CME Group

Special Executive Report

S- 7300 **February 11, 2015**

Temporary Amendments to CBOT Rule 588.H (Globex Non-Reviewable Ranges) and Settlement Procedures for CBOT U.S. Treasury Bond Futures

Effective Sunday, February 15, 2015 for trade date Tuesday, February 17, 2015 and until March 20, 2015 (the “Temporary Effective Time Period”), and pending all relevant CFTC regulatory review periods, the Board of Trade of the City of Chicago, Inc. (“CBOT” or “Exchange”) will amend CBOT Rule 588.H (“Globex Non-Reviewable Ranges”) and the U.S. Treasury Bond futures daily and final settlement price methodologies.

The U.S. Treasury Bond Futures will be transitioning from a bond with term to maturity of slightly more than 15 years to one with term to maturity of 21 years. This change is the result of the lack of Treasury bond issuance between 2001 and 2006. CBOT anticipates Treasury Bond futures calendar spread pricing will be more volatile during the forthcoming quarterly rollover due to the significant differences between the March 2015 and the June 2015 contracts as a result of unique differences in their cheapest-to-deliver bonds.

Therefore, during the Temporary Effective Time Period, the Exchange will increase the Non-Reviewable Range for 1:1 ratio calendar spreads for U.S. Treasury Bond Futures established through CME Globex’s spread trade functionality from 5 ticks to 10 ticks (2.5/32nds) for the March 2015 to June 2015 roll period only.

Also during the Temporary Effective Time Period, the Exchange will provide a 3:2 ratio calendar spread for U.S. Treasury Bond futures on CME Globex with a Non-Reviewable Range of 10 ticks (2.5/32nds) for the March 2015 to June 2015 roll period. Buying (selling) one 3:2 calendar spread futures will result in buying (selling) three March 2015 and selling (buying) two June 2015 contracts.

The new calendar spread functionality will provide an additional tool for market participants seeking to rollover positions from March 2015 to June 2015. The 3:2 ratio calendar spread will only be available for trading on CME Globex from Sunday, February 15, 2015 for trade date Tuesday, February 17, 2015 and until March 20, 2015.

Treasury futures daily and final settlement pricing methodology incorporates activity in the nearby futures calendar spread. Therefore, also during the Temporary Effective Time Period, CBOT will modify the daily and final settlement pricing of March 2015 and June 2015 U.S. Treasury Bond Futures contracts to account for the activity in the 3:2 and the 1:1 futures calendar spreads.

Please refer to the following appendixes for details regarding temporary changes to Non-Reviewable Ranges and settlement procedures:

Appendix A: Amendments to CBOT Rule 588.H. Globex Non-Reviewable Ranges
Appendix B: CBOT U.S. Treasury Futures Final Settlement Price Methodology
Appendix C: CBOT U.S. Treasury Futures Daily Settlement Price Methodology

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Appendix A

Amendments to CBOT Rule 588.H. Globex Non-Reviewable Trading Ranges
(Additions are underlined)

Instrument	Non-Reviewable Range (NRR) including Unit of Measure	NRR in Globex format	NRR Ticks
Treasury Bond 1:1 Calendar Spread-Effective 2/15/2015 through 3/20/2015	2.5/32 of 1 point ($1,000)	25	10
Treasury Bond 3:2 Calendar Spread-Effective 2/15/2015 through 3/20/2015	2.5/32 of 1 point ($1,000)	25	10

Appendix B
(Additions are underlined)

Treasury Futures Final Settlement Procedure

Final settlement price of expiring 2-Year U.S. Treasury Note futures (ZT), 3-Year U.S. Treasury Note futures (Z3N), 5-Year U.S. Treasury Note futures (ZF), 10-Year U.S. Treasury Note futures (ZN), U.S. Treasury Bond futures (ZB), and Ultra T-Bond futures (UB) is determined by CME Group staff based on market activity on CME Globex.

Final Settlement Procedure

Tier 1: VWAP calculation

On the expiring contract's last day of trading, it settles to a volume-weighted average price (VWAP) of trades on Globex between 12:00:00 and 12:01:00 p.m. Central Time (CT), the settlement period. This value is derived by adding the weighted VWAP of outright trades in the expiring contract to the weighted VWAP of trades in the companion reduced-tick spreads.

Final settlement VWAP calculation

p_x = VWAP of the expiring contract

p_s = VWAP of the reduced-tick spread and the trade price of the deferred contract nearest to the time of the trade in the reduced-tick spread (but not later than 12:01:00 CT)

w_x = cumulative traded volume in the expiring contract

w_s = cumulative traded volume in the reduced-tick spread

$W = w_x + w_s$

$$\left(\frac{w_x}{w}\right) * p_x + \left(\frac{w_s}{w}\right) * p_s$$

The calculated final settlement price is rounded to the nearest tradable tick. If this calculated value is the midpoint between two ticks, it is rounded to the tick closer to the last trade price in the expiring contract.

The final settlement price may penetrate unfilled bids or asks and, under certain circumstances, may settle outside of the settlement period for outright trades in the expiring contract.

In the event that multiple versions of the spread between the lead month and expiring month exist, all trades in any of these spreads will be considered in the calculation of the final settlement for the expiring month.

Tier 2: Outright bid/ask

If a VWAP is not available due to an absence of trades, then the most recent spread trade is applied to the lead month settlement price to derive the expiry month settlement, which is rounded to the outright's nearest tradable tick.

If there are no trades in the lead month-expiry month calendar spread*, then the prior-day spread relationship is used to derive the expiry month settlement.

In either of the above scenarios, if the derived spread differential in the lead month-expiry month spread is below the low bid in the settlement period in that spread, then the spread settles to that bid. If the calculated spread differential in the lead month-expiry month spread is higher than the high ask in the settlement period in that spread, then the spread settles to that ask. Additionally, if the derived expiry month settlement violates the low bid or the high ask in the outright market for the expiry month during the settlement period, then, the settlement will be adjusted to the nearest low bid or the high ask accordingly.

*The lead month is the anchor leg for the Tier 2 calculation outlined above, and is the contract expected to be the most active. The expiry month is the expiring contract.

Appendix C
(Additions are <u>underlined)</u>

Treasury Futures Daily Settlement Procedure

Normal Daily Settlement Procedure

Daily settlement of 2-Year U.S. Treasury Note futures (ZT), 3-Year U.S. Treasury Note futures (Z3N), 5-Year U.S. Treasury Note futures (ZF), 10-Year U.S. Treasury Note futures (ZN), U.S. Treasury Bond futures (ZB), and Ultra T-Bond futures (UB) is determined by CME Group staff based on trading activity on CME Globex.

Lead Month

The lead month is the anchor leg for settlements and is the contract expected to be the most active.

Tier 1: If the lead month contract trades on Globex between 13:59:30 and 14:00:00 Central Time (CT), the settlement period, then the lead month settles to the volume-weighted average price (VWAP) of the trade(s) during this period.

Tier 2: If no trades in the lead month occur on Globex between 13:59:30 and 14:00:00 CT, then the most recent trade (or prior settle in the absence of a last trade price) is used.

The lead month settles to the last trade/prior settle assuming that it does not violate the low bid or the high ask in the settlement period. If the low bid in the settlement period is higher than the last trade/prior settlement price, then the lead month settles to that bid. If the high ask in the settlement period is lower than the last trade/prior settle, then the lead month settles to that ask.

Second Month

When the lead month is the expiry month, then the second month is defined as the calendar month immediately following the lead month. When the lead month is not the expiry month, then the second month is defined as the first expiring non-lead month.

Tier 1: If the lead month-second month spread trades on Globex between 13:59:30 and 14:00:00 CT, then the spread VWAP is calculated and rounded to the spread's nearest tradable tick. The spread differential is then applied to the lead month settlement price to derive the second month settlement, which is rounded to the outright's nearest tradable tick.

Tier 2: If a VWAP is not available due to an absence of trades, then the most recent spread trade is applied to the lead month settlement price to derive the second month settlement, which is rounded to the outright's nearest tradable tick.

<u>If there are listed multiple versions of the lead month-second month calendar spread, CME Staff may consider any or all of these using the methodology above in calculating the settlement price.</u>

If there are no trades in the lead month-second month calendar spread, then the prior-day spread relationship is used to derive the second month settlement.

In either of the above scenarios, if the derived spread differential in the lead month-second month spread is below the low bid in the settlement period in that spread, then the spread settles to that bid. If the calculated spread differential in the lead month-second month spread is higher than the high ask in the settlement period in that spread, then the spread settles to that ask. Additionally, if the derived second month settlement violates the low bid or the high ask in the outright market for the second month during the settlement period, then, the settlement will be adjusted to the nearest low bid or the high ask accordingly – provided the resulting price does not violate the low bid / high ask in the spread.

Back Months

To derive settlements for all remaining months, the second chronological month's net change from its prior-day settlement is applied to the back month contracts' prior-day settlements, provided that this value does not violate the low bid or high ask between 13:59:30 and 14:00:00 CT for either the respective outrights or the consecutive-month calendar spreads.