



Special Executive Report

S-8067

December 15, 2017

Amendments to Various CME SEF Rules

Pending all relevant CFTC regulatory review periods, the Swap Execution Facility Division of Chicago Mercantile Exchange Inc. ("CME SEF") will adopt various amendments to CME SEF Rules to conform them to similar rules in the CME Group Exchanges' Rulebooks. Except for CME SEF Rule 553. ("Average Price System"), the amendments will become effective on Tuesday, January 2, 2018. The amendments to CME SEF Rule 553. will become effective on Monday, July 2, 2018, corresponding to the date that amendments to the CME Group DCM's Rule 553. ("Average Price System") become effective.

The amendments appear below.

CME SEF Rules

(additions are underscored, deletions are ~~overstruck~~)

[Effective January 2, 2018]

Chapter 4 Enforcement of Rules

437. NOTICE OF DISCIPLINE

Notice shall be made available to an internet accessible computer database at the National Futures Association and to an internet accessible computer database at CME Group and shall be provided to any Participant who is suspended, expelled, disciplined or denied access to CME SEF within 30 days after the decision becomes final. The notice shall include the Participant's name, the Rule(s) violated, the reason for CME SEF's action and the action taken or penalty imposed.

Chapter 5 Qualifications for Execution and Trading Practices

536. RECORDKEEPING REQUIREMENTS FOR GLOBEX OR CME DIRECT, AND NEGOTIATED TRADES

536.A. Globex or CME Direct Order Entry

1. General Requirement Each Authorized Trader, Authorized Manager or Authorized Broker entering orders into Globex or CME Direct shall input for each order: a) the operator's user ID assigned him by CME SEF, a clearing member or other authorized entity b) the price, actual notional or principal amount (which must be input as the contract unit value in which the swap trades), quantity, product, expiration month, CTI code, and account number (except as provided in Section C.). The Globex or CME Direct terminal operator's user ID must be present on each order entered. For a Globex or CME Direct terminal operator with access pursuant to Rule 574, the clearing members that guarantees authorizing such access to Globex or CME Direct will be responsible for the Globex or CME Direct terminal operator's compliance with this rule. Notwithstanding, and in accordance with Rule 574, a clearing member must take appropriate action if it has actual or constructive knowledge that an Authorized Trader, Authorized Manager or Authorized Broker has failed to accurately input for each order fields required to be populated by this rule.

With respect to orders received by a Globex or CME Direct terminal operator which are capable of being immediately entered into Globex or CME Direct, no record other than that set forth above need be made. However, if a Globex or

CME Direct terminal operator receives an order which cannot be immediately entered into Globex or CME Direct, the Globex or CME Direct terminal operator must prepare a written order and include the account designation, date, time of receipt and other information required pursuant to section A.1. above. The order must be entered into Globex or CME Direct when it becomes executable.

543. RESTRICTIONS ON ACCESS FOR SANCTIONED PARTIES AND JURISDICTIONS

The following parties (defined individually as a "Sanctioned Party" and collectively as "Sanctioned Parties") are not permitted to access CME SEF, whether directly or indirectly: parties that are (i) identified on the Specially Designated Nationals and Blocked Persons List of the U.S. Department of the Treasury's Office of Foreign Assets Control ("OFAC") ("Restricted Persons"), (ii) 50% or more owned by Restricted Persons, (iii) located in a country or territory subject to comprehensive economic sanctions administered by OFAC ("Restricted Country or Territory" or "Restricted Countries or Territories"), (iv) owned or controlled by the governments of Restricted Countries or Territories, (v) subject to OFAC restrictions where such restriction prohibits a specific activity which would in turn prohibit the party from trading on CME SEF or settling a transaction at CME SEF, (vi) subject to restrictions administered or imposed by a state or government authority authorized to issue economic sanctions and blocking measures that has jurisdiction over a Clearing Member (each a "Sanctioning Body") or (vii) acting on behalf of any of the foregoing.

Unless permitted (either not restricted or specifically authorized) by OFAC and/or any Sanctioning Body, as applicable, (a) any Clearing Member that maintains positions or carries an account actively trading on CME SEF for a Person that is or becomes a Sanctioned Party or (b) any Clearing Member becomes aware, or has documentary information, that it maintains positions or carries an account actively trading on CME SEF on behalf of a Sanctioned Party, shall immediately take steps to (i) cancel all direct and indirect access and authorizations issued to such Sanctioned Party and provide written notice to CME SEF of such cancellations; or (ii) provide written instructions to CME SEF directing CME SEF to assist and coordinate in the cancellation of all access and authorizations for the Sanctioned Party at CME SEF as may be applicable.

559. POSITION LIMITS AND EXEMPTIONS

[The introduction through Section C. is unchanged.]

559.D. Aggregation of Positions

~~1. — Positions to be Aggregated — For the purpose of applying t~~ The position limits in the Table, shall apply to all positions in accounts for which any person, by power of attorney or otherwise, directly or indirectly controls trading or holds a 10 percent or greater ownership or equity interest must be aggregated with the positions held and trading done by such person. For the purpose of determining the positions in accounts for which any person controls trading or holds a 10 percent or greater ownership or equity interest, positions or ownership or equity interests held by, and trading done or controlled by, owns the positions or controls the trading of the positions. The position limits in the Table shall also apply to positions held by two or more persons acting pursuant to an expressed or implied agreement or understanding shall be treated, the same as if the positions were held by, or the trading were done or controlled of the positions was done by, a single person.

Any person that, by power of attorney or otherwise, holds or controls the trading of positions in more than one account or pool with substantially identical trading strategies, must aggregate all such positions in accordance with the provisions of CFTC Regulation 150.4(a)(2).

~~2. — Ownership of Accounts — Except as set forth in Section E. below, any person holding positions in more than one account, or holding accounts or positions in which the person by power of attorney or otherwise directly or indirectly has a 10% or greater ownership or equity interest, must aggregate all such accounts or positions unless such person is a limited partner, shareholder, member of a limited liability company, beneficiary of a trust or similar type of pool participant in a commodity pool. The foregoing exception for pool participants shall not apply if the person is a commodity pool operator, controls the commodity pool's trading decisions, or has an ownership or equity interest of 25% or more in a commodity pool whose operator is exempt from registration with the CFTC.~~

559.E. Limited Exceptions to Exemptions from Aggregation for Independently Controlled Positions

Exemptions from aggregation in all products subject to Exchange position limits must comply with CFTC Regulation 150.4(b). Positions carried in the separate account or accounts of independent account controllers shall not be aggregated for position limit purposes provided that person can demonstrate independent control and knowledge of trading and positions.

Any person claiming an exemption from Exchange position limits under this Section the provisions of CFTC Regulation 150.4(b)(1)(ii), (b)(2), (b)(3), (b)(4), or (b)(7) must provide a written notice to, upon request by the Market Regulation Department which sets forth 1) a description of the relevant circumstances that warrant disaggregation and 2) a

~~statement by a senior officer or executive of the entity certifying that the conditions set forth in the applicable CFTC aggregation exemption provision have been met.~~

~~Upon request by the Market Regulation Department, any person claiming an exemption from aggregation under this Section E. must provide any requested information that demonstrates the person meets the applicable requirements for the exemption. Market Regulation, in its sole discretion, may amend, suspend, terminate, or otherwise modify a person's exemption from aggregation for failure to comply with the provisions of this Section E.~~

~~In the event of a material change to the information provided in any notice filed under this Section E., an updated or amended notice must be promptly filed with the Market Regulation Department detailing the material change, provide any information deemed necessary to support the exemption.~~

[The remainder of the rule is unchanged.]

574. GLOBEX OR CME DIRECT ACCESS RESTRICTIONS

All connections to the Globex or CME Direct system must be guaranteed by a clearing member that assumes financial responsibility for all activity through the connection. With respect to transactions given up to other clearing members, such guarantee is effective only until such time that the other clearing member accepts the trade.

Clearing members shall assist CME SEF in any investigation into potential violations of the rules or the Act which occur through or with respect to a Globex or CME Direct connection guaranteed by the clearing member. Such assistance must be timely and may include, but not be limited to, requiring any Person to produce documents, to answer questions from CME SEF, and/or to appear in connection with an investigation.

Clearing members shall suspend or terminate a Person's Globex or CME Direct access if CME SEF determines that the actions of the Person threaten the integrity or liquidity of any contract or violate any CME SEF rule or the Act, or if the Person fails to cooperate in an investigation.

If a clearing member has actual or constructive notice of a violation of CME SEF rules in connection with the use of Globex or CME Direct by ~~any Person-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 an act detrimental to the interest or welfare of CME SEF.

579. GLOBAL COMMAND CENTER ("GCC")

579.A. GCC Authority~~Customer Support~~

~~The Global Command Center (GCC) has the authority to take any action deemed appropriate to preserve market integrity in CME SEF markets. Such actions include, but are not limited to, the halting of trading, modifying risk-mitigating parameters including price bands, velocity logic, restricting customer access to Globex or CME Direct or any other actions deemed to be in the best interest of CME SEF. In the event any action taken pursuant to this Rule is in response to an emergency as defined in CFTC Regulation 40.1(h), the CFTC shall be notified of the emergency action in accordance with CFTC Regulations. provides customer support and problem management only to Participants, Authorized Brokers, Authorized Managers, clearing members, and customers designated by clearing members. In order to be eligible for GCC support, such persons must be a registered contact. The GCC provides customer support via a specified telephone number, email address, and instant messaging service during specified hours. GCC employees may not always be available to assist Registered Contacts. Persons other than Registered Contacts, customers of Participants, Authorized Brokers or Authorized Managers, must contact such person or their clearing member to make support requests.~~

579.B. GCC Services~~Communications~~

~~The GCC provides production support and problem management to all market participants. In addition to this support, the GCC also provides critical assistance to registered contacts. Critical assistance includes, but is not limited to, inquiries and/or actions involving order status and order cancellations. CME SEF liability for GCC services is subject to the limitations and conditions of Rule 578. As provided in Rule 578, CME SEF shall not be liable for any loss resulting from any inability to communicate with the GCC. The liability of CME SEF for the negligent acts of GCC staff shall be subject to the limitations and conditions of Rule 578. In no event, however, shall CME SEF be liable for the negligence of the GCC if the person claiming to have suffered a loss could have secured the support it sought from GCC through its own administrative terminal, its clearing member's terminal or an Independent Software Vendor's (ISV) terminal. For purposes of this rule, a person is deemed able to take action through its own administrative terminal, a clearing member's terminal or an ISV's terminal unless such terminal was inoperative or such terminal service was interrupted at the time the GCC took action.~~

579.C. Order Status

A person who believes he has received an incorrect order status or does not receive an appropriate status shall immediately notify the GCC. In the event that the GCC and a CME SEF system, service or facility provide conflicting

information relating to an order status, a person may only reasonably rely on the information received from the GCC. Additionally, such person shall take any necessary and appropriate market action to mitigate any potential losses arising from the incorrect order status or lack of appropriate order status immediately after the person knew or should have known that the order status information was incorrect or should have been received. ~~Any liability of CME SEF for incorrect order status shall be subject to the limitations and conditions of Rule 578.~~

588. TRADE CANCELLATIONS AND PRICE ADJUSTMENTS

[Sections A. – F. are unchanged.]

588.G. Schedule of Administrative Fees

When GCC cancels or price adjusts a trade, the party responsible for entering the order into the electronic trading system that gave rise to the trade cancellation or price adjustment shall pay an administrative fee to CME SEF in the amount of \$~~1,000~~500 for each such occurrence. If the party fails to pay the fee, the clearing member through which the trade was placed shall be responsible for payment of the fee.

[The remainder of the Rule is unchanged.]

Chapter 6 Arbitration

618. SATISFACTION OF AWARD

A party directed to pay an award shall submit payment of the amount due directly to the party receiving the award. An arbitration award must be satisfied within 15 days of receipt of the notice of decision. If a request is made to correct an award pursuant to Rule 617, the award must be satisfied within 15 days of receipt of the corrected notice of decision. A party making payment must submit proof of payment to the Market Regulation Department no later than the business day following payment. An individual who fails to provide proof of payment within the time prescribed will forfeit the following privileges until proof of payment has been provided: 1) access to all CME Group markets; 2) access to the Globex platform; and 3) access to any other electronic trading or clearing platform owned or controlled by CME Group. An entity that fails to provide proof of payment within the time prescribed will forfeit preferred fee treatment for its proprietary trading. Any person subject to SEF Rules that fails to pay an arbitration award within the time prescribed may be subject to sanctions pursuant to Rule 432.R and may be immediately removed from any trading floor, ~~or~~ trading platform or facility owned or controlled by CME Group.

Chapter 7 Force Majeure

701. DECLARATIONS OF FORCE MAJEURE

If a determination is made by the Chief Executive Officer, Chairman, President, ~~or~~ Chief Operating Officer, or Chief Regulatory Officer, or their delegate, that delivery or final settlement of any contract cannot be completed as a result of Force Majeure, he shall take such action as he deems necessary under the circumstances, and his decision shall be binding upon all parties to the contract. CME SEF shall notify the CFTC of the implementation, modification or termination of any action taken pursuant to this Rule as soon as possible after taking the action. It shall be the duty of clearing members, Participants, Authorized Brokers and Authorized Managers to notify CME SEF of any circumstances that may give rise to a declaration of Force Majeure. Nothing in this Rule shall in any way limit the authority of the Board of Directors to act in a Force Majeure situation pursuant to Rule 230.k.

[Effective January 2, 2018]

Chapter 5 Qualifications for Execution and Trading Practices

553. AVERAGE PRICE SYSTEM

553.A. Application of Average Prices

~~A clearing member may employ~~ CME SEF's Average Price System (~~APS~~), or a proprietary average pricing system ~~APS developed by a clearing member, allows a clearing member to calculate~~ confirm to customers an average price when multiple execution prices are received on an order or series of orders for swaps or combination transactions. An order or series of orders executed during the same trading day at more than one price may be averaged pursuant to this Rule ~~APS~~ only if each order is for the same account or group of accounts and for the same product and expiration month for swaps.

553.B. Average Price System Requirements for APS Trades

~~A clearing member may have CME SEF calculate average prices or a clearing member may calculate average prices internally for contracts executed on CME SEF.~~ The requirements enumerated below must be met for ~~APS~~ transactions that are average priced.

1. The customer must have requested average price reporting prior to order entry.
2. Each individual trade must be submitted and cleared by CME SEF at the executed price. The average price must be confirmed to each customer account.
3. The clearing member carrying the account(s) must submit final account specific allocations in CME SEF's clearing system no later than the end of each trading day.
4. ~~If a clearing member computes and confirms the average prices internally to its customers, it must:~~
 - a. ~~Compute the weighted mathematical average price, as set forth in Section C.~~
 - b. ~~Subsequently employ CME SEF's Average Price System to 1) facilitate the allocations and 2) ensure that the final account specific allocations are submitted to CME SEF's clearing system no later than the end of each trading day; and~~
 - c. Create
4. ~~If a clearing member calculates the average price, it must possess the records to support the calculations and allocations to customer accounts and must maintain these records pursuant to CFTC regulations.~~
5. Proprietary trades of a ~~A clearing member may not be~~ must ensure that its proprietary trades are not ~~averaged~~ priced with customer ~~APS~~ trades.

553.C. Computation of Average Price

Upon receipt of an execution or match at multiple prices for an ~~APS~~ order that is to be average priced, the weighted mathematical average must be computed by: (a) multiplying the number of contracts purchased or sold at each execution price by that price, (b) adding the results together and (c) dividing by the total number of contracts. An average price for a series of orders will be computed based on the average prices of each order in that series. The actual average price or the average price rounded to the next price increment may be confirmed to customers. If a clearing member confirms the rounded average price, the clearing member must round the average price up to the next price increment for a buy order or down to the next price increment for a sell order. The residual created by the rounding process must be paid to the customer. An average price system ~~APS~~ may produce prices that do not conform to whole cent increments. In such cases, any amounts less than one cent may be retained by the clearing member.

553.D. Disclosure

Each clearing member that confirms an average price to a customer must indicate on the confirmation and monthly statement that the price represents an average price.

If you have any questions regarding the amendments, please contact Robert Sniegowski, Executive Director, Market Regulation, at 312.341.5991.

For media inquiries concerning this Special Executive Report, please contact CME Group Corporate Communications at 312.930.3434 or news@cmegroup.com.