



Special Executive Report

DATE: February 22, 2019

SER#: 8341

SUBJECT: Second Industry Survey Regarding Amendments to the Choice/Select Percentage of the CME Live Cattle Futures Contract - PART II

Chicago Mercantile Exchange Inc. ("CME" or "Exchange") is soliciting additional feedback from market participants regarding potential amendments to the Live Cattle Futures contract ([CME Rulebook Chapter 101](#); CME Globex Code: LE; Clearing Code: 48) (the "Contract"). The deadline for the Exchange to receive such feedback is **Friday, March 22, 2019**.

Previously via [SER 8243](#) dated September 28, 2018, the Exchange surveyed the marketplace regarding the implementation of a dynamic mechanism to periodically update the Choice/Select quality percentage for the par value of the Contract. While the feedback was mixed regarding the previous proposal, most acknowledged the substantial difference between the CME par specifications and the National average.

The initial proposal was intended to adjust the Contract with current open interest some time prior to the delivery period or spot month. The majority of the feedback was not in favor of any change to contract months with open interest. Taking that into account, the Exchange believes that the new proposed method below will ensure that the Contract will more closely track the underlying quality of the cash market.

Second Industry Survey - PART II

The Exchange will track, compile, and make publicly available on a weekly basis the National ("NATL") quality grade percentages from the "National Steer & Heifer Estimated Grading Percent Report" ("NW_LS196"). It will also provide the corresponding 104-week moving average of the NATL Choice grade percentage ("2-Yr MA") on the CME Group Livestock home page.

Commencing with newly-listed contract months, the Choice percentage shall be determined by the most recent 2-Yr MA of the NATL Choice grade rounded down to the nearest 5%. The Select percentage shall be determined by subtracting the Choice percentage from 1.

For example, the table in **Exhibit 1** shows the Choice percentages for each CME Live Cattle contract as listed over the last five years and depicts how the CME Choice percentage compares with the 2-Yr MA as well as the Rounded 2-Yr MA for those historic months. The examples in the table illustrate how the Rounded 2-Yr MA aligns the Contract more closely to the NATL Choice grade with minimum fluctuation.

Feedback Item: The Exchange invites comment on the implementation of a mechanism to update the Choice/Select quality percentage of the par value of the CME Live Cattle futures contract using a weekly public report published by the United States Department of Agriculture ("USDA") as described above.

We would like feedback on:

- Specific views in connection with the automation of the updating of the Choice / Select quality percentage of the Contract as described above.
- Any other comments or concerns relevant to Exchange proposal PART II.

CME welcomes comments and feedback from the cattle industry and market participants in our Live Cattle Futures contract to assist the Exchange in determining whether this change would be beneficial and further enhance the Contract. **The comment period is open through Friday, March 22, 2019, and respondents may submit written feedback to the CME contacts listed below:**

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Exhibit 1

History				Proposed		Differences		
Contract Month	Last Trading Day	Next Contract Listing	Actual CME Choice % for Next Contract	2Yr MA Choice %	2Yr MA Rounded Down	Actual CME vs. 2Yr MA	Actual CME vs. Rounded 2Yr MA	Rounded 2Yr MA vs. 2Yr MA
Feb-14	2/28/2014	Aug-15	55.00%	62.64%	60.00%	-7.64%	-5.00%	-2.64%
Apr-14	4/30/2014	Oct-15	55.00%	62.82%	60.00%	-7.82%	-5.00%	-2.82%
Jun-14	6/30/2014	Dec-15	55.00%	63.06%	60.00%	-8.06%	-5.00%	-3.06%
Aug-14	8/29/2014	Feb-16	55.00%	63.44%	60.00%	-8.44%	-5.00%	-3.44%
Oct-14	10/31/2014	May-16	55.00%	63.87%	60.00%	-8.87%	-5.00%	-3.87%
Dec-14	12/31/2014	Jul-16	55.00%	64.23%	60.00%	-9.23%	-5.00%	-4.23%
Feb-15	2/27/2015	Aug-16	55.00%	64.66%	60.00%	-9.66%	-5.00%	-4.66%
Apr-15	4/30/2015	Oct-16	55.00%	65.10%	65.00%	-10.10%	-10.00%	-0.10%
Jun-15	6/30/2015	Dec-16	55.00%	65.68%	65.00%	-10.68%	-10.00%	-0.68%
Aug-15	8/31/2015	Mar-17	55.00%	66.36%	65.00%	-11.36%	-10.00%	-1.36%
Oct-15	10/30/2015	Apr-17	55.00%	66.93%	65.00%	-11.93%	-10.00%	-1.93%
Dec-15	12/31/2015	Jul-17	55.00%	67.27%	65.00%	-12.27%	-10.00%	-2.27%
Feb-16	2/29/2016	Aug-17	55.00%	67.54%	65.00%	-12.54%	-10.00%	-2.54%
Apr-16	4/29/2016	Oct-17	60.00%	67.89%	65.00%	-7.89%	-5.00%	-2.89%
Jun-16	6/30/2016	Dec-17	60.00%	68.21%	65.00%	-8.21%	-5.00%	-3.21%
Aug-16	8/31/2016	Mar-18	60.00%	68.69%	65.00%	-8.69%	-5.00%	-3.69%
Oct-16	10/31/2016	May-18	60.00%	69.21%	65.00%	-9.21%	-5.00%	-4.21%
Dec-16	12/30/2016	Jun-18	60.00%	69.61%	65.00%	-9.61%	-5.00%	-4.61%
Feb-17	2/28/2017	Aug-18	60.00%	69.90%	65.00%	-9.90%	-5.00%	-4.90%
Apr-17	4/28/2017	Oct-18	65.00%	70.08%	70.00%	-5.08%	-5.00%	-0.08%
Jun-17	6/30/2017	Dec-18	65.00%	70.27%	70.00%	-5.27%	-5.00%	-0.27%
Aug-17	8/31/2017	Mar-19	65.00%	70.55%	70.00%	-5.55%	-5.00%	-0.55%
Oct-17	10/31/2017	May-19	65.00%	70.88%	70.00%	-5.88%	-5.00%	-0.88%
Dec-17	12/29/2017	Jun-19	65.00%	70.99%	70.00%	-5.99%	-5.00%	-0.99%
Feb-18	2/28/2018	Aug-19	65.00%	71.15%	70.00%	-6.15%	-5.00%	-1.15%
Apr-18	4/30/2018	Oct-19	65.00%	71.27%	70.00%	-6.27%	-5.00%	-1.27%
Jun-18	6/29/2018	Dec-19	65.00%	71.42%	70.00%	-6.42%	-5.00%	-1.42%
Aug-18	8/31/2018	Mar-20	65.00%	71.45%	70.00%	-6.45%	-5.00%	-1.45%
Oct-18	10/31/2018	May-20	65.00%	71.51%	70.00%	-6.51%	-5.00%	-1.51%
Dec-18	12/31/2018	Jul-20	65.00%	71.63%	70.00%	-6.63%	-5.00%	-1.63%