



## Special Executive Report

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S- 6553

February 11, 2013

### **Planned Conversion of CBOT Denatured Fuel Ethanol Forward Month Swap to Futures**

Pending CFTC review, CME Group plans to convert the CBOT Denatured Fuel Ethanol Forward Month Swap ("Ethanol Forward Swap") from a cleared-only OTC swap contract to a futures contract offered on CME Globex. Conversion is targeted for trade date February 25, 2013<sup>1</sup>.

The Exchange plans to offer the converted CBOT Denatured Fuel Ethanol Forward Month Futures ("Ethanol Forward Futures") on substantially identical terms and conditions as the Ethanol Forward Swaps. Settlements will continue to be tied to the corresponding CBOT Denatured Fuel Ethanol Futures contract ("Ethanol Futures") and final settlement will be the average of the Ethanol Futures contract settlement prices during the final month of trade. The contract terms will be updated to change the contract name officially from "Denatured Fuel Ethanol Forward Month Swaps (Clearing Only)" to "Denatured Fuel Ethanol Forward Month Futures". A block trade threshold of 10 contracts will be implemented pending CFTC review. All contract changes are attached.

The Ethanol Forward Swap is a cleared-only OTC swap product with customer funds associated with this product already comingled with customer funds from futures trades pursuant to Section 4d of the Commodity Exchange Act. Thus, conversion of this product from cleared-only OTC to futures will result in no changes in how customer margin moneys are held.

The Exchange plans to impose position limits in the converted Ethanol Forward Futures product that currently do not exist in the Ethanol Forward Swap product. Single and All-Month limits will be imposed and aggregated with positions in the referencing Ethanol Futures contract. Also, because the referencing Ethanol Futures contain spot-month position limits on the final two days that the converted Ethanol Forward Futures will trade, spot-month limits consistent with Ethanol Futures spot-month limits will be implemented during the final two trading days.

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<sup>1</sup> Please note that Cleared-Only Options on CBOT Denatured Fuel Ethanol Forward Month Swaps are not being converted to standard options at this time.

Additionally, because of the averaging nature of Ethanol Forward Futures, Diminishing Balances shall also be incorporated during the final month of trade.<sup>2</sup>

For determining aggregated single- and all-month speculative position limits in Ethanol Forward Futures and Ethanol Futures, average month-end open interest was calculated for both products in Ethanol Futures contract equivalents. The average 2012 month-end open interest was 28,355 contracts. Using the formula that takes 10 percent of the first 25,000 of average month-end open interest and adding 2.5 percent of the remaining open interest results in a maximum possible single- and all-month speculative position limit of 2,584 contracts. Pending CFTC review, the Exchange plans to implement aggregated single- and all-month limits between Ethanol Futures and the converted Ethanol Forward Futures of 2,500 contracts.

CME ClearPort hours will continue as before (Sunday – Friday 5:00 p.m. – 4:15 p.m. Chicago Time with a 45-minute break each day beginning at 4:15 p.m.). CME Globex trading hours will be consistent with CBOT Ethanol futures trading hours (Sunday – Friday 5:00 p.m. – 2:00 p.m. Chicago Time).

Attached are the contract rule changes necessary to convert the products from swaps to futures.

Please direct additional questions to Fred Seamon (312.634.1587 or [Fred.Seamon@cmegroup.com](mailto:Fred.Seamon@cmegroup.com)), or Russell Karas (212-299-2345 or [Russell.Karas@cmegroup.com](mailto:Russell.Karas@cmegroup.com)).

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<sup>2</sup> Diminishing Balance contracts are those whose front-month open positions, as counted for position limit purposes, diminish as the contract month progresses toward expiration. An average price contract's final settlement is the monthly average of its referencing futures contract's daily settlement prices. Thus, for each additional day in the final month of trade, that day's portion of the contract's final settlement is determined and one fewer futures settlement remains undetermined. Diminishing Balances takes into consideration that as the final trading month progresses, the contract's final settlement becomes more certain, and only the proportion of positions held in the contract that remain uncertain should be counted for position limit purposes. For example, someone holding 100 short Ethanol Forward Futures contracts in a final trading month with 20 business days would see their open position for position limit purposes diminish by 1/20 or 5 contracts per day.

**Chapter 16C**  
**Denatured Fuel Ethanol Forward Month ~~[Swaps]~~ Futures**  
**~~[(Clearing Only)]~~<sup>3</sup>**

**16C00. SCOPE OF CHAPTER**

This chapter is limited in application to ~~[the clearing of]~~ Denatured Fuel Ethanol Forward Month ~~[Swaps,]~~ **Futures** ~~[where the parties to the transaction are “eligible contract participants” as defined in Section 1a(18) of the Commodity Exchange Act.]~~ **The procedures for trading, clearing, and settlement not specifically covered herein or in Chapter 7** ~~[Transactions in Denatured Fuel Ethanol Forward Month Swaps]~~ shall ~~[also]~~ be ~~[subject to]~~ **governed by** the general rules of the Exchange, ~~[insofar as applicable. The clearing and settlement of transactions in Denatured Fuel Ethanol Forward Month Swaps shall also be subject to the provisions of Chapter 8-F of the CME Rulebook. ]~~

**16C01. CONTRACT SPECIFICATIONS**

**16C01.A. Unit of ~~[Clearing]~~ Trade**

The unit of ~~[clearing]~~ **trade** shall be 14,500 gallons of Denatured Fuel Ethanol.

**16C01.B. Hours ~~[for Clearing Entry]~~**

The Exchange shall determine the hours during which Denatured Fuel Ethanol Forward Month ~~[Swaps]~~ **Futures** may **trade** ~~[be submitted to the Clearing House. Positions shall be initiated or closed out using off-exchange transactions.]~~

**16C01.C. Minimum Price Increments**

Minimum price fluctuations shall be in multiples of one hundredth of one cent (\$0.0001) per gallon which shall equal \$1.45 per contract. Contracts shall not be made on any other price basis.

**16C01.D. Months ~~[Cleared]~~**

~~[Clearing]~~ **Trading** of Denatured Fuel Ethanol Forward Month ~~[Swaps]~~ **Futures** is regularly conducted in all twelve months, but shall be permitted in the current delivery month and any succeeding months. The number of months in which ~~[clearing]~~ **trade** may occur shall be at the discretion of the Exchange.

**16C01.E. Position Limits, Exemptions, Position Accountability and Reportable Levels**

~~[Position accountability, as defined in Rule 560, will apply to trading in Denatured Fuel Ethanol Forward Month Swaps].~~

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<sup>3</sup> Pending CFTC Review

**The applicable position limits and/or accountability levels, in addition to the reportable levels, are set forth in the Position Limit, Position Accountability and Reportable Level Table in the Interpretations & Special Notices Section of Chapter 5.**

**A Person seeking an exemption from position limits for bona fide commercial purposes shall apply to the Market Regulation Department on forms provided by the Exchange, and the Market Regulation Department may grant qualified exemptions in its sole discretion.**

**Refer to Rule 559 for requirements concerning the aggregation of positions and allowable exemptions from the specified position limits.**

**16C01.F. Last Trading Day [~~of Clearing~~]**

The last day of [~~clearing~~] **trading** of Denatured Fuel Ethanol Forward Month [~~Swaps~~] **futures** deliverable in the current delivery month shall be the final settlement day as prescribed in Rule 16C05.

**16C01.G. Liquidation during the Delivery Month**

After [~~clearing~~] **trading** of Denatured Fuel Ethanol Forward Month [~~Swaps~~] **Futures** in the current delivery month has ceased, in accordance with Rule 16C01.F. of this chapter, outstanding contracts for such delivery shall be liquidated by cash settlement as prescribed in Rule 16C02.

**16C02. DELIVERY**

Delivery against Denatured Fuel Ethanol Forward Month [~~Swaps~~] **Futures** must be made through the Clearing House. Delivery under these rules shall be on the final settlement day (as described in Rule 16C05) and shall be accomplished by cash settlement.

Clearing members holding open positions in Denatured Fuel Ethanol Forward Month [~~Swaps~~] **Futures** at the time of termination of [~~clearing~~] **trading** shall make payment to and receive payment through the Clearing House in accordance with normal variation settlement procedures based on a settlement price equal to the final settlement price (as described in Rule 16C03.)

**16C03. FINAL SETTLEMENT PRICE AND DAILY SETTLEMENT DURING THE LAST MONTH OF TRADING**

The final settlement price shall be determined on the final settlement day. The final settlement price shall be the cumulative average of the settlement prices for the Denatured Fuel Ethanol futures contract following the Denatured Fuel Ethanol Forward Month [~~Swap~~] **Futures** contract month for each [~~clearing~~] **trading** day in the Denatured Fuel Ethanol Forward Month [~~Swap~~] **Futures** contract month.

For example, final settlement for a May Denatured Fuel Ethanol Forward Month [Swap] **Futures** would be the cumulative average of the daily settlement prices for the June Denatured Fuel Ethanol futures contract during the month of May.

Daily settlement during the last month of [clearing] **trading** shall be the cumulative average of each settlement price of the corresponding CBOT Denatured Fuel Ethanol futures contract following the Denatured Fuel Ethanol Forward Month [Swap] **Futures** contract month weighting the current day's settlement price across each remaining [clearing] **trading** day.

For example, the calculation of the daily settlement price for a May Denatured Fuel Ethanol Forward Month [Swap] **Futures** on the third business day in May in a May with 20 [clearing] **trading** days and with respective settlement prices for the corresponding June Denatured Fuel Ethanol futures at \$2.00, \$2.10, and \$2.20 per gallon would weight the average of \$2.00 and \$2.10 (\$2.05) at 2/20ths and weight the current day's settlement of \$2.20 at 18/20ths. In this example, settlement on the third day of [clearing] **trading** in the final month of [clearing] **trade** would be \$2.185 per gallon.

**16C04. DAILY SETTLEMENT PRICE**

Daily settlement other than settlement on the final settlement day (as described in Rule 16C05.) or during the last month of [clearing] **trade** shall be the settlement price for the CBOT Denatured Fuel Ethanol futures contract following the Denatured Fuel Ethanol Forward Month [Swap] **Futures** contract month on that day.

**16C05. FINAL SETTLEMENT DAY**

The final settlement day shall be defined as the last business day of the contract month.

**16C06. DISPUTES**

All disputes between interested parties may be settled by arbitration as provided in the Rules.

**588.H. Globex Non-Reviewable Trading Ranges**

<u>Instrument</u>	<u>Non-Reviewable Range (NRR) in Globex Format</u>	<u>NRR including Unit of Measure</u>	<u>NRR Ticks</u>
<u>Ethanol Forward Futures</u>	<u>400</u>	<u>\$0.04 per gallon</u>	<u>400</u>

Amendment to CBOT POSITION LIMIT, POSITION ACCOUNTABILITY AND REPORTABLE LEVEL TABLE  
(Chapter 5):

CONTRACT NAME	Opts	SCALE-DOWN SPOT MONTH	SPOT MONTH	SINGLE MONTH	ALL MONTHS COMBINED	POSITION ACCOUNTABILITY Futures/Options	REPORTABLE FUTURES LEVEL	REPORTABLE OPTIONS LEVEL
<b>AGRICULTURAL</b>								
<b>Denatured Fuel Ethanol Futures</b> (see #14)	Y		200 (aggregate, see #6)	[1,000] <b>2,500</b> (aggregate, see #6)	[1,000] <b>2,500</b> (aggregate, see #6)	N/A <del>{25</del> (see #15)]	25	25 (see #15)
<b>Denatured Fuel Ethanol Forward Month Futures</b> (see #14)	Y	[N/A]	[N/A] <b>200</b> (aggregate, see #2, #4, #6)	[N/A] <b>2,500</b> (aggregate, see #6)	[N/A] <b>2,500</b> (aggregate, see #6)	{25/N/A / 25}	25	25

- #1 Additional futures contracts may be held outside of the spot month as part of futures/futures spreads within a crop year provided that the total of such positions, when combined with outright positions, do not exceed the all months combined limit. In addition, a person may own or control additional options in excess of the futures-equivalent limits provided that those option contracts in excess of the futures-equivalent limits are part of an eligible option/futures spread.
- #2 **[Reserved] Diminishing balances shall apply during the last trading month, with diminishing balances counted toward position limits as the trading month progresses toward contract expiration.**
- #3 The futures-equivalents for both the options (in all strike prices) and futures contracts are aggregated to determine compliance with these net position limits.
- #4 **[Reserved] Spot month limits effective at the close of trade on the business day prior to the last trading day.**
- #5 In the last five trading days of the expiring futures month, the speculative position limit for the July futures month will be 200 contracts and for the September futures month the limit will be 250 contracts.
- #6 **[Reserved] All open positions in Denatured Fuel Ethanol Futures, Denatured Fuel Ethanol Forward Month Futures, and options on Denatured Fuel Ethanol Futures (in all strike prices) are aggregated for purposes of these position limits.**
- #7 [Reserved]
- #8 In the last five trading days of the expiring futures month in May, the speculative position limit will be 600 contracts if deliverable supplies are at or above 2,400 contracts, 500 contracts if deliverable supplies are between 2,000 and 2,399 contracts, 400 contracts if deliverable supplies are between 1,600 and 1,999 contracts, 300 contracts if deliverable supplies are between 1,200 and 1,599 contracts, and 220 contracts if deliverable supplies are below 1,200 contracts. Deliverable supplies will be determined from the CBOT's Stocks of Grain report on the Friday preceding the first notice day for the May contract month. For the purposes of this Appendix, one mini-sized Wheat contract shall be deemed to be equivalent to one-fifth of a corresponding Wheat contract.
- #9 The aggregate position limit in DJIA Index (\$25 multiplier) futures, mini-sized Dow (\$5 multiplier) futures and options, and DJIA Index futures and options is 50,000 DJIA Index futures contracts, net long or net short in all contract months combined. For the purposes of this appendix:

- One DJIA Index futures contract shall be deemed to be equivalent to two mini-sized Dow (\$5 multiplier) contracts.
  - One DJIA Index (\$25 multiplier) futures contract shall be deemed to be equivalent to five mini-sized Dow (\$5 multiplier) contracts.
  - Two DJIA Index (\$25 multiplier) futures contracts shall be deemed to be equivalent to five DJIA Index futures contracts.
- #10 The net long or net short positions in Corn, Soybeans, or Wheat contracts may not exceed their respective position limits. The net long or net short positions in mini-sized Corn, mini-sized Soybeans, or mini-sized Wheat contracts may not exceed their respective position limits. The aggregate long or short positions in Corn and mini-sized Corn, Soybeans and mini-sized Soybeans, or Wheat and mini-sized Wheat contracts may not exceed their respective position limits. There shall be no netting between mini- and full-sized contracts for position limit purposes. For the purposes of this Appendix, one mini-sized Corn, one mini-sized Soybean, or one mini-sized Wheat contract shall be deemed to be equivalent to one-fifth of a corresponding Corn, Soybeans, or Wheat contract.
- #11 The reporting level for the primary contract is separate from the reporting level for the mini-sized contract. Positions in any one month at or above the contract level indicated trigger reportable status. For a person in reportable status, all positions in any month of that contract must be reported. For the purposes of this Appendix, positions are on a contract basis.
- #12 Reserved
- #13 In the last ten trading days of the expiring futures month, the following position limits in the expiring contract will apply: U.S. Treasury Bonds – 25,000 contracts; U.S. Treasury Notes (6½ - 10 Year) – 60,000 contracts; U.S. Treasury Notes ( 5 Year) – 45,000 contracts; U.S. Treasury Notes (2 Year) – 25,000 contracts. No hedge exemptions will be permitted with respect to these limits.
- #14 Net Futures Equivalent Position limit applies to Denatured Fuel Ethanol futures, ~~and~~ Denatured Fuel Ethanol Standard Options, and Denatured Fuel Ethanol Forward Month Futures only.
- #15 [Reserved] ~~[Position Accountability applies to Cash-Settled Ethanol Options only. Reportable Option Levels applies to both Standard Ethanol Options and Cash-Settled Ethanol Options.]~~

**Chapter 16D**  
**Cash-Settled ~~Options on~~ Denatured Fuel Ethanol**  
**Forward Month ~~Calendar~~ Swap[s] Options**  
**(Clearing only)**

**16D00. SCOPE OF CHAPTER**

This chapter is limited in application to transactions in cash-settled put and call options on Denatured Fuel Ethanol Forward Month ~~Swaps~~ Futures, where the parties to the transaction are “eligible contract participants” as defined in Section 1a(18) of the Commodity Exchange Act. In addition to the rules of this chapter, transactions in cash-settled ~~options on~~ Denatured Fuel Ethanol Forward Month Swap[s] Options shall be subject to the general rules of the Exchange insofar as applicable. The clearing and settlement of transactions in cash-settled put and call ~~options on~~ Denatured Fuel Ethanol Forward Month Swap[s] Options shall also be subject to the provisions of Chapter 8-F of the CME Rulebook.

**16D01. OPTIONS CHARACTERISTICS**

**16D01.A. Contract Months Available for Clearing Entry**

Option contracts may be submitted for clearing entry on the nearby cash-settled Denatured Fuel Ethanol Forward Month [~~Swaps~~] **Futures** contract month and any succeeding months, provided however, that the Exchange may determine not to list a contract month.

#### **16D01.B. Clearing Unit**

One 14,500 gallon Denatured Fuel Ethanol Forward Month [~~Swaps~~] **Future** of a specified contract month on the Chicago Board of Trade.

#### **16D01.C. Minimum Fluctuations**

The premium for cash-settled Denatured Fuel Ethanol Forward Month Swap[s] options shall be in multiples of \$0.0001 per gallon which shall equal \$1.45 per contract.

However, a position may be initiated or liquidated in cash-settled [~~options on~~] Denatured Fuel Ethanol Forward Month Swap[s] **Options** at a premium ranging from \$0.10 to \$1.40, in \$0.10 increments per option contract.

#### **16D01.D. Hours for Clearing Entry**

The hours for clearing entry of cash-settled [~~options on~~] Denatured Fuel Ethanol Forward Month Swap **Options** contracts shall be determined by the Exchange. On the last day that clearing entry is available for an expiring option, the closing time for such clearing entry shall be 1:15 p.m. Chicago time.

#### **16D01.E. Exercise Prices**

Clearing shall be conducted for put and call options with striking prices (the “strikes”) in integral multiples of five (5) cents per gallon per Denatured Fuel Ethanol futures contract (i.e., 1.900, 1.950, 2.000, 2.050, 2.100 etc.) as follows:

1.
  - a. In integral multiples of five cents, at the commencement of trading for an option contract, the following strikes shall be listed: one with a strike closest to the previous day’s settlement price of the underlying Denatured Fuel Ethanol Forward Month [~~Swaps~~] **Futures** contract, the next ten consecutive higher and the next ten consecutive lower strikes (the “initial band”). If the previous day’s settlement price is midway between two strikes, the closest price shall be the larger of the two.
  - b. In integral multiples of five cents, over time, strikes shall be added as necessary to ensure that all strikes within \$0.50 of the previous day’s trading range of the underlying Ethanol Forward Month [~~Swap~~] **Futures** contract are listed (the “minimum band”).
  - c. No new strikes may be added by these procedures in the month in which an option expires.
2. All strikes will be available for clearing entry prior to the opening of the hours for clearing entry of the underlying CBOT Denatured Fuel Ethanol Forward Month [~~Swap~~] **Futures** contract on the following business day.

The Exchange may modify the procedures for the introduction of strikes as it deems appropriate in order to respond to market conditions.

#### **16D01.F. Position Limits, Exemptions, Position Accountability and Reportable Levels**



[Position accountability, as defined in Rule 560, will apply to trading in Cash-Settled Options on Denatured Fuel Ethanol Forward Month Calendar Swaps.]

**The applicable position limits and/or accountability levels, in addition to the reportable levels, are set forth in the Position Limit, Position Accountability and Reportable Level Table in the Interpretations & Special Notices Section of Chapter 5.**

**A Person seeking an exemption from position limits for bona fide commercial purposes shall apply to the Market Regulation Department on forms provided by the Exchange, and the Market Regulation Department may grant qualified exemptions in its sole discretion.**

**Refer to Rule 559 for requirements concerning the aggregation of positions and allowable exemptions from the specified position limits.**

#### **16D01.G. Reserved**

#### **16D01.H. Nature of Cash-Settled [~~Options on~~] Denatured Fuel Ethanol Forward Month Swap[s] Options**

On expiration of a put option the buyer of one cash-settled Denatured Fuel Ethanol Forward Month Swap put option will be entitled to receive the value of that put option. The value of a cash-settled Denatured Fuel Ethanol Forward Month Swap put option at expiration will be defined as the difference between the strike price of the put option and the settlement price of the underlying CBOT Denatured Ethanol Forward Month [~~Swap~~] **Futures** contract multiplied by 14,500 gallons, or zero, whichever is greater. The seller of one cash-settled Denatured Fuel Ethanol Forward Month Swap[s] put option incurs the obligation to pay the value of that put option.

On expiration of a call option the buyer of one cash-settled Denatured Fuel Ethanol Forward Month Swap call option will be entitled to receive the value of that call option. The value of a cash-settled Denatured Fuel Ethanol Forward Month Swap call option at expiration will be defined as the difference between the settlement price of the underlying CBOT Denatured Fuel Ethanol Forward Month [~~Swaps~~] **Futures** contract and the strike price multiplied by 14,500 gallons, or zero, whichever is greater. The seller of one cash-settled Denatured Fuel Ethanol Forward Month Swap[s] call option incurs the obligation to pay the value of that call option.

#### **16D01.I. Last Day of Clearing**

The last day of clearing for cash-settled [~~options on~~] Denatured Fuel Ethanol Forward Month Swap[s] **Options** shall be the last trading day of the underlying Denatured Fuel Ethanol Forward Month [~~Swap~~] **Futures** contract.

#### **16D01.J. Reserved**

#### **16D02. EXERCISE OF OPTION**

Cash-settled Denatured Fuel Ethanol Forward Month Swap options will be cash settled on expiration day. For the avoidance of doubt, cash-settled Denatured Fuel Ethanol Forward Month Swap options cannot be exercised at any time during the life of the option.

**16D03. [RESERVED]**

**16D04. [RESERVED]**

**16D05. [RESERVED]**

**16D06. PAYMENT OF OPTION PREMIUM**

The option premium must be paid in full by each clearing member to the Clearing House and by each option customer to his futures commission merchant at the time that the option is purchased, or within a reasonable time after the option is purchased.