

## MARKET REGULATION ADVISORY NOTICE

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<b>Exchange</b>	<b>CME &amp; CBOT</b>
<b>Subject</b>	<b>Computerized Trade Reconstruction (“CTR”) Monthly Edit Programs</b>
<b>Rule References</b>	<b>Rule 536</b>
<b>Advisory Date</b>	<b>December 17, 2019</b>
<b>Advisory Number</b>	<b>CME &amp; CBOT RA1902-3</b>
<b>Effective Date</b>	<b>January 2, 2020</b>

Effective on trade date Thursday, January 2, 2020, and pending all relevant CFTC regulatory review periods, this Market Regulation Advisory Notice will supersede CME & CBOT Market Regulation Advisory Notice RA1009-3 from December 7, 2010. It is being issued to remove a reference to the Probable Cause Committee based on its elimination.<sup>1</sup>

Members active on the trading floor should ensure that their recordkeeping practices comply with all audit trail requirements. Market Regulation Department (“Department”) staff is available to assist members in addressing compliance with these requirements and members are encouraged to contact the Department if they are interested in obtaining additional information or guidance.

The text of Rule 536.F. pertaining to the CTR enforcement program appears below, followed by an FAQ section.

Questions regarding this Advisory Notice should be directed to David Peloquin, Senior Data Investigator, Market Regulation, at 312.341.3165.

### **536.F. CTR Enforcement Program and Sanction Schedule**

#### **CTR Monthly Enforcement Program**

The CTR threshold levels for members with 100 or more transactions per month are as follows:

Exception Type	Threshold Level
Bracket Exceptions	8% and above
Time of Execution for Verbal Orders	8% and above
Sequence Errors	8% and above

A letter of warning shall be issued for a first occurrence of exceeding any threshold. Subsequent occurrences within 12 months of exceeding a threshold shall result in automatic fines starting at \$1,000, and then increasing to \$2,500 and \$5,000 for each subsequent occurrence. Fifth and subsequent offenses within a 12 month period will be referred to the Chief Regulatory Officer for consideration of charges.

A member will have 15 days after receipt of a letter of warning or a fine to present evidence to the Market Regulation Department in support of having the letter of warning or fine dismissed showing that administrative, clerical, or other errors by the clearing firm caused the member to exceed the threshold

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<sup>1</sup> Please see Special Executive Report S-3485 from December 17, 2019, for additional information on the elimination of the Probable Cause Committee.

level. If the member does not submit such evidence, or if the Market Regulation Department determines that the evidence submitted is insufficient to reduce the percentage below the threshold level, the letter of warning or fine shall be final and may not be appealed.

The monthly CTR threshold for timestamp exceptions for firms with 1,000 or more transactions per month is 8% and above. A letter of warning shall be issued for a first occurrence of exceeding the threshold. Subsequent occurrences within 12 months of exceeding the threshold shall result in automatic fines starting at \$1,500 for the second occurrence, then increasing to \$5,000 and \$10,000 for each subsequent occurrence.

A firm will have 15 days after receipt of a letter of warning or a fine to present evidence to the Market Regulation Department in support of having the letter of warning or fine dismissed. If the firm does not submit such evidence, or if the Market Regulation Department determines that the evidence submitted is insufficient to reduce the percentage below the threshold level, the letter of warning or fine shall be final and may not be appealed.

#### CTR Clearing Member Back Office Audit Enforcement Program

The Market Regulation Department will conduct audits of clearing members to verify that required audit trail information has been accurately recorded and submitted. The CTR audit threshold level for firms failing to pick up and timestamp sequenced cards, verbal order cards and floor orders is 20%. The threshold for all other firm audit trail or recordkeeping deficiencies is 10%.

Percentage calculations will be made based on an examination of a combination of sequenced cards, verbal orders and floor orders totaling 150 documents. The number of documents containing a deficiency(ies) will be divided by the total number of documents examined in determining the deficiency percentage.

Violations of each threshold within 24 months shall be subject to automatic fines starting at \$2,500 for a first occurrence, then increasing to \$5,000 and \$10,000 for each subsequent occurrence.

A firm will have 15 days after receipt of a fine to present evidence to the Market Regulation Department in support of having the fine dismissed. If the firm does not submit such evidence, or if the Market Regulation Department determines that the evidence submitted is insufficient to reduce the percentage below the threshold level, the fine shall be final and may not be appealed.

Notwithstanding the provisions of this Section, the Market Regulation Department may, at any time, refer matters that it deems egregious to the Chief Regulatory Officer for consideration of charges.

### **FAQ Related to CME and CBOT Rule 536.F. CTR Monthly Edit Programs**

**Q1: What time period does the CTR Program use to determine whether the threshold levels have been exceeded?**

A1: Both the individual edit programs and firm edit program are run for each calendar month.

**Q2: How many categories of error exceptions (edits) are measured in the Bracket Exception Program?**

A2: Three: "No Time Bracket," "No Quote Found Within Bracket" and "Price Not Quoted Within Trade Day."

**Q3: Are there separate percentages calculated for each of the three edits in the Bracket Exception Program?**

A3: No. There is only one error percentage calculated in this program and it is based on the total number of combined edits ("No Time Bracket," No Quote Found Within Bracket" and "Price Not Quoted Within Trade Day") divided by the total number of trades for the month. For example, a member who executes 300 trades and has 8 citations for "No Time Bracket," 7 citations for "No Quote Found Within Bracket" and 2 citations for "Price Not Quoted Within Trade Day" will have a total of 17 exceptions and a "Bracket Exception" percentage of 5.66% (17/300).

**Q4: How does spread price reporting affect the Bracket Exception Program?**

A4: Any spread price which does not appear in Time and Sales during the bracket designated by the member executing the spread will be considered a bracket error.

CME and CBOT Rule 528 require that parties to a pit transaction properly notify the price reporting staff of the price at which trades have been consummated. Every spread transaction must be reported **each** time the spread is traded, regardless of whether there has been a change in the last reported price. In addition to the spread price, members must report the quantity of the spread to price reporting staff who will record the acronym of the member making the price report.

**Q5: How many categories of error exceptions (edits) are measured in the Time of Execution Program?**

A5: Two. The Time of Execution Program includes edits for “Invalid Time of Execution” and “Execution Time Not within Bracket.” An edit for “Invalid Time of Execution” is cited if the broker filling a verbal order for another member fails to record the time of execution to the nearest minute on his trading card. An edit for “Execution Time Not within Bracket” is cited if the recorded execution time does not agree with the reported time bracket.

**Q6: How is the error percentage calculated for the Time of Execution Program?**

A6: The percentage represents the total number of combined edits (“Invalid Time of Execution” and “Execution Time Not within Bracket”) divided by the total number of process type “E” trades (CTI 3 trades).

**Q7: How many categories of error exceptions (edits) are measured in the Sequence Program?**

A7: Two. The Sequence Program includes edits for “Card/Bracket Sequence” and “Multiple Brackets per Card.”

**Q8: When is a trade considered out of sequence for the purposes of the Sequence Errors Program?**

A8: The program analyzes time brackets and card sequence numbers. For example, if Card 1 is B bracket, Card 2 is C bracket and Card 3 is B bracket, all B bracket trades on Card 3 would be deemed out of sequence.

**Q9: What is the requirement for the Multiple Brackets per Card edit?**

A9: This edit applies to local traders and to proprietary traders who record trades in the same manner as local traders. The requirement is that all trades on a particular trading card must be from the same time bracket. The only exception is that trades in the opening bracket “\$” and the corresponding 15-minute bracket period may be on the same card.

**Q10: How does the CTR Edit Program apply to firms?**

A10: The Timestamp Exception Program applies to firms, and violations of the 8% threshold will result in sanctions in accordance with the enforcement schedule set forth in Rule 536.F.

**Q11: How many categories of edits are measured in the Timestamp Exception Program?**

A11: Eight. These edits include: 1) "Time In = Time Out," 2) "Invalid Timestamps" (times are blank or 999999), 3) "Time In > Time Out," 4) "Timestamps > Clearing Receipt Time," 5) "Timestamp In > Commodity End Time," 6) "Time Out < Commodity Start Time," 7) "Time In > Keypunch Bracket" and 8) "Time Out < Keypunch Bracket."

**Q12: How is the error percentage calculated for the Timestamp Exception Program?**

A12: The percentage represents the total number of combined edits (set forth in the answer to Question 11 above) divided by the total number of process type "T" trades (CTI 2, 3 & 4 orders).

**Q13: Who issues CTR warnings and fines?**

A13: All warnings and fines are issued automatically based on the results of the CTR programs and are issued by staff of the Market Regulation Department.

**Q14: Can a CTR warning or fine be appealed?**

A14: Individuals have 15 days after receipt of a notice of violation to present evidence to the Market Regulation Department showing that errors beyond the member's control (for example, data entry errors by firm personnel) caused the threshold to be exceeded. If Market Regulation staff determines that the evidence is sufficient to reduce the error percentage below the threshold level, the violation will be dismissed.

Firms also have 15 days after receipt of a notice of violation to present evidence to the Market Regulation Department to have the violation dismissed. The Market Regulation Department will determine if such evidence is sufficient to reduce the error percentage below the threshold level.

The decisions of Market Regulation regarding CTR actions are final and may not be appealed. Additionally, fines will be issued in accordance with the reported sanction schedule and will not be reduced.

**Q15: How does the 12-month period referenced in the enforcement schedule work?**

A15: The 12-month period in the enforcement schedule is a rolling 12-month period. For example, if a member were above the error threshold level for the Bracket Exception Program for the first time in a 12-month period in January 2020, a warning letter would be sent. Subsequent violations of *that program* through December 2020 would result in fines in accordance with the amended sanction schedule. If this member were to also violate the Sequence Program one time during that 12-month period, a warning letter rather than a fine would be issued for that violation because the violation occurred in a different exception program.

**Q16: Do the exception programs apply across both exchanges if an individual or firm is a member of both exchanges?**

A16: Because CME and CBOT are separate self-regulatory organizations, activity on each exchange is evaluated separately. As such, an individual or firm active on both exchanges could be sanctioned by each exchange in the same month if the thresholds were violated on both exchanges.

**Q17: Do the programs use both outright and spreads when calculating total trade count?**

A17: Yes. All trades are used for total trade calculation.

**Q18: Are members and member firms able to view statistical reports during the month to monitor their exception rates?**

A18: Yes. CME and CBOT members can view and, if desired, print their reports by logging onto the Enterprise Reporting Portal ("EREP"). The address is <https://login.chicago.cme.com>. Login information may be obtained by contacting the EASE Team at 312.456.1560 or [EASE.AtYourService@cme.com](mailto:EASE.AtYourService@cme.com).