

Rule 539.C. Crossing Protocols on CME Globex

Introduction of the Committed Cross (C-Cross) for Financial Options (Equity, FX, & Interest Rate)

Crossing Protocols on CME Globex

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Pre-Execution Communications – General Information

Overview

- Pre-execution communications (“Pre-Ex”) are discussions between market participants for the purpose of discerning interest in the execution of a transaction on CME Globex prior to the exposure of the order to the market. Rule 539.C. governs Pre-Ex.
- Pre-execution communications allow for size, price and direction to be discussed prior to the entry of orders into CME Globex.
- Parties engaging in pre-execution communications must have permission to do so from their customers.
- Applicable cross order entry protocols resulting from pre-ex communications differ between asset classes, between futures and options, and across CME Group’s 4 Designated Contract Markets (DCMs).
- Pre-execution communications are permitted in all CME, NYMEX and COMEX futures and options.
- Pre-execution communications remain expressly prohibited in CBOT Grain and Oilseed futures at all times.
- Pre-execution communications in CBOT Grain and Oilseed options are prohibited from 7:45 a.m. to 7:00 p.m. Central Time each trading day, but are permitted outside of those hours.

Pre-Execution Communications – Upcoming Changes

- Effective Sunday April 10, 2016, (for trade date April 11) a new crossing method – the “Committed Cross” (“C-Cross”) will be introduced for financial options, replacing the current RFQ+RFC process for these products.
- As of that time, there will be four different cross protocols (applicability varied by product) for the entry of orders into CME Globex that result from permissible pre-execution communications.
 - RFQ+RFC Cross (R-Cross)
 - Agency Cross (A-Cross)
 - Globex Cross (G-Cross)
 - Committed Cross (C-Cross) **[NEW]**
- A review of these protocols and the products to which they apply, as well as a detailed description of the new C-Cross for financial options, will be covered in this webinar.
- Please review the information in CME Group Market Regulation Advisory Notice RA1602-5 from January 28, 2016, for detailed information on the requirements concerning Pre-Ex.
<http://www.cmegroup.com/rulebook/files/cme-group-ra1602-5.pdf>

Crossing Types and Eligibility as of April 11th, 2016

	NEW	Other Crossing Protocols Currently Available		
	C-Cross (Committed Cross)	G-Cross (Globex Cross)	A-Cross (Agency Cross)	R-Cross (RFQ + RFC Cross)
Description	<ul style="list-style-type: none"> In a C-Cross, subsequent to the pre-ex communication, an RFC is entered into CME Globex which contains both the buy and the sell orders. Upon entry of the RFC, CME Globex will display an indication that a cross has been committed to the market and will occur in five (5) seconds. Some products will be eligible for a Better Price Match (BPM). 	<ul style="list-style-type: none"> In a G-Cross, the order of the party that initiated the pre-execution must be entered into CME Globex first. The second party's order may not be entered into CME Globex until a period of 5 seconds has elapsed from the time of entry of the first order. No Request for Quote ("RFQ") is required in a G-Cross. 	<ul style="list-style-type: none"> A cross sequence (CS) is used by a broker to enter a day limit order immediately followed by entry of a day-fill-and-kill order. This Protocol requires an RFQ followed by the entry of the orders (via CME Direct CS ticket) no less than 15 (15) seconds and no more than thirty (30) seconds after the entry of the RFQ 	<ul style="list-style-type: none"> In an R-Cross, subsequent to the pre-execution communication, an RFQ for the particular option or spread or combination involving an option must be entered into CME Globex. Thereafter, the RFC order must be entered no less than fifteen (15) seconds and no more than thirty (30) seconds after the entry of the RFQ in order to proceed with the trade.
Eligible Products as of Apr. 11, 2016	<p>The C-Cross is available for Equity Options, FX Options, and Interest Rate Options.</p>	<p>All futures and swaps products for which pre-execution communications are permissible. The G Cross protocol may not be used for the entry of any options orders or any spreads or combinations that include an option.</p>	<ul style="list-style-type: none"> Eligible NYMEX and COMEX Products FX Options 	<p>CME Agriculture options, Commodity Index options, Real Estate options and Weather options; CBOT Grain and Oilseed options (during select time periods); and in all NYMEX and COMEX options.</p>

Changes from current crossing models as of trade date April 11, 2016:

- Equity, FX, and Interest Rate Options move from using R-Cross to using C-Cross (R-Cross no longer applies)
- CME FX options will be eligible for A-Cross in addition to moving to C-Cross
- All other products retain existing permitted crossing methods

Committed Cross (C-Cross) Overview

- The submission of an RFC in a C-Cross market immediately triggers a Pre-Cross state and related messages, including an RFQ.
 - The pre-cross period will be 5 seconds for all financial options. This waiting period is enforced by CME Globex upon submission, meaning that a manual RFQ is no longer required prior to submission of the cross order.
 - This pre-cross period doesn't prevent any market participants from entering orders or trading.
 - Related messages at the start of pre-cross period indicate that a cross is going to take place in the specific instrument. This provides an opportunity for market participants to populate the order book with their best prices.
 - Price and Size are not disclosed to the market and the C-Cross cannot be canceled during the pre-cross period
- Following the pre-cross period, the C-Cross matching process will occur on CME Globex without any additional order entry required by the submitting broker.
 1. If eligible, a Better Price Match (BPM) allocation will match a percentage of the cross order, provided the following price improvement conditions are met:
 - The C-Cross price betters the current market upon entry, **and the** C-Cross price is equal to or better than the current market at end of the pre-cross period when the cross takes place
 2. Following the application of BPM percentage (when applicable) the remainder of the cross will interact with resting orders in the market before any remaining quantity matches between the cross orders.
 3. If BPM eligibility conditions are not met, or if the product's BPM percentage is configured at 0%, the cross will interact with resting orders in the market before any remaining part of the cross orders match with each other.

Asset Class	Pre Cross Period	Better Price Match (BPM) allocation %
Equity Options	5 seconds	0%
FX Options	5 seconds	20%
Interest Rate Options	5 seconds	20%

Committed Cross Examples – with BPM configured to 20%

Each example assumes cross is 500 contracts @ price = 7

	Market Before C-Cross Submitted	Market After Pre-Cross Period	Matching on Cross	Notes
Example 1	6 – 7 2,000 x 2,000	6 – 7 2,000 x 2,000	Cross Bid entirely filled, Cross offer not filled . Cross Bid will match with 7 offer currently in the market, Cross offer will get 0. Remaining cross offer will be left working or cancelled per submitter's instruction	RFC didn't better the market price, so it doesn't receive BPM. Cross bid (offer) will face the current market first.
Example 2	6 – 7 200 x 200	6 – 7 300 x 300	Cross Bid entirely filled, cross offer receives 200 Cross Bid will entirely fill, 300 with market then 200 with cross offer. Cross offer will receive 200. Remaining 300 cross offer will be left working or cancelled per submitter's instruction	RFC didn't better the market price so it doesn't receive BPM. Cross bid will face the market first then any remaining will cross.
Example 3	6 – 8 2,000 x 2,000	6 – 8 5,000 x 5,000	Both cross bid and cross offer will entirely match and receive 500 contracts	Cross price of 7 remained best price at time of cross.
Example 4	6 – 8 2,000 x 2,000	6 – 7 2,000 x 1,000	Cross Bid entirely filled, Cross offer gets 100 contracts. Both Cross Bid and ask will receive 20% of the cross.(100 contracts). Bid will then match with the book 7 offer and be entirely filled. Remaining cross 400 offer will be left working or cancelled per submitter's instruction	Cross is eligible for 20% BPM because it bettered the market when the RFC was submitted and is better or equal than market at close of the pre-cross state. Following the BPM% the cross will face the market before any remainder of the cross matches.
Example 5	6 – 8 2,000 x 2,000	6 – 7 2,000 x 100	Cross Bid entirely filled, Cross offer gets 400 contracts. Both Cross bid and ask will receive 20% of the cross. (100 contracts). The Cross bid will then buy 100 contracts from the market. The remaining 300 on the cross bid will then match with the cross offer. Remaining 100 cross offer will be left working or cancelled per submitter's instruction	Cross is eligible for 20% BPM because it bettered the market when the RFC was submitted and is better or equal than market at close of the pre-cross state. Following the BPM % the cross faces the market, Following this step the remaining smaller quantity on the cross matched.
Example 6	6 – 9 2,000 x 2,000	8 – 9 1,000 x 2,000	Cross Offer gets filled entirely at 8 with the market. Cross Bid does not get any fill. Cross offer of 500 contracts will match entirely with current market bid at better price of 8. Remaining cross 7 bid will be left working or cancelled per submitter's instruction	Cross is ineligible for the BPM. Two criteria need to be met to be eligible for 20 % BPM. The C-Cross price betters the current market upon entry, and the C-Cross price is equal to or better than the current market at end of the pre-cross period. In this example the cross price was worse than the current market following the pre-cross period.

Using CME Direct “Smart” Cross Ticket for C-Cross

- Ensures observance of the proper C-Cross protocol when eligible products are selected
- For example, CME Direct Smart Ticket enforces C-Cross when an IR option is selected

Add Cross - 10-Year U.S. Treasury Note Option Mar16 128.0 Call

Deal: **Cross**

10-Year U.S. Treasury Note Option Mar16 128.0 Call

CC	Description	+	Qty	Bid	Ofr	Qty	Last	Volume	Settle	Curre...
OZN	Mar16 128.0 Call	+	453	0'56	0'57	100	↓ 0'56	788	1'08	P 1'04

Price: | Quantity: 1 | Contracts/Month: | Leave unfilled orders in market | Type: RFC

Buyer

Account: | Give-up Account: | Give-up Firm: |

Seller

Account: | Give-up Account: | Give-up Firm: |

Notes:

New Cross

Input cross details.

Automatically submit orders | Build Strategy | Submit Cross (F12) | Cancel Cross | Close

This is auto selected when cross ticket is launched from trading grid

Select whether to leave unfilled C-Cross quantity in market or auto cancel

Enter RFC ticket details for both sides of C-Cross

CME Direct Shows Current Status of Both Orders

Cross Completed. Buyer fully filled 200 @ 0'17, Seller NOT filled

Automatically submit orders Build Stra

Single message indicates cross is complete, but one side did not receive a fill

My Watch Items Clear Add Strategy

10-Year U.S. Treasury Note Option RFQ 500 0'16 0'17 399

Recently Active Markets

Order 3770647, 28 Dec 2015 09:38:47
David Reif/BKR1's order was cancelled by the exchange.
10-Year U.S. Treasury Note Option Mar16 126.5/127.0 CS, Sell 200 @ 0'17

Show Close

Order 3770646, 28 Dec 2015 09:38:51
David Reif/BKR1 Bought
10-Year U.S. Treasury Note Option Mar16 126.5/127.0 CS
Filled 200 @ 0'17, 0 remaining

Show Close

Two separate messages indicate fill confirmations on both the buy-side and sell-side

Sell-side of trade (17 offer) does not get a fill on the cross, and is automatically cancelled per the user's preferences

Buy side of trade (17 bid) is completely filled

Resources and Contacts

www.cmegroup.com/committedcross

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