the trade is re-priced to a level that is below a sell limit price or above a buy limit price, and the customer rejects the trade, the trade must be placed in the error account of the customer's clearing firm. Parties to these transactions are permitted to make cash adjustments to settle losses that occur as a result of the error trade. Should parties to a disputed transaction be unable to mutually resolve financial disputes arising from such transactions, arbitration facilities are available through the KCBT. The Arbitration Committee may hold the party who entered the order that resulted in the error trade financially responsible for losses that occur as a result of the busted trade(s).

Trade certainty and the timely resolution of error trades are critical objectives of this policy. Therefore, if parties to a disputed transaction do not agree to the terms of resolution, Operations reserves the final authority to determine the disposition of the questioned transaction.

During side-by-side trading hours, Operations shall, unless impracticable, make its determination within 10 minutes of the broadcast message regarding the potential error trade. During non side-by-side trading hours, Operations shall, unless impracticable, make its determination within 15 minutes of the broadcast message regarding the potential error trade. The decisions of Operations shall be final, and Operations shall send a broadcast message and an alert to the quote vendor network indicating whether the trade was busted, re-priced or allowed to stand.

- b. In making its determination, Operations may consider relevant factors including, but not limited to: market conditions immediately before and after the transaction; the prices of related contracts; whether one or more parties to the trade believe the trade was executed at a valid price; the extent to which the transaction appeared to trigger contingency orders and other trades; information related to the Operations by third parties.

6. Procedures for Correcting Error Trades

In the event a trade is busted, the parties to the transaction must reverse the transaction through applicable clearing house procedures. Operations will notify KCBT Compliance regarding any situation where a party fails to claim or reverse trades in a timely manner. Such failure may be deemed a violation of Rule 1173.00, Detrimental Acts.

Under no circumstances shall the parties to an alleged error trade be permitted to reverse the error by entering into a prearranged transaction.

If the trade called into question is determined not to be an error trade, the parties to the trade are permitted to mutually agree upon cash adjustment; any such adjustment must be reported to Operations.

Spreads

Because of the autoleg feature of the Electronic Trading System, spreads may be executed such that one leg of the spread is determined to be an error trade and the other leg is deemed to have been executed at a good price. In such circumstances, the party who enters an outright order that causes an error trade on an autolegged spread will be deemed to be the counterparty to the good leg of the spread (see Rule 919.00). The parties to the transactions will reverse and claim the transactions as indicated through the applicable clearing house procedures.

7. Arbitration Procedures

Arbitrations relating to asserted error trades are limited to trades that are determined by Operations to be an error trade. A notice of intention to arbitrate must be filed within ten business days after the date of the error trade. The party that caused the error may be held responsible for realized losses incurred by parties whose trades were busted as a result of the error.

8. Error Trade Fees

The party responsible for the error must pay KCBT a \$1,000 fee for each of the first two error trades, \$3,000 for the 3rd error trade, and \$5,000 for each subsequent error trade within a calendar year.

919.00 Autoleg Error - Example.

EXAMPLE OF AUTOLEG ERROR

Trader “A” has a spread order in the book to buy July Wheat and sell September Wheat. (Please note that when you enter a spread order into the system, it assigns prices to the individual legs and the order is included in the outright order books.)

Trader “B” has an order to sell July Wheat.

Trader “C” makes an error by entering a bid in the September contract (he intended to bid July). Trader C’s bid for September matches against Trader A’s sell September portion of the spread, which triggers Trader A’s buy July portion of the spread to match against Trader B’s sell July order.

The September trade between Trader C and Trader A is determined to be an error trade. The July trade between A and B is executed at an economically justifiable price.

The September leg is determined to be an error trade and is busted. Trader C is then required to claim the July leg executed for Trader A.

Summary

<i>July Wheat</i>		<i>Sep Wheat</i>	
Buy	Sell	Buy	Sell
A	B	C	A

Trader C is cause of error

Trader A vs. B = good price

Trader A vs. C = bad price

Trader A vs. C leg is determined to be an error trade and is busted

Trader A vs. B leg is reversed and Trader C is required to claim the trade so that Trader B is not harmed.

920.00 Fees. The KCBT Board of Directors shall determine the transaction fees that shall be assessed each contract transacted on the Electronic Trading System. In addition, the KCBT Clearing Corporation Board of Directors shall determine the clearing fees that shall be assessed each contract transacted on the Electronic Trading System. Such fees are subject to change upon 30 days advance notice.