



Special Executive Report

S-7809RR

February 22, 2018

Amendments to CME/CBOT/NYMEX/COMEX Rule 553 (Average Price System) **(Amended Effective Date)**

(This SER supersedes SER-7809R dated March 29, 2017 to amend the effective date from July 2, 2018 to October 1, 2018. No other amendments are being made to the original SER.)

Effective Monday, October 2, 2018, and pending all relevant CFTC regulatory review periods, Chicago Mercantile Exchange Inc. ("CME"), The Board of Trade of the City of Chicago, Inc. ("CBOT"), New York Mercantile Exchange, Inc. ("NYMEX") and Commodity Exchange, Inc. ("COMEX") (collectively, the "Exchanges") will adopt amendments to Rule 553 ("Average Price System") in each Exchange's Rulebook.

Amendments to Rule 553 require the use of the CME Clearing Average Price System ("APS") even in circumstances when an Exchange Clearing Member Firm calculates average prices using an internally developed APS. The amendments are being made to improve the granularity of the Exchange audit trail in accordance with CFTC Regulation 38.551 ("Audit Trail Required) which requires that a designated contract market's ("DCM") audit trail records permit the tracking of customer orders from the time of receipt through fill, allocation or other disposition, and CFTC Regulation 38.552 ("Elements of an Acceptable Audit Trail Program") which requires that a DCM's electronic transaction history database include the identification of each account to which fills are allocated.

To allow sufficient time for CME Clearing and affected Exchange Clearing Member Firms to make necessary changes, the effective date of the amendments to Rule 553 will be delayed from July 2, 2018, to October 1, 2018.

The amendments to Rule 553 appear below, with additions underscored and deletions overstruck.

CME/CBOT/NYMEX/COMEX Rulebooks **Chapter 5** **Trading Qualifications and Practices**

553. AVERAGE PRICE SYSTEM

553.A. Application of Average Prices

~~A clearing member may employ t~~The Exchange's Average Price System ("~~APS~~"), or a proprietary average pricing system ~~APS developed by a clearing member, allows a clearing member to~~ calculate ~~confirm to customers~~ an average price when multiple execution prices are received on an order or series of orders for futures, options or combination transactions. An order or series of orders executed during the same trading day at more than one price may be averaged pursuant to this Rule~~APS~~ only if each order is for the same account or group of accounts and for the same product and expiration month for futures, or for the same product, expiration month, put/call and strike price for options.

553.B. Average Price System Requirements ~~for APS Trades~~

~~A clearing member may have the Exchange calculate average prices or a clearing member may calculate average prices internally for contracts executed on the Exchange.~~ The requirements enumerated below must be met for APS transactions that are average priced.

1. The customer must have requested average price reporting prior to order entry.
2. Each individual trade must be submitted and cleared by the Exchange at the executed price. The average price must be confirmed to each customer account.
3. The clearing member carrying the account(s) must submit final account specific allocations in the Exchange's clearing system no later than the end of each trading day.
4. ~~If a clearing member computes and confirms the average prices internally to its customers,~~ it must:
 - a. ~~Compute~~ the weighted mathematical average price, as set forth in Section C.;
 - b. Subsequently employ the Exchange's Average Price System to 1) facilitate the allocations and 2) ensure that final account specific allocations are submitted to the Exchange's clearing system no later than the end of each trading day; and
 - c. Create
4. ~~If a clearing member calculates the average price, it must possess the~~ records to support the calculations and allocations to customer accounts and ~~must~~ maintain these records pursuant to CFTC regulations.
5. Proprietary trades of a clearing member ~~may not be~~ must ensure that its proprietary trades are not averaged priced with customer APS trades.

553.C. Computation of Average Price

Upon receipt of an execution or match at multiple prices for an ~~APS order that is to be average priced~~, the weighted mathematical average must be computed by: (a) multiplying the number of contracts purchased or sold at each execution price by that price, (b) adding the results together and (c) dividing by the total number of contracts. An average price for a series of orders will be computed based on the average prices of each order in that series. The actual average price or the average price rounded to the next price increment may be confirmed to customers. If a clearing member confirms the rounded average price, the clearing member must round the average price up to the next price increment for a buy order or down to the next price increment for a sell order. The residual created by the rounding process must be paid to the customer. An average pricing system APS may produce prices that do not conform to whole cent increments. In such cases, any amounts less than one cent may be retained by the clearing member.

553.D. Disclosure

Each clearing member that confirms an average price to a customer must indicate on the confirmation and monthly statement that the price represents an average price.

If you have any questions regarding the amendments, please contact one of the following individuals:

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