



Special Executive Report

S-7613R

March 29, 2016

Amendments to CME/CBOT/NYMEX/COMEX Rules 806 (“Offset Process”) and 854 (“Concurrent Long and Short Positions”)

S-7613R supersedes S-7613 dated March 6, 2016. It is being issued to clarify that the changes to Rules 806 and 854 set forth below do not, in any manner, impact the ability of Clearing Member Firms to continue to submit necessary open interest (PCS) adjustments in accordance with Rule 811 (“Position Change Data”). The deadline for such adjustments remains 8:15 a.m. Central Time/9:15 a.m. Eastern Time.

Effective Thursday, March 24, 2016, and pending all relevant CFTC regulatory review periods, CME, CBOT, NYMEX and COMEX (collectively, the “Exchanges”) will adopt amendments to Rules 806 (“Offset Process”) and 854 (“Concurrent Long and Short Positions”) to clarify that it is impermissible to re-open a position that has been closed out at the CME Clearing House other than through permissible trading activity.

Currently, Rule 854.C. prohibits a concurrent long and short position that was offset at the CME Clearing House from being re-opened at the Exchange as an open position. The prohibition is intended to be applicable to all products, as once an open position has been offset and the corresponding change has been made to open interest, the Exchanges and the CME Clearing House do not permit parties to “gross up” those positions, effectively reestablishing them as open positions at the CME Clearing House. The prohibition in Rule 854.C. is technically applicable solely to physically-delivered contracts due to a cross-reference to Section B. of the Rule in Section C. In order to clarify that the “gross-up” prohibition is applicable to all CME, CBOT, NYMEX and COMEX futures and options contracts, it is being relocated to Rule 806. Additionally, the misplaced cross-reference in Rule 854.C. is being eliminated.

The amendments to Rules 806 and 854 are set forth below, with additions underscored and deletions overstruck.

CME/CBOT/NYMEX/COMEX Chapter 8 Clearing House and Performance Bonds

806. OFFSET PROCESS

When a member buys and sells the same commodity for the same delivery month or a put or call option with the same strike price and expiration month and such contracts are cleared through the Clearing House, the purchases and sales are not automatically offset one against the other. Transactions can only be offset against one another by complying with Rule 811, and, once offset (closed-out), may not subsequently be re-opened at the Exchange.

854. CONCURRENT LONG AND SHORT POSITIONS

Set forth below are the procedures that must be followed for concurrent long and short positions and hold-open accounts.

A. Concurrent long and short positions in the same commodity and month may be held by a clearing member at the direction of a customer or on behalf of an omnibus account; however it shall be the duty of the clearing member to ascertain whether such positions are intended for offset or to be held open prior to final transmission of position data to the Clearing House.

B. Concurrent long and short positions in physically delivered contracts subject to spot month position limits that are held by the same owner during the time that spot month position limits are in effect must be offset by transactions executed in the market, by allowable privately negotiated transactions, or fulfilled through the normal delivery process, provided however that trades may be offset via netting, transfer or position adjustment to correct a bona fide clerical or operational error on the day the error is identified and the quantity of the offset does not represent more than two percent of the reported open interest in the affected futures contract month.

Permissible Exceptions

Notwithstanding the foregoing:

1. Trades may be transferred for offset if the trade date of the position being transferred is the same as the transfer date;
2. An account that becomes concurrently long and short as a result of a futures position that results from an option assignment will be allowed one business day to net such positions; or,
3. Where the Chief Regulatory Officer or his designee determines, in their respective sole discretion, that permitting an offset via netting, transfer or position adjustment in excess of two percent of the reported open interest will not adversely impact either the affected market or any persons holding open positions in the affected market.

C. Clearing members which, pursuant to this rule, carry concurrent long and short positions, must report to the Exchange both sides as open positions. When either side or both sides are reduced ~~in accordance with Section B. of this rule~~, the open positions as reported to the Exchange must be reduced accordingly, and, pursuant to Rule 806.- ~~Once such positions have been reduced, these positions may not subsequently be re-opened established as concurrent long and short positions~~ at the Exchange.

D. The Exchange takes no position regarding the internal bookkeeping procedures of its clearing members which, for the convenience of a customer, may "hold open" a position only on their books. However, the clearing member must accurately report to the Exchange and the Clearing House, as appropriate, large trader positions, long positions eligible for delivery and open interest.

E. Violations of this Rule may result in summary sanctions in accordance with the provisions of Rule 512 or the matter may be referred to the Probable Cause Committee for the consideration of charges.

Questions concerning the amendments may be directed to one of the following individuals:

Chris Reinhardt, Senior Director, Market Surveillance, at 312.435.3665

Ryne Toscano, Director, Market Surveillance, at 212.299.2879

Robert Sniegowski, Executive Director, Rules & Regulatory Outreach, 312.341.5991

Brian Sayers, Senior Director, CME Clearing Operations, at 312.634.8887

For media inquiries concerning this Special Executive Report, please contact CME Group Corporate Communications at 312.930.3434 or news@cmegroup.com.