

# MARKET REGULATION ADVISORY NOTICE

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<b>Exchange</b>	<b>CME</b>
<b>Subject</b>	<b>Registration and Identification of Broker Associations</b>
<b>Rule References</b>	<b>Rule 515</b>
<b>Advisory Date</b>	<b>December 17, 2019</b>
<b>Advisory Number</b>	<b>CME RA1902-2</b>
<b>Effective Date</b>	<b>January 2, 2020</b>

Effective on trade date Thursday, January 2, 2020, and pending all relevant CFTC regulatory review periods, this Market Regulation Advisory Notice will supersede CME Market Regulation Advisory Notice RA1602-2 from March 14, 2016. It is being issued based on an amendment to Rule 515.F. (“Broker Association Enforcement Program”) that replaces a reference to the Probable Cause Committee, which is being eliminated, with a reference to the Chief Regulatory Officer.<sup>1</sup>

The complete text of Rule 515 begins on page 3 of this Advisory Notice.

## **Eurodollar Options Trading Restrictions**

The intra-association trading restrictions among members of CME broker associations operating in Eurodollar options are set forth below.

### **A. Contract Months Subject to the Restrictions**

All listed contract months from the first day of trading through the last day of trading.

### **B. Restrictions**

Order executions in restricted contract months by members of a broker association opposite other members of the same broker association will be limited to 20% per month.

## **Standard & Poor’s 500 Stock Price Index Futures Trading Restrictions**

Restrictions on the intra-association trading among members of CME broker associations operating in Standard & Poor’s 500 Stock Price Index futures are set forth below.

### **A. Contract Months Subject to the Restrictions**

The lead contract month. The second contract month becomes restricted on the first business day that lead contract month becomes the spot month.

### **B. Restrictions**

#### **1. Revenue Sharing Associations**

A member is prohibited from trading for any account such member owns, controls or in which such member has a financial interest opposite other members of the association executing orders.

- a. Personal trading by a member opposite personal trading by other members of the association is limited to 15% per month.

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<sup>1</sup> Please see Special Executive Report S-8475 from December 17, 2019, for additional information on the elimination of the Probable Cause Committee.

- b. Order executions by a member opposite order executions by other members of the association are limited to 25% per month, except for associations and members primarily involved in the execution of spread orders where the limit is 30%.
2. Non-Revenue Sharing Associations
  - a. Personal Trading by a member opposite other members of the association is limited to 15% per month, of which no more than 10% may be opposite order executions by other members of the association.
  - b. Order executions by a member opposite other members of the association are limited to 25% per month, except for associations and members primarily involved in the execution of spread orders where the limit is 30%.

### **Best and Only Bid and Offer Documentation**

In circumstances where two members of the same broker association trade opposite one another in a contract month subject to the trading restrictions set forth above, and at the time the trade is executed one member is the best and only bid and the other member is the best and only offer, the quantity associated with the execution will be removed from each member's monthly intra-association percentage restrictions **provided that all of the following requirements are met:**

1. A note is made on the trading document by one of the two members involved in the trade indicating that at the time the trade was executed, one member was the best and only bid and the other member was the best and only offer in the pit. Noting "B&O" on the trading document is sufficient for this purpose. That notation must be made contemporaneously with the trade being made.
2. The time of the trade to the nearest minute is recorded on the trading document containing the B&O notation.
3. A signature and a **legible** acronym of a member (or the signature of an Exchange official) attesting to the fact that the members were the best and only bid and best and only offer at the time the trade was made **must be** noted on the trading document. The signature and acronym of the member (or the signature of the Exchange official) must be obtained as soon as possible after the trade has been made. **Members executing the trade may request signatures only from members (or Exchange officials) who were present when the trade was made. Members signing such trading documents may do so only if they were present and can attest to the fact that the trade was a best and only bid and offer at the time it was made.** Members of the same broker association are not eligible to sign as a witness for this purpose.
4. Copies of the documentation are forwarded to the Market Regulation Department, marked to the attention of Jeffrey Nierman.

**Properly documented** best and only bids and offers will be removed from each member's intra-association trading volume and total trade volume when calculating compliance with the applicable trading restrictions. If the removal of the volume associated with the best and only bids and offers results in the reduction of a member's intra-association trading percentage to a non-violative level, the member will not be deemed to have violated Rule 515.E.

**Documentation that does not meet all the requirements set forth above will not be accepted by the Market Regulation Department.**

Questions regarding this advisory may be directed to Jeffrey Nierman, Senior Data Investigator, at 312.341.3195.

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 Rule 515

### REGISTRATION AND IDENTIFICATION OF BROKER ASSOCIATIONS

#### 515.A. Definitions

1. Floor Brokerage Activity - The execution or pre-execution handling of orders on the trading floor.
2. Broker Association - A broker association shall include the following associations between two or more members with trading floor access privileges, at least one of whom is engaged in floor brokerage activity:
  - a. Revenue Sharing Association: Associations between members who:
    - i. share profits or losses associated with their brokerage and/or error account activity; and/or
    - ii. have an employer and employee relationship which relates to floor brokerage activity;
  - b. Non-Revenue Sharing Association: Associations between members who:
    - i. regularly share a deck of orders; and/or
    - ii. share employee salary expenses.
  - c. Any other group or combination deemed by the Exchange to be a broker association.
3. Principal of a Revenue Sharing Association – Each individual who has formal or de facto control over the affairs of, or has a ten percent or greater ownership interest in, a Revenue Sharing Association not owned by a clearing member firm.
4. Spokesperson of a Non-Revenue Sharing Association and Revenue Sharing Associations owned by a clearing member firm – An individual authorized to represent a Non-Revenue Sharing Association or Clearing Firm owned Revenue Sharing Association in connection with its registration obligations set forth in Section B.
5. Investor – An individual who has a direct beneficial interest in a Revenue Sharing Association but is not a principal as defined in A.3. above.

#### 515.B. Registration Requirements

1. A member of a broker association shall not handle or execute an order unless that association has registered with the Exchange.
2. Members or Member Firms must have majority ownership interest in any broker association.
3. Principals involved in floor brokerage activity must have trading privileges in the membership division required for access to the products handled by the members of the association. Principals who are not involved in floor brokerage activity must own a membership in the membership division required for access to the products handled by the members of the association. Notwithstanding the above, principals not regularly involved in floor brokerage activity may hold a membership in any division in circumstances where the association is owned by a Member Firm and such Member Firm owns a membership in the membership division required for access to the products handled by the members of the association.
4. No registered broker association or member thereof shall permit a party to have any direct or indirect profit or ownership interest in a broker association unless such party is registered in the association in accordance with this rule.
5. Registration shall be accomplished by filing the appropriate registration forms with the Market Regulation Department.
6. It shall be the responsibility of the broker association and its principals or spokespersons to ensure that the association is properly registered. Any additions, deletions or other changes to the information already reported must be provided to the Market Regulation Department within two business days after the event giving rise to such changes.
7. The Exchange may request any additional information from a broker association as deemed appropriate.

#### 515.C. Prohibition on Sharing of Personal Trading Profits

Registrants in a broker association may not share profits or losses associated with their personal trading activity by direct or indirect means, except for profits and losses related to brokerage errors.

#### 515.D. Supervision

Each principal of a Revenue Sharing Association must diligently supervise the association's member registrants and non-member employees and may be held directly liable for violations of any rule of the Exchange by such registrants and employees. Regardless of whether the principal is held responsible for the act or acts constituting the violation, each principal is jointly liable for the payment of any fines assessed against another principal, registrant or employee of the association provided that the violation occurred while that person was functioning in his capacity with the association.

**515.E. Trading Restrictions**

The Exchange may impose limits on the percentage of personal trading and/or brokerage volume that members of a broker association may execute with one another. Violations of such restrictions will result in summary action according to the following schedule on a rolling 12 month period:

First Occurrence Letter of Warning

Second Occurrence \$5,000 fine

Subsequent Occurrence \$10,000 fine

The Exchange may restrict a member of a Revenue Sharing Association from trading for any account such member owns, controls or in which such member has a financial interest opposite other members of the association executing orders. Violation of such restrictions will result in summary action according to the following schedule on a rolling 24 month period:

First Occurrence Letter of Warning

Second Occurrence \$500 fine

Third Occurrence \$1,000 fine

Subsequent Occurrence \$5,000 fine

Actions taken pursuant to this section are final and may not be appealed; however members will have 15 days following receipt of notification of the action to present evidence to the Market Regulation Department that administrative, clerical or other errors caused the apparent rule violation.

Notwithstanding the provisions of this section, the Market Regulation Department may, at any time, refer matters that it deems egregious to the Chief Regulatory Officer for the consideration of charges.