CME Group

Special Executive Report

DATE **October 2, 2020**

SER#: **8458**

SUBJECT: **Amendments to CME, CBOT, NYMEX/COMEX Rule 588.C. ("Trade Cancellations and Price Adjustments") and Rule 588.H. ("Globex Non-Reviewable Trading Ranges") Table Relating to all Option Contracts**

Effective Sunday, October 18, 2020 for trade date Monday, October 19, 2020, 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") (collectively the "Exchanges") will adopt various amendments to CME, CBOT, NYMEX/COMEX Rule 588. ("Trade Cancellations and Price Adjustments") and Rule 588.H. ("Globex Non-Reviewable Trading Ranges") table (the "Table") to change the process for adjusting prices and cancelling trades for all option contracts (collectively, the "Rule Amendments").

Rule 588. ("Trade Cancellations and Price Adjustments") authorizes the Global Command Center ("GCC") to adjust trade prices or cancel trades where, in its discretion, the GCC believes such action is necessary to mitigate market disrupting events caused by the improper or erroneous use of the electronic trading system or by system defects. Specifically, the GCC will first determine whether a trade should be subject to review. Upon determining a trade will be subject to review, the GCC will analyze the trade price as described in Rule 588.C.

Currently, the analysis of the trade price under review varies based on whether the product is a futures contract or an options on a futures contract. If the product is a futures contract, the GCC simply analyzes the price of the trade in comparison to the Globex non-reviewable trading range ("NRR") for the product, as set forth in Rule 588.H., to determine if a price adjustment or cancellation is appropriate. If the product is an options on a futures contract, the GCC will conduct a two-step process by first determining the Bid/Ask Reasonability Allowance and then by applying the NRR in order to determine whether a price adjustment or cancellation is appropriate.

The concept of using a Bid/Ask Reasonability Allowance and the NRR for options on futures products was initially adopted when such contracts were much less liquid on CME Globex. At that time, the purpose of the two-step process was to create a simulated market in lieu of actual on-screen liquidity. Since that time, liquidity on CME Globex has grown. After analysis of trade cancellations and adjustments in options on futures contracts by the GCC, it was determined that for options on futures contracts, simply applying the NRR would be sufficient in determining whether a price adjustment or cancellation was appropriate.

Additionally, it was determined that the NRR for options on futures contracts was constrained by a cap on the delta calculation and a 1-tick minimum range. Therefore, the Exchanges are amending the NRR in the Table for options on futures contracts to be the greater of the following:

- Delta multiplied by the underlying futures NRR;
- 20% of premium up to ¼ of the underlying futures NRR; or
- A certain number of minimum price increments depending on the liquidity profile of the options on futures contract (either 2 or 5).

Amendments to Rule 588.C. is provided below in Exhibit A with deletions ~~overstruck~~. Amendments to the Table with additions underscored and deletions ~~overstruck~~ may be viewed ***HERE***.

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 +1.800.438.8616, in Europe at +44.800.898.013, in Asia at +65.6532.5010, or GCC@cmegroup.com.

Exhibit A
CME, CBOT, NYMEX/COMEX Rulebook
Chapter 5
("Trading Qualifications and Practices")
(deletions ~~overstruck~~)

588. TRADE CANCELLATIONS AND PRICE ADJUSTMENTS

[Subsections 588.A. – 588.B. are unchanged.]

588.C. Price Adjustments and Cancellations

Upon making a determination that a trade will be subject to review, the GCC will first determine whether the trade price is within the Non-Reviewable Range ~~for futures or within the Bid/Ask Reasonability Allowance for options~~, as described in Section H. ~~The Bid/Ask Reasonability Allowance for an option is the maximum width of the bid/ask range which will be considered reasonable for use in applying the parameters necessary to establish the Non-Reviewable Range for the option~~. In applying the Non-Reviewable Range, the GCC shall determine the fair value market price for that contract at the time the trade under review occurred. The GCC may consider any relevant information, including, but not limited to, the last trade price in the contract or a better bid or offer price on the electronic trading system, a more recent price in a different contract month, the price of the same or related contract established in another venue or another market, the market conditions at the time of the trade, the theoretical value of an option based on the most recent implied volatility and responses to a Request for Quote (RFQ).

1. Trade Price Inside the Non-Reviewable Range

   If the GCC determines that the price of the trade is inside the Non-Reviewable Range, the GCC will issue an alert indicating that the trade shall stand.

2. Trade Price Outside the Non-Reviewable Range

   ~~a. Futures Contract~~

   If the GCC determines that a trade price is outside the Non-Reviewable Range ~~for a futures contract (including futures spreads),~~ the trade price shall be adjusted to a price that equals the fair value market price for that contract at the time the trade under review occurred, plus or minus the Non-Reviewable Range. In the event there are multiple parties, prices and/or contracts involved in the transactions at issue, the GCC has the authority, but not the obligation, to cancel rather than price adjust such transactions. The GCC will issue an alert regarding its decision.

   ~~b. Option Contracts~~

   ~~If the GCC determines that a trade price is outside the applicable Non-Reviewable Range for an option contract, the trade price shall be adjusted. In the case of a buy (sell) error, the price will be adjusted to the determined ask (bid) price set forth in the Bid/Ask Reasonability Allowance in Section H. plus (minus) the Non-Reviewable Range. In the event there are multiple parties, prices and/or contracts involved in the transactions at issue, the GCC has the authority, but not the obligation, to cancel rather than price adjust such transactions. The GCC will issue an alert regarding its decision.~~