CME Group

Special Executive Report

S- 7259 **December 11, 2014**

Implementation of New CBOT Rule Regarding Special Price Fluctuation Limits for Certain CBOT Interest Rate Futures and Options Contracts

Background

Effective Sunday, December 21, 2014 for trade date Monday, December 22, 2014, and pending all relevant Commodity Futures Trading Commission regulatory review periods, the Board of Trade of the City of Chicago, Inc. (CBOT or Exchange) will implement new Rule 589 (Special Price Fluctuation Limits) to apply price fluctuation limits to certain Interest Rate futures and options contracts.

Price fluctuation limits deter sharp price movements that may, for example, be driven by illiquid central limit order books prevailing from time to time in otherwise liquid markets. The Exchange is proposing new Rule 589 to extend price fluctuation limit functionalities to CBOT Interest Rate futures and options contracts as a measure that is consistent with promoting price discovery and cash-futures price convergence. The operation of new Rule 589 for Interest Rate futures and options contracts is described below. The full text of the new rule is set forth in Appendix B. In addition, Appendix C provides the specific limit levels for the relevant CBOT Interest Rate futures and options contracts to which Rule 589 will apply.

The Operation of New Rule 589 for Interest Rate Futures and Options

At the commencement of each trading day, new Rule 589 will require the Exchange to determine initial price fluctuation limits as levels above or below the previous day's settlement price for lead-month primary futures contracts. There are six primary CBOT Interest Rate futures contracts. These contracts have large and highly liquid central limit order books on CME Globex. The lead-month contract, as determined by the Exchange, will typically be a primary contract’s most actively traded futures contract month.

The Exchange will monitor the price movements of lead-month primary futures contracts in real-time on a daily basis. Price movements in lead-month primary futures contracts will result in triggering events. Triggering events result in monitoring periods, possible temporary trading halts followed by the re-opening of trading, and price fluctuation limit expansions.

If the lead-month primary futures contract is bid or offered via CME Globex at the upper or lower first special price fluctuation limit, the Exchange will consider such an occurrence a triggering event that will begin a five-minute monitoring period in the lead-month contract. If at the end of this five-minute period the lead-month primary futures contract is not bid or offered at the applicable limit, the Exchange will expand the limits an additional price limit increment above and below the lead-month contract’s previous-day settlement price. If, however, at the end of the five-minute interval, the Exchange determines that the lead-month primary futures contract is bid or offered at the applicable limit, it will commence a two-minute temporary trading halt in all contract months of the primary futures contract as well as in all contract months of associated products. Primary contracts and associated products are identified in Appendixes A and C.

Following the end of a temporary trading halt, the Exchange will re-open trading in all contract months of the primary futures contract as well as in all contract months of associated products. When trading resumes, the Exchange will expand the price fluctuation limit an additional increment above and below the lead-month contract’s previous-day settlement price. Subsequent price fluctuations, if significant enough, will trigger the same sequence of monitoring periods, possible trading halts followed by the re-opening of trading, and incremental adjustments to price fluctuation limits.

As noted above, when an initial triggering event occurs, the Exchange will commence a five-minute monitoring period. In each instance, the Exchange will subsequently expand the price fluctuation limit for all primary futures contract months, as well as all associated products, by an additional increment above and below the lead-month contract’s previous-day settlement price. The incremental adjustment will occur regardless of whether or not a trading halt is triggered. However, no further special price fluctuation limits will be implemented following a trading day's fourth price fluctuation limit adjustment.

Expiring Contracts

There shall be no special price fluctuation limits for an expiring primary Treasury futures contract during the period between and including the contract's first position day and the contract's last delivery day. The Exchange will also not call temporary trading halts or an expansion of special price fluctuation limits for primary futures contract months or their associated products during the last five minutes of trading between and including the first position day and the last delivery day of a related expiring primary Treasury futures contract.

Floor Trading

The Exchange will apply special price fluctuation limits to all CBOT Interest Rate futures and options contracts that are available for trading on the floor. Although the Exchange will limit all markets on the trading floor at these price levels, floor trading in lead-month primary futures markets at these price levels will not constitute a triggering event under new Rule 589. In all instances when a triggering event resulting in a trading halt occurs on CME Globex, the Exchange will immediately halt floor trading in all contract months of primary futures contracts and associated products. The Exchange will implement a coordinated temporary trading halt for any floor-traded associated products that are options on primary contracts or other associated products. When the Exchange re-opens CME Globex markets with expanded price limits, the Exchange will simultaneously re-open all affected markets on the trading floor with the expanded limits in place.

Regular and Extended Trading Hours

The limit levels in Appendix C are based on a close analysis of observed Treasury futures and options price movements over the course of the last seven years. These limit levels balance the objective of promoting price discovery with preventing potentially unwarranted and significant price movements driven by periods of illiquidity, particularly during extended trading hours. Consequently, and in response to market participants' requests, the Exchange is proposing alternate limit levels for regular and extended trading hours because of their differing liquidity profiles.

The initial special price fluctuation limits for lead-month primary Treasury futures contracts trading during extended trading hours are therefore set at levels that are more likely to capture triggering events. In contrast, wide price fluctuation limits for primary Treasury futures contracts will render circuit breakers inapplicable during regular trading hours except when those markets are experiencing the most extreme price moves. Past experience and observed decreases in liquidity in extended trading hours, for example during nationally and internationally observed holidays, therefore warrant a two tiered approach to establishing Interest Rate futures and options price fluctuation limits.

Please refer to the following appendixes for details regarding special price fluctuation limits for certain CBOT Interest Rate futures and options:

Appendix A: Interest Rate Futures and Options Subject to CBOT Rule 589
Appendix B: New CBOT Rule 589
Appendix C: Special Price Fluctuation Limits Table in Chapter 5 of the CBOT Rulebook

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Appendix A

CBOT Interest Rate Futures and Options

Subject to New CBOT Rule 589 on Special Price Fluctuation Limits

Product Title	CBOT Rulebook Chapter	Code	Primary or Associated
U.S. Treasury Bond Futures	18	17	Primary
Standard Options on U.S. Treasury Bond Futures	18A	17	17
Flexible Options on U.S. Treasury Bond Futures	18B	52,53	17
Long-Term U.S. Treasury Note Futures (6½ to 10-Year)	19	21	Primary
Standard Options on Long-Term U.S. Treasury Note Futures	19A	21	21
Flexible Options on Long-Term U.S. Treasury Note Futures	19B	54,55	21
Medium-Term U.S. Treasury Note Futures (5-Year)	20	25	Primary
Standard Options on Medium-Term U.S. Treasury Note Futures	20A	25	25
Flexible Options on Medium-Term U.S. Treasury Note Futures	20B	57,60	25
Short-Term U.S. Treasury Note Futures (2-Year)	21	26	Primary
Standard Options on Short-Term U.S. Treasury Note Futures	21A	26	26
Flexible Options on Short-Term U.S. Treasury Note Futures	21B	58,59	26
3-Year U.S. Treasury Note Futures	39	3YR	Primary
Long-Term U.S. Treasury Bond Futures	40	UBE	Primary
Standard Options on Long-Term U.S. Treasury Bond Futures	40A	UBE	UBE
Flexible Options on Long-Term U.S. Treasury Bond Futures	40B	97, 98	UBE
2-Year US Dollar Interest Rate Swap Futures	51	T1U	26
5-Year US Dollar Interest Rate Swap Futures	52	F1U	25
10-Year US Dollar Interest Rate Swap Futures	53	N1U	21
30-Year US Dollar Interest Rate Swap Futures	54	B1U	UBE
2-Year Euro Interest Rate Swap Futures	55	T1E	26
5-Year Euro Interest Rate Swap Futures	56	F1E	25
10-Year Euro Interest Rate Swap Futures	57	N1E	21

Appendix B

New CBOT Rule

(Additions are underlined.)

Chapter 5

Trading Qualifications and Practices

589. SPECIAL PRICE FLUCTUATION LIMITS

The special price fluctuation limits applicable to those contracts with special price fluctuation limits are set forth in the Special Price Fluctuation Limits Table ("Table") in the Interpretations Section at the end of Chapter 5.

1. Initial Price Fluctuation Limits for All Contract Months. At the commencement of each trading day, there shall be initial price fluctuation limits in effect for each futures contract month of the Primary Futures Contract (as identified in the Table) above or below the previous day's settlement price for such contract month set at the first special price fluctuation limit level as provided in the Table.

2. (a) First Triggering Event and Temporary Trading Halt. If the lead contract month (as identified by the Exchange) of the Primary Futures Contract is bid or offered via Globex at the upper or lower price fluctuation limit at the first special price fluctuation limit level, as applicable, it will be considered a Triggering Event that will begin a five (5) minute monitoring period in the lead contract month. If at the end of the five (5) minute monitoring period, the lead contract month of the Primary Futures Contract is not bid or offered at the applicable special price fluctuation limit, the special price fluctuation limits shall be expanded an additional increment above and below the previous day's settlement price for all contract months of the Primary Futures Contract as provided in the Table. If, however, at the end of the five (5) minute monitoring period, the lead contract month of the Primary Futures Contract is bid or offered at the applicable special price fluctuation limit, a two (2) minute Temporary Trading Halt will commence in all contract months of the Primary Futures Contract as well as in all contract months of Associated Products of the Primary Futures Contract as provided in the Table. In addition, trading in any Associated Product that is an option related to the Primary Futures Contract or in an option contract related to any other Associated Product of the Primary Futures Contract of this rule that may be available for trading on Globex or on the trading floor shall be subject to a coordinated Temporary Trading Halt.

   (b) Expansion of Limits Following Temporary Trading Halt. Following the end of a Temporary Trading Halt, the affected markets shall re-open simultaneously in all contract months of the Primary Futures Contract as well as in all contract months of Associated Products of the Primary Futures Contract of this rule. When trading resumes, the price fluctuation limits of the Primary Futures Contract shall be expanded an additional increment above and below the previous day's settlement price for all contract months of the Primary Futures Contract as provided in the Table.

   (c) Each instance in which a Triggering Event occurs, a five (5) minute monitoring period will commence as provided in Sections 589.2.(a) and 589.2.(b). In each instance, the price fluctuation limits for each contract month of the Primary Futures Contract shall be expanded by an additional increment as provided in the Table above and below the previous day's settlement price for such contract month. Following the fourth triggering event, there will be no further limits.

(d) A Primary Futures Contract shall not be the lead Primary Futures Contract on the contract's last trading day. There shall be no special price fluctuation limits during the period between the first position day and the last delivery day of an expiring Treasury futures contract that serves as a primary futures contract for the purposes of Rule 589. Additionally, there shall be no temporary trading halts or expansion of special price fluctuation limits during the last five (5) minutes of trading during the period between the first position day and the last delivery day of an expiring Treasury futures contract that serves as a primary futures contract for the purposes of Rule 589.

3. Price Fluctuation Limits on Trading Floor (Floor Trading)

(a) The special price fluctuation limits cited in Section 589.1. of this rule shall be applicable on the trading floor. All markets on the trading floor shall be limited to trading at these special fluctuation price levels (locked limit); however, such trading shall not constitute a Triggering Event for purposes of a Temporary Trading Halt.

(b) In all instances when a Triggering Event in the lead contract month of the Primary Futures Contract occurs on Globex, floor trading in all contract months of the Primary Futures Contract and in all contract months of Associated Products of the Primary Futures Contract of this rule shall immediately halt. Additionally, trading in any option related to the Primary Futures Contract or in an option contract related to any Associated Product of the Primary Futures Contract of this rule shall be subject to a coordinated Temporary Trading Halt.

(c) Whenever Globex markets are re-opened with expanded price limits pursuant to the provisions of Section 589.2. of this rule, the affected markets on the trading floor shall simultaneously re-open with the expanded limits in place.

Appendix C
Special Price Fluctuation Limits Table in Chapter 5 of the CBOT Rulebook for Certain Interest Rate Futures and Options

Extended Trading Hours (ETH) (17:00-7:20 Central Time)

Primary Futures Contract	Revised Values in Globex Format				Values in Currency per Unit				Associated Products
	Level 1	Level 2	Level 3	Level 4	Level 1	Level 2	Level 3	Level 4	
1.) Short-Term US Treasury Note Futures (2-Year)	1000	2000	3000	4000	$2,000	$4,000	$6,000	$8,000	Standard Options on Short-Term US Treasury Note Futures (2-Year) Flexible Options on Short-Term US Treasury Note Futures (2-Year) 2-Year USD Deliverable Interest Rate Swap Futures 2-Year Euro Deliverable Interest Rate Swap Futures
2.) 3-Year US Treasury Note Futures	1000	2000	3000	4000	$2,000	$4,000	$6,000	$8,000	
3.) Medium-Term US Treasury Note Futures (5-Year)	2000	4000	6000	8000	$2,000	$4,000	$6,000	$8,000	Standard Options on Medium-Term US Treasury Note Futures (5-Year) Flexible Options on Medium-Term US Treasury Note Futures (5-Year) 5-Year USD Deliverable Interest Rate Swap Futures 5-Year Euro Deliverable Interest Rate Swap Futures
4.) Long-Term US Treasury Note Futures (6½ to 10-Year)	2000	4000	6000	8000	$2,000	$4,000	$6,000	$8,000	Standard Options on Long-Term US Treasury Note Futures (6½ to 10-Year) Flexible Options on Long-Term US Treasury Note Futures (6½ to 10-Year) 10-Year USD Deliverable Interest Rate Swap Futures 10-Year Euro Deliverable Interest Rate Swap Futures
5.) US Treasury Bond Futures	300	600	900	1200	$3,000	$6,000	$9,000	$12,000	Standard Options on US Treasury Bond Futures Flexible Options on US Treasury Bond Futures
6.) Long-Term US Treasury Bond Futures	300	600	900	1200	$3,000	$6,000	$9,000	$12,000	Standard Options on Long-Term US Treasury Bond Futures Flexible Options on Long-Term US Treasury Bond Futures 30-Year USD Deliverable Interest Rate Swap Futures

Regular Trading Hours (RTH) (7:20-17:00 Central Time)

Primary Futures Contract	Revised Values in Globex Format				Values in Currency per Unit				Associated Products
	Level 1	Level 2	Level 3	Level 4	Level 1	Level 2	Level 3	Level 4	
1.) Short-Term US Treasury Note Futures (2-Year)	3000	6000	9000	12000	$6,000	$12,000	$18,000	$24,000	Standard Options on Short-Term US Treasury Note Futures (2-Year) Flexible Options on Short-Term US Treasury Note Futures (2-Year) 2-Year USD Deliverable Interest Rate Swap Futures 2-Year Euro Deliverable Interest Rate Swap Futures
2.) 3-Year US Treasury Note Futures	3000	6000	9000	12000	$6,000	$12,000	$18,000	$24,000	
3.) Medium-Term US Treasury Note Futures (5-Year)	6000	12000	18000	24000	$6,000	$12,000	$18,000	$24,000	Standard Options on Medium-Term US Treasury Note Futures (5-Year) Flexible Options on Medium-Term US Treasury Note Futures (5-Year) 5-Year USD Deliverable Interest Rate Swap Futures 5-Year Euro Deliverable Interest Rate Swap Futures
4.) Long-Term US Treasury Note Futures (6½ to 10-Year)	6000	12000	18000	24000	$6,000	$12,000	$18,000	$24,000	Standard Options on Long-Term US Treasury Note Futures (6½ to 10-Year) Flexible Options on Long-Term US Treasury Note Futures (6½ to 10-Year) 10-Year USD Deliverable Interest Rate Swap Futures 10-Year Euro Deliverable Interest Rate Swap Futures
5.) US Treasury Bond Futures	900	1800	2700	3600	$9,000	$18,000	$27,000	$36,000	Standard Options on US Treasury Bond Futures Flexible Options on US Treasury Bond Futures
6.) Long-Term US Treasury Bond Futures	900	1800	2700	3600	$9,000	$18,000	$27,000	$36,000	Standard Options on Long-Term US Treasury Bond Futures Flexible Options on Long-Term US Treasury Bond Futures 30-Year USD Deliverable Interest Rate Swap Futures