MARKET REGULATION ADVISORY NOTICE

Exchange	**CME & CBOT**
Subject	**Computerized Trade Reconstruction ("CTR") Monthly Edit Programs**
Rule References	**Rule 536**
Advisory Date	**December 7, 2010**
Advisory Number	**CME & CBOT RA1009-3**
Effective Date	**January 3, 2011**

This Advisory Notice supersedes CME & CBOT Market Regulation Advisory Notice RA0911-3 from December 29, 2009, and is being updated and reissued based on upcoming changes to CME & CBOT Rule 536.F. ("CTR Enforcement Program and Sanction Schedule").

Effective on January 3, 2011, for calendar month January 2011, CME and CBOT Rule 536.F. will be amended to increase the fines for second and third violations by individual members of the Computerized Trade Reconstruction ("CTR") exception programs related to bracket exceptions, time of execution for verbal orders, and sequence errors from $500 and $1,000 to $1,000 and $2,500, respectively. Beginning in January 2011, first violations will result in a letter of warning, followed by fines of $1,000, $2,500 and $5,000, respectively, for second, third and fourth violations.

Additionally, the rule has been further modified to reflect that fifth and subsequent violations within a rolling 12 month period will be referred to the Probable Cause Committee for the consideration of the issuance of charges.

The changes to the sanction schedule are being made in response to recommendations made by the Commodity Futures Trading Commission ("CFTC") in a recent rule enforcement review of the exchanges' regulatory programs.

Members active on the trading floor should ensure that their recordkeeping practices comply with all audit trail requirements. Market Regulation Department ("Department") staff is available to assist members in addressing compliance with these requirements and members are encouraged to contact the Department if they are interested in obtaining additional information or guidance.

The text of amended Rule 536.F. pertaining to the CTR enforcement program appears on page 2 of this Advisory Notice. It is followed by an updated FAQ section beginning on page 3 of this Advisory Notice.

Questions regarding this Advisory Notice should be directed to the following individuals in Market Regulation:

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536.F. CTR Enforcement Program and Sanction Schedule

CTR Monthly Enforcement Program

The CTR threshold levels for members with 100 or more transactions per month are as follows:

Exception Type	Threshold Level
Bracket Exceptions	8% and above
Time of Execution for Verbal Orders	8% and above
Sequence Errors	8% and above

A letter of warning shall be issued for a first occurrence of exceeding any threshold. Subsequent occurrences within 12 months of exceeding a threshold shall result in automatic fines starting at $1,000, and then increasing to $2,500 and $5,000 for each subsequent occurrence. Fifth and subsequent offenses within a 12 month period will be referred to the Probable Cause Committee by the Market Regulation Department.

A member will have 15 days after receipt of a letter of warning or a fine to present evidence to the Market Regulation Department in support of having the letter of warning or fine dismissed showing that administrative, clerical, or other errors by the clearing firm caused the member to exceed the threshold level. If the member does not submit such evidence, or if the Market Regulation Department determines that the evidence submitted is insufficient to reduce the percentage below the threshold level, the letter of warning or fine shall be final and may not be appealed.

The monthly CTR enforcement of timestamp exceptions for firms with 1,000 or more transactions per month is 8% and above. A letter of warning shall be issued for a first occurrence of exceeding the threshold. Subsequent occurrences within 12 months of exceeding the threshold shall result in automatic fines starting at $1,500 for the second occurrence, then increasing to $5,000 and $10,000 for each subsequent occurrence.

A firm will have 15 days after receipt of a letter of warning or a fine to present evidence to the Market Regulation Department in support of having the letter of warning or fine dismissed. If the firm does not submit such evidence, or if the Market Regulation Department determines that the evidence submitted is insufficient to reduce the percentage below the threshold level, the letter of warning or fine shall be final and may not be appealed.

Notwithstanding the provisions of this Section, the Market Regulation Department may, at any time, refer matters that it deems egregious to the Probable Cause Committee.

FAQ Related to CME and CBOT Rule 536.F.

CTR Monthly Edit Programs

Q1: What time period does the CTR Program use to determine whether the threshold levels have been exceeded?

A1: Both the individual edit programs and firm edit program are run for each calendar month.

Q2: How will the amended sanction schedule apply to historical CTR violations?

A2: The amended sanction schedule will be applied to violations occurring during January 2011 and thereafter. If the January violation is a first offense, it will result in a warning letter. If the January violation represents a second offense in the same program within the prior 12-month period the fine will be $1,000. A third offense will result in a sanction of $2,500 and a fourth offense will result in a fine of $5,000. Fifth and subsequent offenses will be referred by the Market Regulation Department to the Probable Cause Committee for the issuance of charges.

As is presently the case, egregious violations of any of the recordkeeping rules may be referred directly to the Probable Cause Committee for disciplinary action.

Q3: How many categories of error exceptions (edits) are measured in the Bracket Exception Program?

A3: Three: "No Time Bracket," "No Quote Found Within Bracket" and "Price Not Quoted Within Trade Day."

Q4: Are there separate percentages calculated for each of the three edits in the Bracket Exception Program?

A4: No. There is only one error percentage calculated in this program and it is based on the total number of combined edits ("No Time Bracket," No Quote Found Within Bracket" and "Price Not Quoted Within Trade Day") divided by the total number of trades for the month. For example, a member who executes 300 trades and has 8 citations for "No Time Bracket," 7 citations for "No Quote Found Within Bracket" and 2 citations for "Price Not Quoted Within Trade Day" will have a total of 17 exceptions and a "Bracket Exception" percentage of 5.66% (17/300).

Q5: How does spread price reporting affect the Bracket Exception Program?

A5: Any spread price which does not appear in Time and Sales during the bracket designated by the member executing the spread will be considered a bracket error.

CME and CBOT Rule 528 require that parties to a pit transaction properly notify the price reporting staff of the price at which trades have been consummated. Every spread transaction must be reported **each** time the spread is traded, regardless of whether there has been a change in the last reported price. In addition to the spread price, members must report the quantity of the spread to price reporting staff who will record the acronym of the member making the price report.

Q6: How many categories of error exceptions (edits) are measured in the Time of Execution Program?

A6: Two. The Time of Execution Program includes edits for “Invalid Time of Execution” and “Execution Time Not within Bracket.” An edit for “Invalid Time of Execution” is cited if the broker filling a verbal order for another member fails to record the time of execution to the nearest minute on his trading card. An edit for “Execution Time Not within Bracket” is cited if the recorded execution time does not agree with the reported time bracket.

Q7: How is the error percentage calculated for the Time of Execution Program?

A7: The percentage represents the total number of combined edits (“Invalid Time of Execution” and “Execution Time Not within Bracket”) divided by the total number of process type “E” trades (CTI 3 trades).

Q8: How many categories of error exceptions (edits) are measured in the Sequence Program?

A8: Two. The Sequence Program includes edits for “Card/Bracket Sequence” and “Multiple Brackets per Card.”

Q9: When is a trade considered out of sequence for the purposes of the Sequence Errors Program?

A9: The program analyzes time brackets and card sequence numbers. For example, if Card 1 is B bracket, Card 2 is C bracket and Card 3 is B bracket, all B bracket trades on Card 3 would be deemed out of sequence.

Q10: What is the requirement for the Multiple Brackets per Card edit?

A10: This edit applies to local traders and to proprietary traders who record trades in the same manner as local traders. The requirement is that all trades on a particular trading card must be from the same time bracket. The only exception is that trades in the opening bracket “$” and the corresponding 15-minute bracket period may be on the same card.

Q11: How does the CTR Edit Program apply to firms?

A11: The Timestamp Exception Program applies to firms, and violations of the 8% threshold will result in sanctions in accordance with the enforcement schedule set forth in Rule 536.F.

Q12: How many categories of edits are measured in the Timestamp Exception Program?

A12: Eight. These edits include: 1) “Time In = Time Out,” 2) “Invalid Timestamps” (times are blank or 999999), 3) “Time In > Time Out,” 4) “Timestamps > Clearing Receipt Time,” 5) “Timestamp In > Commodity End Time,” 6) “Time Out < Commodity Start Time,” 7) “Time In > Keypunch Bracket” and 8) “Time Out < Keypunch Bracket.”

Q13: How is the error percentage calculated for the Timestamp Exception Program?

A13: The percentage represents the total number of combined edits (set forth in the answer to Question 12 above) divided by the total number of process type “T” trades (CTI 2, 3 & 4 orders).

Q14: Who issues CTR warnings and fines?

A14: All warnings and fines are issued automatically based on the results of the CTR programs and are issued by staff of the Market Regulation Department.

Q15: Can a CTR warning or fine be appealed?

A15: Individuals have 15 days after receipt of a notice of violation to present evidence to the Market Regulation Department showing that errors beyond the member’s control (for example, data entry errors by firm personnel) caused the threshold to be exceeded. If Market Regulation staff determines that the evidence is sufficient to reduce the error percentage below the threshold level, the violation will be dismissed.

Firms also have 15 days after receipt of a notice of violation to present evidence to the Market Regulation Department to have the violation dismissed. The Market Regulation Department will determine if such evidence is sufficient to reduce the error percentage below the threshold level.

The decisions of Market Regulation regarding CTR actions are final and may not be appealed. Additionally, fines will be issued in accordance with the reported sanction schedule and will not be reduced.

Q16: How does the 12-month period referenced in the enforcement schedule work?

A16: The 12-month period in the enforcement schedule is a rolling 12-month period. For example, if a member were above the error threshold level for the Bracket Exception Program for the first time in a 12-month period in January 2011, a warning letter would be sent. Subsequent violations *of that program* through December 2011 would result in fines in accordance with the amended sanction schedule. If this member were to also violate the Sequence Program one time during that 12-month period, a warning letter rather than a fine would be issued for that violation because the violation occurred in a different exception program.

Q17: Do the exception programs apply across both exchanges if an individual or firm is a member of both exchanges?

A17: Because CME and CBOT are separate self-regulatory organizations, activity on each exchange is evaluated separately. As such, an individual or firm active on both exchanges could be sanctioned by each exchange in the same month if the thresholds were violated on both exchanges.

Q18: Do the programs use both outrights and spreads when calculating total trade count?

A18: Yes. All trades are used for total trade calculation.

Q19: Are members and member firms able to view statistical reports during the month to monitor their exception rates?

A19: Yes. CME and CBOT members can view and, if desired, print their reports by logging onto the Member Reporting System ("MRS"). The address is http://connect.cme.com. Login information can be obtained by contacting the Customer Support Group at 312.930.3444.

In the first quarter of 2011, the Enterprise Reporting Portal ("EREP") will replace Infopac. Until the migration is complete, member firms will continue to be able access their edit reports through Infopac (CTR125 – Daily Firm Summary Performance Report and CTR126-Monthly Firm Summary Performance Report). For additional information on EREP, please see Clearing House Advisory Notice 10-406 from September 24, 2010, which can be accessed via the following link.
http://www.cmegroup.com/tools-information/lookups/advisories/clearing/Chadv10-406.html