CME Group

Special Executive Report

Date: **October 29, 2018**

SER#: **8268**

SUBJECT: Amendments to the Daily Settlement Procedures Document for Dairy Futures Contracts

Effective Sunday, November 18, 2018 for trade date Monday, November 19, 2018, and pending all relevant CFTC regulatory review periods, Chicago Mercantile Exchange Inc. ("CME" or "Exchange") will amend the Daily Settlement Procedures Document relating to the Class III Milk Futures, Class IV Milk Futures, Non-fat Dry Milk Futures, Dry Whey Futures, Cash-Settled Butter Futures, and Cash-Settled Cheese Futures contracts (the "Dairy Contracts") as indicated below:

Product Class	Contract Title	CME Rulebook Chapter	CME Globex Code
Dairy	Class III Milk Futures	52	DC
	Class IV Milk Futures	55	GDK
	Non-fat Dry Milk Futures	54	GNF
	Dry Whey Futures	57	DY
	Cash-settled Butter Futures	56	CB
	Cash-settled Cheese Futures	60	CSC

The Exchange previously advised the market place of amendments to various agriculture products. See SER 8228 dated September 11, 2018. Upon feedback from market participants, further amendments to the Dairy Contracts effective on trade date November 19, 2018, the Exchange is removing "net change" language from the daily settlement procedure document. The amendments will enhance market participants' ability to more accurately price the dairy crush market on days when no trading activity occurs in the longer dated contract months.

The amended Dairy Daily Settlement Procedure Document is provided in Exhibit A below in blackline format.

Inquiries regarding the aforementioned may be directed to the CME Group Global Command Center at 312.456.2391. Questions regarding this Special Executive Report may be directed to the CME Global Command Center at 800.438.8616, in Europe at 44.800.898.013, in Asia at 65.6532.5010, or GCC@cmegroup.com.

Appendix A

Dairy Settlement Procedure Document

(deletions ~~overstruck~~)

Dairy Futures

Normal Daily Settlement Procedure

Daily settlement of Class III Milk (DC), Class IV Milk (GDK), Nonfat Dry Milk (GNF), Dry Whey (DY), Cash-Settled Butter (CB), and Cash-Settled Cheese (CSC) futures is determined by CME Group staff based on trading activity on CME Globex between 13:09:30 and 13:10:00 Central Time (CT).

Tier 1: Each contract month settles to its volume-weighted average price (VWAP) of all trades that occur between 13:99:30 and 13:10:00 CT, the settlement period, rounded to the nearest tradable tick. If the VWAP is exactly in the middle of two tradable ticks, then the settlement will be the tradable price that is closer to the contract's prior day settlement price.

Tier 2: If no trades occur on CME Globex between 13:09:30 and 13:10:00 CT, the settlement period, then the last trade is used to determine the settlement price validated against the bid/ask.

Tier 3: In the absence of any trading activity, the daily settlement price will be ~~determined by applying the net change from the preceding contract month to~~ the given contract month's prior daily settlement price validated against the bid/ask and adjusted to the bid or the ask if necessary.

CME Class III Milk Futures Final Settlement

Class III Milk (DC) futures are cash settled. Please note that the settlement price determined on the last day of trading is only a temporary settlement price, and the contract will be cash settled based upon the USDA Class III price for milk for the particular month, as first released.

Temporary Settlement Calculation for Expiring Contract

CME Group staff determines the settlement for the expiring Class III Milk (DC) future contract based upon market activity on CME Globex between 12:08:30 and 12:10:00 Central Time (CT), the settlement period – the last minute and a half of the contract's life.

Tier 1: If a trade occurs on Globex between 12:08:30 and 12:10:00 Central Time (CT), then the expiring contract settles to the volume-weighted average price (VWAP) of the trade(s) during this period.

Tier 2: If no trades occur on Globex between 12:08:30 and 12:10:00 CT, then the last trade (or prior settle in the absence of a last trade price) is used to determine whether to settle to the current bid or the current ask.

If the current bid is higher than the last trade/prior settlement price, then the contract settles to the bid. If the current ask is lower than the last trade/prior settle, then the contract settles to the ask. The contract settles to the last trade/prior settle if it is equal to or between the bid and the ask.

Final Settlement Details

For additional details, please see the CME Rulebook (Chapter 52).

CME Class IV Milk Futures Final Settlement

Class IV Milk (GDK) futures are cash settled. Please note that the settlement price determined on the last day of trading is only a temporary settlement price, and the contract will be cash settled based upon the USDA Class I V price for milk for the particular month, as first released.

Temporary Settlement Calculation for Expiring Contract

CME Group staff determines the settlement for the expiring Class IV Milk (GDK) future contract based upon market activity on CME Globex between 12:08:30 and 12:10:00 Central Time (CT), the settlement period – the last minute and a half of the contract's life.

Tier 1: If a trade occurs on Globex between 12:08:30 and 12:10:00 Central Time (CT), then the expiring contract settles to the volume-weighted average price (VWAP) of the trade(s) during this period.

Tier 2: If no trades occur on Globex between 12:08:30 and 12:10:00 CT, then the last trade (or prior settle in the absence of a last trade price) is used to determine whether to settle to the current bid or the current ask.

If the current bid is higher than the last trade/prior settlement price, then the contract settles to the bid. If the current ask is lower than the last trade/prior settle, then the contract settles to the ask. The contract settles to the last trade/prior settle if it is equal to or between the bid and the ask.

Final Settlement Details

For additional details, please see the CME Rulebook (Chapter 55).

CME Butter Futures Final Settlement

Butter (CB) futures are cash settled. Please note that the settlement price determined on the last of trading is only a temporary settlement price, and the contract will be cash settled based upon the USDA monthly weighted average price in the U.S. for butter, as first released.

Temporary Settlement Calculation for Expiring Contract

CME Group staff determines the settlement for the expiring Cash-Settled Butter (CB) future contract based upon market activity on CME Globex between 12:08:30 and 12:10:00 Central Time (CT), the settlement period – the last minute and a half of the contract's life.

Tier 1: If a trade occurs on Globex between 12:08:30 and 12:10:00 Central Time (CT), then the expiring contract settles to the volume-weighted average price (VWAP) of the trade(s) during this period.

Tier 2: If no trades occur on Globex between 12:08:30 and 12:10:00 CT, then the last trade (or prior settle in the absence of a last trade price) is used to determine whether to settle to the current bid or the current ask.

If the current bid is higher than the last trade/prior settlement price, then the contract settles to the bid. If the current ask is lower than the last trade/prior settle, then the contract settles to the ask. The contract settles to the last trade/prior settle if it is equal to or between the bid and the ask.

Final Settlement Details

For additional details, please see the CME Rulebook (Chapter 56).

CME Cheese Futures Final Settlement

Cheese (CSC) futures are cash settled. Please note that the settlement price determined on the last day of trading is only a temporary settlement price, and the contract will be cash settled based upon the USDA monthly weighted average price in the U.S. for cheese. The reported USDA monthly weighted average price for cheese uses both 40 pound cheddar block and 500 pound barrel prices.

Temporary Settlement Calculation for Expiring Contract

CME Group staff determines the settlement for the expiring Cheese (CSC) future contract based upon market activity on CME Globex between 12:08:30 and 12:10:00 Central Time (CT), the settlement period – the last minute and a half of the contract's life.

Tier 1: If a trade occurs on Globex between 12:08:30 and 12:10:00 Central Time (CT), then the expiring contract settles to the volume-weighted average price (VWAP) of the trade(s) during this period.

Tier 2: If no trades occur on Globex between 12:08:30 and 12:10:00 CT, then the last trade (or prior settle in the absence of a last trade price) is used to determine whether to settle to the current bid or the current ask.

If the current bid is higher than the last trade/prior settlement price, then the contract settles to the bid. If the current ask is lower than the last trade/prior settle, then the contract settles to the ask. The contract settles to the last trade/prior settle if it is equal to or between the bid and the ask.

Final Settlement Details

For additional details, please see the CME Rulebook (Chapter 60).

CME Dry Whey Futures Final Settlement

Dry Whey (DY) futures are cash settled. Please note that the settlement price determined on the last of trading is only a temporary settlement price, and the contract will be cash settled based upon the USDA monthly weighted average price in the U.S. for dry whey, as first released.

Temporary Settlement Calculation for Expiring Contract

CME Group staff determines the settlement for the expiring Dry Whey (DY) future contract based upon market activity on CME Globex between 12:08:30 and 12:10:00 Central Time (CT), the settlement period – the last minute and a half of the contract's life.

Tier 1: If a trade occurs on Globex between 12:08:30 and 12:10:00 Central Time (CT), then the expiring contract settles to the volume-weighted average price (VWAP) of the trade(s) during this period.

Tier 2: If no trades occur on Globex between 12:08:30 and 12:10:00 CT, then the last trade (or prior settle in the absence of a last trade price) is used to determine whether to settle to the current bid or the current ask.

If the current bid is higher than the last trade/prior settlement price, then the contract settles to the bid. If the current ask is lower than the last trade/prior settle, then the contract settles to the ask. The contract settles to the last trade/prior settle if it is equal to or between the bid and the ask.

Final Settlement Details

For additional details, please see the CME Rulebook (Chapter 57).

CME Nonfat Dry Milk Futures Final Settlement

Nonfat Dry Milk (GNF) futures are cash settled. Please note that the settlement price determined on the last of trading is only a temporary settlement price, and the contract will be cash settled based upon the USDA monthly weighted average price in the U.S. for nonfat dry milk, as first released.

Temporary Settlement Calculation for Expiring Contract

CME Group staff determines the settlement for the expiring Nonfat Dry Milk (GNF) future contract based upon market activity on CME Globex between 12:08:30 and 12:10:00 Central Time (CT), the settlement peroid – the last minute and a half of the contract's life.

Tier 1: If a trade occurs on Globex between 12:08:30 and 12:10:00 Central Time (CT), then the expiring contract settles to the volume-weighted average price (VWAP) of the trade(s) during this period.

Tier 2: If no trades occur on Globex between 12:08:30 and 12:10:00 CT, then the last trade (or prior settle in the absence of a last trade price) is used to determine whether to settle to the current bid or the current ask.

If the current bid is higher than the last trade/prior settlement price, then the contract settles to the bid. If the current ask is lower than the last trade/prior settle, then the contract settles to the ask. The contract settles to the last trade/prior settle if it is equal to or between the bid and the ask.

Final Settlement Details

For additional details, please see the CME Rulebook (Chapter 54).

Dairy Spot Call

Normal Daily Settlement Procedure

The settlement of the following products is determined by CME Group staff based on trading activity in the pit:

- Butter Spot Call (AA)
- Cheese Spot Call Blocks (KB)
- Cheese Spot Call Barrels (RB)
- Nonfat Dry Milk Spot Call Grade A (NM)

Tier 1: The contract settles to the last trade price if the last trade price is within the current bid/ask.

Tier 2: If the last trade price is outside of the current bid/ask, the contract will settle to the current bid price that is higher than the last trade or the current ask price that is lower than the last trade.

Tier 3: If no trades occur, then the contract will settle to the prior day settlement price if the prior day settlement price is within the current bid/ask. If the prior day settlement price is outside of the current bid/ask, then the contract will settle to the current bid price that is higher than the prior day settlement price or the current ask price that is lower than the prior day settlement price. In the absence of any trades or current bid/asks, the contract will settle to the prior day settlement price.

If you have any questions, please call the CME Global Command Center at 800.438.8616, in Europe at 44.800.898.013, or in Asia at 65.6532.5010.

Note: In the event the aforementioned calculations cannot be made or if CME Group staff, in its sole discretion, determines that anomalous activity produces results that are not representative of the fair value of the contract, staff may determine an alternative settlement price.