

## MARKET REGULATION ADVISORY NOTICE

---

Exchange	<b>CME &amp; CBOT</b>
Subject	<b>Computerized Trade Reconstruction (“CTR”) Monthly Edit Programs</b>
Rule References	<b>Rule 536</b>
Advisory Date	<b>September 26, 2008</b>
Advisory Number	<b>CME &amp; CBOT RA0817-3</b>

This Advisory Notice supersedes CME & CBOT Market Regulation Advisory Notice RA0805-3 from March 12, 2008, and is being updated and reissued based on changes to CME & CBOT Rule 536.F. (“CTR Enforcement Program and Sanction Schedule”).

Rule 536.F. has been amended to eliminate the exception program related to missing quotes and to modify the fining schedule for individual member violations by adding fine levels of \$250 and \$2,500. The text of amended Rule 536.F. pertaining to the CTR enforcement program is reproduced below and is followed by an updated FAQ section beginning on page 3 of this Advisory Notice.

### **536.F. CTR Enforcement Program and Sanction Schedule**

#### CTR Monthly Enforcement Program

The CTR threshold levels for members with 100 or more transactions per month are as follows:

<u>Exception Type</u>	<u>Threshold Level</u>
Bracket Exceptions	8% and above
Time of Execution for Verbal Orders	8% and above
Sequence Errors	8% and above

A letter of warning shall be issued for a first occurrence of exceeding any threshold. Subsequent occurrences within 12 months of exceeding a threshold shall result in automatic fines starting at \$250, and then increasing to \$500, \$1,000, \$2,500, and \$5,000 for each subsequent occurrence.

A member will have 15 days after receipt of a letter of warning or a fine to present evidence to the Market Regulation Department in support of having the letter of warning or fine dismissed showing that administrative, clerical, or other errors by the clearing firm caused the member to exceed the threshold level. If the member does not submit such evidence, or if the Market Regulation Department determines that the evidence submitted is insufficient to reduce the percentage below the threshold level, the letter of warning or fine shall be final and may not be appealed.

The monthly CTR enforcement of timestamp exceptions for firms with 1,000 or more transactions per month is 8% and above. A letter of warning shall be issued for a first occurrence of exceeding the threshold. Subsequent occurrences within 12 months of exceeding the threshold shall result in

automatic fines starting at \$1,500 for the second occurrence, then increasing to \$5,000 and \$10,000 for each subsequent occurrence.

A firm will have 15 days after receipt of a letter of warning or a fine to present evidence to the Market Regulation Department in support of having the letter of warning or fine dismissed. If the firm does not submit such evidence, or if the Market Regulation Department determines that the evidence submitted is insufficient to reduce the percentage below the threshold level, the letter of warning or fine shall be final and may not be appealed.

Notwithstanding the provisions of this Section, the Market Regulation Department may, at any time, refer matters that it deems egregious to the Probable Cause Committee.

Questions regarding this Advisory Notice should be directed to the following individuals in Market Regulation:

Lou Abarcar, Associate Director	312.341.3236
---------------------------------	--------------

Terry Quinn, Manager	312.435.3753
----------------------	--------------

**FAQ Related to CME and CBOT Rule 536.F.  
CTR Monthly Edit Programs**

**Q1: What time period does the CTR Program use to determine whether the threshold levels have been exceeded?**

A1: Both the individual edit programs and firm edit program are run for each calendar month.

**Q2: How will the amended sanction schedule apply to historical CTR violations?**

A2: The amended sanction schedule will be applied to violations occurring during calendar months July 2008 forward. Under the amended schedule, first offenses will result in a warning letter. Subsequent offenses within the same program within a 12-month period will result in escalating fines of \$250 for a second offense, followed by fines increasing to \$500, \$1,000, \$2,500 and \$5,000.

As is presently the case, however, egregious violations of recordkeeping rules may be referred directly to the Probable Cause Committee for disciplinary action.

**Q3: How many categories of error exceptions (edits) are measured in the “Bracket Exception Program”?**

A3: Two: “Invalid Bracket” and “No Quote Found within Bracket.”

**Q4: Are there separate percentages calculated for each of the two edits in the “Bracket Exception Program”?**

A4: No. There is only one error percentage calculated in this program and it is based on the total number of combined edits (“Invalid Bracket” and “No Quote Found within Bracket”) divided by the total number of trades for the month. For example, a member who executes 300 trades and has 10 citations for “Invalid Bracket” and 7 citations for “No Quote Found within Bracket” will have a total of 17 exceptions and a “Bracket Exception” percentage of 5.66% (17/300).

**Q5: How many categories of error exceptions (edits) are measured in the “Time of Execution Program”?**

A5: Two. The “Time of Execution Program” includes edits for “Missing Time of Execution” and “Time of Execution Not within Bracket.” An edit for “Missing Time of Execution” is cited if the broker filling a verbal order for another member fails to record the time of execution to the nearest minute on his trading card. An edit for “Time of Execution Not within Bracket” is cited if the recorded execution time does not agree with the reported time bracket.

**Q6: How is the error percentage calculated for the “Time of Execution Program”?**

A6: The percentage represents the total number of combined edits (“Missing Time of Execution” and “Time of Execution Not within Bracket”) divided by the total number of process type “E” trades (CTI 3 trades).

**Q7: How many categories of error exceptions (edits) are measured in the “Sequence Program”?**

A7: Two. The “Sequence Program” includes edits for “Sequence” and “Multiple Brackets per Card.”

**Q8: When is a trade considered out of sequence for the purposes of the “Sequence Errors Program”?**

A8: The program analyzes time brackets and card sequence numbers. For example, if Card 1 is B bracket, Card 2 is C bracket and Card 3 is B bracket, all B bracket trades on Card 3 would be deemed out of sequence.

**Q9: What is the requirement for the edit “Multiple Brackets per Card”?**

A9: This edit applies to local traders and to proprietary traders who record trades in the same manner as local traders. The requirement is that all trades on a particular trading card must be from the same time bracket. The only exception is that trades in the opening bracket “\$” and the corresponding 15-minute bracket period may be on the same card.

**Q10: How does the CTR Edit Program apply to firms?**

A10: The “Timestamp Exception Program” applies to firms, and violations of the 8% threshold will result in sanctions in accordance with the enforcement schedule set forth in Rule 536.F.

**Q11: How many categories of edits are measured in the “Timestamp Exception Program”?**

A11: Nine. These edits include: “Time In = Time Out,” “Invalid Timestamps” (times are blank or 999999), “Time In > Time Out,” “Timestamps > Clearing Receipt Time,” “Timestamp In > Commodity End Time,” “Time Out < Commodity Start Time,” “Time In > Keypunch Bracket,” “Time Out < Keypunch Bracket” and “No Execution Timestamp for EFRP.”

**Q12: How is the error percentage calculated for the “Timestamp Exception Program”?**

A12: The percentage represents the total number of combined edits (set forth in the answer to Question 11 above) divided by the total number of process type “T” trades (CTI 2, 3 & 4 orders).

**Q13: Who issues CTR warnings and fines?**

A13: All warnings and fines are issued automatically based on the results of the CTR programs and are issued by Market Regulation staff.

**Q14: Can a CTR warning or fine be appealed?**

A14: Individuals have 15 days after receipt of a notice of violation to present evidence to the Market Regulation Department showing that errors beyond the member’s control (for example, data entry errors by firm personnel) caused the threshold to be exceeded. If Market Regulation staff determines that the evidence is sufficient to reduce the error percentage below the threshold level, the violation will be dismissed.

Firms also have 15 days after receipt of a notice of violation to present evidence to the Market Regulation Department to have the violation dismissed. The Market Regulation

Department will determine if such evidence is sufficient to reduce the error percentage below the threshold level.

The decisions of Market Regulation regarding CTR actions are final and may not be appealed. Additionally, fines will be issued in accordance with the reported sanction schedule and will not be reduced.

**Q15: How does the 12-month period referenced in the enforcement schedule work?**

A15: The 12-month period in the enforcement schedule is a rolling 12-month period. For example, if a member were above the error threshold level for the "Bracket Exception Program" in July 2008, a warning letter would be sent. Subsequent violations *of that program* through June 2009 would result in fines in accordance with the amended sanction schedule. If this member were to also violate the "Sequence Program" one time during that 12-month period, a warning letter rather than a fine would be issued for that violation because the violation occurred in a different exception program.

**Q16: Do the exception programs apply across both exchanges if an individual or firm is a member of both exchanges?**

A16: Because CME and CBOT are separate self-regulatory organizations, activity on each exchange is evaluated separately. As such, an individual or firm active on both exchanges could be sanctioned by each exchange in the same month if the thresholds were violated on both exchanges.

**Q17: Do the programs use both outrights and spreads when calculating total trade count?**

A17: Yes. All trades are used for total trade calculation.

**Q18: Are members and member firms able to view statistical reports during the month to monitor their exception rates?**

A18: Yes. CME and CBOT members can view and, if desired, print their reports by logging onto the Member Reporting System ("MRS"). The address is <http://connect.cme.com>. Login information can be obtained by contacting the Customer Support Group at 312.930.3444. Member firms can continue to access their edit reports through Infopac (CTR125 – Daily Firm Summary Performance Report and CTR126- Monthly Firm Summary Performance Report).

**Q19: Who are the Market Regulation contacts for the various exception programs?**

A19: Bracket Exception (CME Members) – David Peloquin, 312.341.3165  
Bracket Exception (CBOT Members) – Terry Quinn, 312.435.3753  
Time of Execution – Donna Bryan-Johnson, 312.435.3657  
Sequence Errors – Anthony Smith, 312.341.3129  
Timestamp Exception – Betsy Beers, 312.341.3343