



## Special Executive Report

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S- 7336

April 27, 2015

### **Amendments to CME Rule 589 (Special Price Fluctuation Limits) for Certain CME Foreign Exchange Futures and Options Contracts**

Effective Sunday, May 10, 2015 for trade date Monday, May 11, 2015, and pending all relevant CFTC regulatory review periods, the Chicago Mercantile Exchange Inc. ("CME" or "Exchange") will implement several amendments to CME Rule 589 on Special Price Fluctuation Limits.

Specifically, amendments to CME Rule 589 will include:

1. The Exchange will amend Subsections B.(i) and B.(iii) of CME Rule 589 on Special Price Fluctuation Limits to reduce the monitoring period following a triggering event from five (5) minutes to two (2) minutes for certain foreign exchange (FX) futures and options contracts. In December 2014, the Exchange implemented price fluctuations limits functionality in certain foreign exchange (FX) futures and options contracts as a measure consistent with promoting price discovery and cash futures convergence. These limits deter sharp price movements that may, for example, be driven by illiquid central limit order books that could prevail in otherwise liquid markets from time to time.
2. The Exchange is amending Subsection C.(ii) of CME Rule 589 to clarify what will occur on the trading floor if a primary futures contract on the CME Globex electronic trading platform is temporarily halted. Specifically, the Exchange clarifies that floor trading in all contract months of the primary futures contract and in all contract months of associated products of the primary futures contract shall immediately halt in all instances when a temporary trading halt in the lead contract month of the primary futures contract occurs on CME Globex.
3. The Exchange is amending the Special Price Fluctuation Limits Table of CME Rule 589 to reclassify twenty (20) FX futures contracts from associated products to primary futures contracts. The Exchange is reclassifying these twenty (20) FX futures since there is the potential that these futures could experience sudden price movements in their own right that would not trigger a two (2) minute monitoring period and/or temporary trading halt if they remained as associated products of primary futures contracts that didn't experience simultaneous sharp price movements that subsequently did not trigger a two (2) minute monitoring period and/or temporary trading halt. These futures include the Australian Dollar/Canadian Dollar (AUD/CAD), Australian Dollar/Japanese Yen (AUD/JPY), Australian Dollar/New Zealand Dollar (AUD/NZD), Canadian Dollar/Japanese Yen (CAD/JPY), Swiss Franc/Japanese Yen (CHF/JPY), Onshore Chinese Renminbi/US Dollar (CNY/USD), Onshore Chinese Renminbi/Euro (CNY/EUR), Czech Koruna/Euro (CZK/EUR), Euro/Australian Dollar (EUR/AUD), Euro/Canadian Dollar (EUR/CAD), Euro/British Pound (EUR/GBP), Euro/Japanese Yen (EUR/JPY), Euro/Norwegian Krone (EUR/NOK), Euro/Swedish Krona (EUR/SEK), Euro/Swiss Franc (EUR/CHF), Euro/Turkish Lira (EUR/TRY), British Pound/Swiss Franc (GBP/CHF), British Pound/Japanese Yen (GBP/JPY), Hungarian Forint/Euro (HUF/EUR), and Polish Zloty/Euro (PLN/EUR) futures.
4. The Exchange is amending the Special Price Fluctuation Limits Table of CME Rule 589 to reclassify the standard (USD/CNY) and e-micro sized (USD/MNY) US Dollar/Onshore Chinese Renminbi futures contracts with US Dollar banking. Currently, these two onshore Chinese Renminbi futures contracts are associated products of the Offshore Chinese Renminbi/US Dollar (CNH/USD) futures contract. However, since these two onshore Chinese Renminbi futures contracts represent "flipped" versions of the Onshore Chinese Renminbi/US Dollar (CNY/USD) futures contract, the Exchange has determined to reclassify USD/CNY and USD/MNY futures as associated products of CNY/USD futures.

5. The Exchange is amending the Special Price Fluctuation Limits Table of Rule 589 to reclassify all weekly, monthly, and quarterly American-style exercise options on eight FX futures contracts. Currently, these options are associated products of primary futures contracts that are not the underlying futures contract of these options. The Exchange will reclassify these options so that they are the associated products of their companion or corresponding underlying futures contracts. These options include options on the Onshore Chinese Renminbi/US Dollar (CNY/USD), Onshore Chinese Renminbi/Euro (CNY/EUR), Czech Koruna/Euro (CZK/EUR), Euro/British Pound (EUR/GBP), Euro/Japanese Yen (EUR/JPY), Euro/Swiss Franc (EUR/CHF), Hungarian Forint/Euro (HUF/EUR), and Polish Zloty/Euro (PLN/EUR) futures.
  
6. The Exchange is amending the Special Price Fluctuation Limits Table of Rule 589 to increase the four circuit breaker levels of US Dollar/Chilean Peso (USD/CLP) futures contract. Currently these levels are 400, 800, 1,200, and 1,600 tick increments. Since the underlying cash market for USD/CLP futures contract is prone to unusually extreme price movements unlike underlying cash markets of the Exchange's other emerging market FX futures contracts, the Exchange is raising the four circuit breaker levels of USD/CLP futures to 1,000, 2,000, 3,000, and 4,000 tick increments.

Appendix A below provides amendments to CME Rule 589 in blackline format.

Questions regarding this notice may be directed to:

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## Appendix A

### Amended CME Rule 589

(Additions are underlined; deletions are ~~struck through~~.)

#### Chapter 5 TRADING QUALIFICATIONS AND PRACTICES

##### 589. SPECIAL PRICE FLUCTUATION LIMITS

The special price fluctuation limits applicable to those contracts with special price fluctuation limits are set forth in the Special Price Fluctuation Limits Table ("Table") in the Interpretations Section at the end of Chapter 5.

Notwithstanding any other provisions of this rule, the GCC may, in its absolute and sole discretion, take any action it determines necessary to protect market integrity. For avoidance of doubt, this authority includes, but is not limited to, modifying or eliminating price fluctuation limits at any time and/or determining whether to halt or not to halt trading. The GCC will promptly issue an alert with respect to actions taken pursuant to this provision.

- A. Initial Price Fluctuation Limits for All Contract Months. At the commencement of each trading day, there shall be initial price fluctuation limits in effect for each futures contract month of the Primary Futures Contract (as identified in the Table) above or below the previous day's settlement price for such contract month set at the first special price fluctuation limit level as provided in the Table.
- B. (i) First Triggering Event and Temporary Trading Halt. If the lead contract month (as identified by the Exchange) of the Primary Futures Contract is bid or offered via Globex at the upper or lower price fluctuation limit at the first special price fluctuation limit level, as applicable, it will be considered a Triggering Event that will begin a two ~~(2) five (5)~~ minute monitoring period in the lead contract month. If at the end of the two ~~(2) five (5)~~ minute monitoring period, the lead contract month of the Primary Futures Contract is not bid or offered at the applicable special price fluctuation limit, the special price fluctuation limits shall be expanded an additional increment above and below the previous day's settlement price for all contract months of the Primary Futures Contract as provided in the Table. If, however, at the end of two ~~(2) five (5)~~ minute monitoring period, the lead contract month of the Primary Futures Contract is bid or offered at the applicable special price fluctuation limit, a two (2) minute Temporary Trading Halt will commence in all contract months of the Primary Futures Contract as well as in all contract months of Associated Products of the Primary Futures Contract as provided in the Table. In addition, trading in any Associated Product that is an option related to the Primary Futures Contract or in an option contract related to any other Associated Product of the Primary Futures Contract of this rule that may be available for trading on Globex or on the trading floor shall be subject to a coordinated Temporary Trading Halt.

(ii) Expansion of Limits Following Temporary Trading Halt. Following the end of a Temporary Trading Halt, the affected markets shall re-open simultaneously in all contract months of the Primary Futures Contract as well as in all contract months of Associated Products of the Primary Futures Contract of this rule. When trading resumes, the price fluctuation limits of the Primary Futures Contract shall be expanded an additional increment above and below the previous day's settlement price for all contract months of the Primary Futures Contract as provided in the Table.

(iii) Each instance in which a Triggering Event occurs, a ~~two (2)~~<sup>five (5)</sup> minute monitoring period will commence as provided in Sections 589.~~B(i)2.(a) and 589.2.(b)~~. In each instance, the price fluctuation limits for each contract month of the Primary Futures Contract shall be expanded by an additional increment as provided in the Table above and below the previous day's settlement price for such contract month. Following the fourth triggering event, there will be no further limits.

(iv) A Primary Futures Contract shall not be the lead Primary Futures Contract on the contract's last trading day. There shall be no special price fluctuation limits on the last trading day of an expiring Foreign Exchange futures contract that serves as a primary futures contract for the purposes of Rule 589. Additionally, there shall be no temporary trading halts or expansion of special price fluctuation limits during the last five (5) minutes of trading on the last trading day of an expiring Foreign Exchange futures contract that serves as a Primary Futures Contract for the purposes of Rule 589.

C. Price Fluctuation Limits on Trading Floor (Floor Trading)

(i) The special price fluctuation limits cited in Section 589.~~A1~~. of this rule shall be applicable on the trading floor. All markets on the trading floor shall be limited to trading at these special fluctuation price levels (locked limit); however, such trading shall not constitute a Triggering Event for purposes of a Temporary Trading Halt.

(ii) In all instances when a ~~Temporary Trading Halt~~<sup>Triggering Event</sup> in the lead contract month of the Primary Futures Contract occurs on Globex, floor trading in all contract months of the Primary Futures Contract and in all contract months of Associated Products of the Primary Futures Contract of this rule shall immediately halt. Additionally, trading in any option related to the Primary Futures Contract or in an option contract related to any Associated Product of the Primary Futures Contract of this rule shall be subject to a coordinated Temporary Trading Halt.

(iii) Whenever Globex markets are re-opened with expanded price limits pursuant to the provisions of Section 589.~~B2~~. of this rule, the affected markets on the trading floor shall simultaneously re-open with the expanded limits in place.