



Special Executive Report

DATE: October 8, 2018
SER#: 8259
SUBJECT: Adoption of New CME/CBOT/NYMEX/COMEX Rule 857. (Post Trade Multilateral Compression)

Effective Tuesday, October 23, 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") (each an "Exchange" and, collectively, the "Exchanges") will adopt new Rule 857. ("Post-Trade Multilateral Compression") in each Exchange's Rulebook (the "Proposed Rule").

The Proposed Rule will create the legal framework for post-trade multilateral compression of open positions in certain Exchange options on futures products and related underlying futures (the "Compression Service"). The Compression Service will initially be available in relation to listed equity index options on futures and related underlying futures contracts traded on the CME and CBOT and is expected to be extended to other products in the future, including listed futures and options on futures contracts on NYMEX and COMEX as anticipated under the Proposed Rule. The Exchanges have designed the Compression Service to reflect feedback provided by market participants active in listed equity options markets, including clearing members and customers of clearing members.

The overall objective of the Compression Service is to attempt to identify potential offsetting efficiencies between the open interest of market participants in Exchange products and, through compression, to promote more favorable capital treatment for participating clearing members and their customers subject to Basel III standardized capital requirement formulas. The Compression Service will help to achieve this objective by providing a centralized mechanism operated by CME Clearing (the "Clearing House") under which market participants are able, subject to the terms of the Compression Service, to elect to attempt to compress portfolios of Exchange contracts on a multilateral basis. A successful compression cycle would identify offsetting positions for compression which once offset (closed-out) would result in a reduction of a participating firm's overall open interest and dollar-equivalent notional with minimal impact to the relevant market risk profile, which shall be maintained within pre-agreed parameters.

By reducing open interest and dollar-equivalent notional amounts and thereby facilitating the potential reduction of the burden that Basel III capital requirements impose on Futures Commission Merchants ("FCMs") active in listed equity options markets, it is anticipated that the Compression Service will help to promote liquidity across these markets. The Compression Service may be extended to other Exchange products in the future.

Additional information regarding this matter and new CME/CBOT/NYMEX/COMEX Rule 857. may be viewed [HERE](#).

The Compression Service will be available to eligible market participants subject to the terms and conditions set out in the Proposed Rule, applicable legal terms relating to the service and in operational protocol documentation made by the Exchanges and the Clearing House under the Proposed Rule (the “CME Group Multilateral Compression Process Protocol”).

The list of eligible futures and options on futures products, relevant eligibility criteria for participation by firms and the proposed compression cycle schedule for the Compression Service will be made public by the Clearing House by Clearing Advisory Notice and/or in the CME Group Multilateral Compression Process Protocol.

Applicable fees related to the Compression Service will be made publicly available on the CME Group website at: <https://www.cmegroup.com/company/clearing-fees.html>.

New CME/CBOT/NYMEX/CINEX Rule 857. is provided in blackline format in Appendix A below.

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Appendix A

Amendments to CME/CBOT/NYMEX/COMEX Rulebooks

(additions underlined)

CHAPTER 8 CLEARING HOUSE AND PERFORMANCE BONDS

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857. POST-TRADE MULTILATERAL COMPRESSION

The Clearing House may from time to time and in its absolute and sole discretion provide a multilateral compression service under which eligible Exchange futures and options contracts cleared through the Clearing House may be offset (close-out) and, where relevant, replaced with new Exchange futures and options contracts cleared through the Clearing House.

With the consent of the account controller, a Clearing Member, account controller or person duly authorized by the Clearing Member or account controller may submit a list of positions in eligible contracts which remain open at the Clearing House pursuant to Rule 805 and that the account controller wishes to offset (close-out) and replace with new contracts via the multilateral compression service in accordance with this Rule.

The specific products and contract months eligible for inclusion in the multilateral compression service and the frequency and timing of providing such service will be determined by the Clearing House in its absolute and sole discretion.

All contracts submitted to the Clearing House pursuant to this Rule must be submitted in accordance with the procedures established by the Clearing House for this purpose as amended from time to time.

Clearing Members participating in the multilateral compression service agree and acknowledge that the multilateral compression service may operate to offset (close-out) certain existing open positions and establish new open positions for the benefit of the relevant account holder. Any termination of or entry into replacement Exchange cleared futures and options contracts will take place in accordance with and subject to the terms of this Rule and such procedures and conditions established by the Clearing House from time to time.

The Clearing House may utilize a third party approved by the Clearing House for the facilitation of the multilateral compression service provided in accordance with this Rule, which may be an affiliate of the Clearing House or CME Group Inc. or such other entity appointed by the Clearing House from time to time and duly notified to participants (an "Authorized Compression Service Provider").

The Clearing House may in its absolute and sole discretion determine to suspend or terminate the multilateral compression service and any compression cycle at any time.

Positions in a customer account of a Clearing Member shall not be compressed pursuant to this Rule with positions in the proprietary account of the Clearing Member.

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The remainder of Chapter 8 is unchanged.

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