

# MARKET REGULATION ADVISORY NOTICE

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| <b>Exchange</b>        | <b>CME, CBOT, NYMEX &amp; COMEX</b>   |
| <b>Subject</b>         | <b>Simultaneous Buy and Sell Orders for Different Beneficial Owners; Trading Against Customers' Orders Prohibited</b> |
| <b>Rule References</b> | <b>Rule 533 and Rule 531</b>  |
| <b>Advisory Date</b>   | <b>August 30, 2021</b>  |
| <b>Advisory Number</b> | <b>CME Group RA2113-5</b>   |
| <b>Effective Date</b>  | <b>October 1, 2021</b>  |

Effective on trade date Friday, October 1, 2021, and pending all relevant CFTC regulatory review periods, this Market Regulation Advisory Notice will supersede CME Group Market Regulation Advisory Notice RA1617-5 from December 13, 2016. It is being issued to reflect amendments to CME, CBOT, and NYMEX/COMEX Rule 533 ("Simultaneous Buy and Sell Orders for Different Beneficial Owners") and CME and CBOT Rule 531 ("Trading Against Customers' Orders Prohibited") that will become effective on October 1, 2021.

The amendments to CME, CBOT, and NYMEX/COMEX Rule 533 reduce the waiting period between order entries into CME Globex from 15 to 5 seconds for simultaneous buy and sell options orders for different beneficial owners. The other amendments to CME Rule 533 and the amendments to CME and CBOT Rule 531 are in connection with the September 30, 2021, closure of the trading floor for all products other than options on CME Eurodollar futures and options on CME SOFR futures.<sup>1</sup>

## **Overview**

This Advisory Notice clarifies the proper procedures for the handling of simultaneous buy and sell orders for different beneficial owners in open outcry and electronic markets pursuant to Rules 533 and 531. The complete text of these rules begins on page 2 of this Advisory Notice.

Neither this Advisory Notice nor the rules referenced herein pertain to transactions on CME Globex that involve pre-execution communications. Pre-execution communications are addressed in each exchange's Rule 539 ("Prearranged, Pre-Negotiated and Noncompetitive Trades Prohibited") and in the Market Regulation Advisory Notice concerning Rule 539, which can be found on the Rulebook Harmonization page at the following link:

<http://www.cmegroup.com/rulebook/rulebook-harmonization.html>

## **CME Open Outcry Markets**

CME Rule 533 allows for the direct crossing of buy and sell orders by a floor broker provided that the orders are for the accounts of different beneficial owners and the floor broker executing the orders first openly bids and offers the price and quantity three times in a manner that is transparent to the pit. If neither the bid nor the offer is accepted, then the floor broker may match the orders, or any remaining portion of the orders, in the presence of, and with the approval of, a Floor Operations staff member.

A floor broker may not cross an order with a trade for his own account, an account in which he has a direct or indirect financial interest, or an account over which he has discretionary trading authority unless

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<sup>1</sup> Please see Special Executive Report S-8833 from August 27, 2021, for additional information on the rule amendments.

he complies with the requirements set forth in Section B. 5. of Rule 531. ("Trading Against Customers' Orders Prohibited").

A floor broker who executes a cross trade must ensure that it is reported to Exchange price reporting staff for entry into the Price Reporting System as a cross trade. Failure to identify the transaction to Exchange price reporting staff as a cross trade shall constitute a violation of the rule.

Market participants are reminded that pre-execution communications or any other form of prearrangement are prohibited with respect to all orders entered for execution in the open outcry venue.

### **CME, CBOT, NYMEX and COMEX Electronic Markets**

In electronic markets, opposite orders for different beneficial owners that are simultaneously placed by a party with discretion over both accounts may be entered on the electronic platform provided that one order is exposed for a minimum of 5 seconds. Similarly, an order allowing for price and/or time discretion, if not entered immediately upon receipt, may be knowingly entered opposite another order entered by the same firm only if the other order has been entered immediately upon receipt and has been exposed for a minimum of 5 seconds. Orders involving pre-execution communications are separately governed by each Exchange's Rule 539.

Questions regarding this Advisory Notice may be directed to one of the following individuals in Market Regulation:

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Aaron Smith, Executive Director, Investigations, 312.435.3754

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Natasha Selkov, Manager, Investigations, 312.341.7623

For media inquiries concerning this Advisory Notice, please contact CME Group Corporate Communications at 312.930.3434 or [news@cmegroup.com](mailto:news@cmegroup.com).

### **CME**

#### **533. SIMULTANEOUS BUY AND SELL ORDERS FOR DIFFERENT BENEFICIAL OWNERS**

A member who is in possession of both buy and sell orders for different beneficial owners for the same product and expiration month, and, for a put or call option, the same strike price, may execute such orders for and directly between such beneficial owners provided that in pit trading, a member executing such orders shall first bid and offer by open outcry three times at the same price, stating the number of contracts, and, thereafter, if neither the bid nor the offer is accepted, the orders may be matched in the presence, and with the approval, of a designated Exchange official.

The member making such transactions shall, by appropriate descriptive words or symbols, clearly identify all such transactions on his trading card or other similar record made at the time of the execution. The member executing such trade must ensure that it is reported to Exchange price reporting staff for entry into the Exchange Price Reporting System. Failure to identify the transaction to Exchange price reporting staff as a cross trade shall constitute a violation of this rule.

On the Globex platform, opposite orders for different beneficial owners that are simultaneously placed by a party with discretion over both accounts may be entered into the Globex platform provided that one order is exposed for a minimum of 5 seconds. An order allowing for price and/or time discretion, if not entered immediately upon receipt, may be knowingly entered opposite another order entered by the same firm only if this other order has been entered immediately upon receipt and has been exposed on the Globex platform for a minimum of 5 seconds.

**531. TRADING AGAINST CUSTOMERS' ORDERS PROHIBITED**

**531.A. General Prohibition**

No person in possession of a customer order shall knowingly take, directly or indirectly, the opposite side of such order for his own account, an account in which he has a direct or indirect financial interest, or an account over which he has discretionary trading authority.

**531.B. Exceptions**

The foregoing restriction shall not apply to the following:

1. Transactions executed in accordance with Rule 527 to resolve bona fide outrades or errors;
2. Transactions executed pursuant to Rule 538;
3. Block trades executed pursuant to Rule 526;
4. On the Globex platform, a person may knowingly trade against his customer order for his own account, an account in which he has a direct or indirect financial interest, an account over which he has discretionary trading authority, or a proprietary account of his employer, only if the customer order has been entered immediately upon receipt and has first been exposed on the Globex platform for a minimum of 5 seconds in the case of futures orders or for a minimum of 15 seconds in the case of options orders; and
5. If the transaction was pit traded, a person may knowingly trade against his customer order for his own account, an account in which he has a direct or indirect financial interest, an account over which he has discretionary trading authority, or a proprietary account of his employer, only if: (i) the customer has consented in writing to waive the application of Rule 531.A no more than 12 months prior to the transaction; (ii) the member complies with the requirements set forth in Rule 533; (iii) the member clearly identifies, by appropriate descriptive words, all such transactions, and (iv) the member ensures that it is reported to Exchange price reporting staff for entry into the Exchange Price Reporting System as a cross trade.

**CBOT and NYMEX/COMEX**

**533. SIMULTANEOUS BUY AND SELL ORDERS FOR DIFFERENT BENEFICIAL OWNERS**

On the Globex platform, opposite orders for different beneficial owners that are simultaneously placed by a party with discretion over both accounts may be entered into the Globex platform provided that one order is exposed for a minimum of 5 seconds. An order allowing for price and/or time discretion, if not entered immediately upon receipt, may be knowingly entered opposite another order entered by the same firm only if this other order has been entered immediately upon receipt and has been exposed on the Globex platform for a minimum of 5 seconds.

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The foregoing restriction shall not apply to the following:

1. Transactions executed in accordance with Rule 527 to resolve bona fide errors;
2. Transactions executed pursuant to Rule 538;
3. Block trades executed pursuant to Rule 526; and
4. On the Globex platform, a person may knowingly trade against his customer order for his own account, an account in which he has a direct or indirect financial interest, an account over which he has discretionary trading authority, or a proprietary account of his employer, only if the customer order has been entered immediately upon receipt and has first been exposed on the Globex platform for a minimum of 5 seconds in the case of futures or swaps *[the reference to swaps appears solely in CBOT Rule 531]* orders or for a minimum of 15 seconds in the case of options orders.