



## Special Executive Report

S-7735

September 2, 2016

### Amendments to CME Chapter 11 (CME Spot Market Trading Rules) Regarding Warehouse Financial Statement Requirements

Effective Tuesday, September 6, 2016, Chicago Mercantile Exchange Inc. ("CME" or "Exchange") will amend Rule 1103.C. ("Regular Warehouses and Plants Conditions for Approval") of CME Rulebook Chapter 11 ("CME Spot Market Trading") to allow for warehouses to submit either reviewed or audited financial statements as part of the warehouse approval process. CME Rule 1103. is provided below in blackline format.

#### **CME Rulebook** **Chapter 11** **CME Spot Market Trading Rules** (additions are underscored)

#### **1103. DELIVERY FACILITIES AND DELIVERY PROCEDURES**

**(Prior Rule Language Unchanged)**

##### **1103.C. Regular Warehouses and Plants Conditions for Approval**

Warehouses or plants (hereafter "facilities") may be declared regular for delivery with the approval of CME Spot Market. Persons operating facilities who desire to have such facilities made regular for delivery shall make application for a declaration of regularity annually on a form prescribed by CME Spot Market prior to October 31.

Initial regularity shall be effective either thirty days after CME Spot Market posts a notice that a bona fide application has been received or the day after the application is approved by CME Spot Market, whichever is later.

CME Spot Market may establish such requirements and conditions for approval of regularity as it deems necessary. The application for regularity prescribed by CME Spot Market shall set forth conditions of regularity as well as other agreements with which the operator of the regular facility shall comply. In addition to any conditions and agreements contained in such application or in the relevant product section, the following shall constitute conditions for regularity and requirements with which the operator of a regular facility shall comply:

1. Facilities shall be a licensed, public, cold and/or dry storage warehouse and meet all local, state and federal requirements.
2. The operator of such facility shall be in good financial standing and credit. Financial statements must be reviewed or audited in accordance with U.S. Generally Accepted Accounting Principles or other international financial standards as deemed acceptable by CME Spot Market. On an annual basis, the facility shall provide CME Spot Market with copies of reviewed or audited financial statements of the facility, and its parent company (as applicable), as the reviewed or audited financial statements become available. Additionally, the facility must provide CME Spot Market with notice of any substantial reduction in capital as compared to the most recent filing of a financial report.
3. The operator of the facility shall promptly advise the Registrar of any issues at the facility which may cause damage to product held in store by it, whenever such damage shall occur to an extent that will render the product undeliverable.
4. The operator of the facility shall make such reports, keep such records and permit such facility visitation as CME Spot Market, or any other applicable government agency may require.
5. No facility shall be declared regular unless it has in force and effect warehouseman's legal liability insurance issued by such insurance companies and upon such terms and conditions as are satisfactory to CME Spot Market.

6. Facilities shall provide such guarantees, bonds or other financial instruments to CME Spot Market as may be required to guaranty the performance of its obligations pursuant to these Rules and any conditions set forth in the conditions for approval.
7. The facility is not required to own the storage facility and may lease the storage facility from the owner upon such terms and conditions as are satisfactory to CME Spot Market. The facility may also enter into a service arrangement pursuant to which an agent or contractor performs the daily operations of the storage facility upon such terms and conditions as are satisfactory to CME Spot Market. The facility shall be responsible for the conduct of its agents or contractors.
8. All officers, directors, employees and agents of a facility shall be prohibited from revealing any information regarding customers who have dealings with the facility except as permitted by CME Spot Market.

In the event the facility or any of its respective parent, subsidiaries or affiliates, engage in any trading activity, whether directly or indirectly, for which the facility has received approval for regularity, the facility shall institute such controls as CME Spot Market, at its discretion, deems necessary to protect the confidentiality of the users of the facility.
9. The operator of the facility shall not engage in unethical or inequitable practices, and shall comply with all applicable federal or state statutes, rules or regulations.
10. Members operating regular facilities shall be subject to CME Spot Market Rules and shall abide by and comply with the terms of any disciplinary decision imposed against it pursuant to CME Spot Market Rules.
11. Members operating regular facilities shall consent to the disciplinary jurisdiction of CME Spot Market for five years after such regularity lapses, for conduct which occurred while the facility was regular.

CME Spot Market, in its sole discretion, may determine not to approve facilities for regularity, regardless of whether such facilities meet the preceding requirements and conditions.

**(Remainder of Rule Language Unchanged)**

The CFTC will be notified of the rule language amendment during the week of September 12, 2016, via the weekly notification procedures set forth in Part 40 of the CFTC Regulations.

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