

**SUBMISSION COVER SHEET**

**IMPORTANT:** Check box if Confidential Treatment is requested

Registered Entity Identifier Code (optional): 16-095

Organization: Chicago Mercantile Exchange Inc. ("CME")

Filing as a:  DCM  SEF  DCO  SDR

Please note - only ONE choice allowed.

Filing Date (mm/dd/yy): 3/11/2016 Filing Description: Amendments to CME Rule 515.E. ("Trading Restrictions") and Issuance of CME Market Regulation Advisory Notice RA1602-2

**SPECIFY FILING TYPE**

Please note only ONE choice allowed per Submission.

**Organization Rules and Rule Amendments**

- Certification § 40.6(a)
- Approval § 40.5(a)
- Notification § 40.6(d)
- Advance Notice of SIDCO Rule Change § 40.10(a)
- SIDCO Emergency Rule Change § 40.10(h)

Rule Numbers: 515

**New Product**

Please note only ONE product per Submission.

- Certification § 40.2(a)
- Certification Security Futures § 41.23(a)
- Certification Swap Class § 40.2(d)
- Approval § 40.3(a)
- Approval Security Futures § 41.23(b)
- Novel Derivative Product Notification § 40.12(a)
- Swap Submission § 39.5

Official Product Name:

**Product Terms and Conditions (product related Rules and Rule Amendments)**

- Certification § 40.6(a)
- Certification Made Available to Trade Determination § 40.6(a)
- Certification Security Futures § 41.24(a)
- Delisting (No Open Interest) § 40.6(a)
- Approval § 40.5(a)
- Approval Made Available to Trade Determination § 40.5(a)
- Approval Security Futures § 41.24(c)
- Approval Amendments to enumerated agricultural products § 40.4(a), § 40.5(a)
- "Non-Material Agricultural Rule Change" § 40.4(b)(5)
- Notification § 40.6(d)

Official Name(s) of Product(s) Affected:

Rule Numbers:

March 11, 2016

**VIA ELECTRONIC PORTAL**

Mr. Christopher J. Kirkpatrick  
Office of the Secretariat  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21st Street, N.W.  
Washington, DC 20581

**RE: CFTC Regulation 40.6(a) Certification. Amendments to CME Rule 515.E. (“Trading Restrictions”) and Issuance of CME Market Regulation Advisory Notice RA1602-2.  
CME Submission No. 16-095**

Dear Mr. Kirkpatrick:

Pursuant to Commodity Futures Trading Commission (“CFTC” or “Commission”) Regulation 40.6(a), Chicago Mercantile Exchange Inc. (“CME” or “Exchange”) hereby notifies the Commodity Futures Trading Commission (“CFTC” or “Commission”) that it is self-certifying amendments to CME Rule 515.E. (“Trading Restrictions”). This Submission shall be effective on Monday, March 28, 2016. The amendments to CME Rule 515.E. shall be effective on Friday, April 1, 2016. In connection with the amendments, the Exchange is also self-certifying the issuance of CME Market Regulation Advisory Notice RA1602-2 (“RA1602-2”).

The current summary sanction schedule for violations of the percentage of personal trading and/or brokerage volume that members of a broker association may execute with one another is being modified to increase the second violations sanction level from \$1,000 to \$5,000, increase the subsequent violation sanction level from \$5,000 to \$10,000, and shorten from 24 months to 12 months the rolling period for application of the fines set forth in the schedule. The 24-month rolling period has been determined to be too lengthy; however in shortening it to 12 months the Exchange is also increasing the fines for second and subsequent violations. The 12-month fine window is consistent with the Exchange’s general schedule. As noted, the fines are being adjusted to account for the reduced roll period.

RA1602-2 provides notice of the amendments to Rule 515.E. Additionally, RA1602-2 advises the marketplace that beginning April 1, 2016, all CME Eurodollar options contract months will be restricted for purposes of determining compliance with the intra-association trading restrictions, with the allowable percentage of orders that a member of a broker association may execute opposite other members of their broker association being increased from 15% to 20%. Lastly, RA1602-2 provides additional information on the requirements attendant to properly documenting best and only bid and offer documentation that is submitted to the Market Regulation Department.

The Exchange reviewed the designated contract market core principles (“Core Principles”) as set forth in the Commodity Exchange Act (“CEA” or “Act”) and identified that the rule amendment and issuance of RA1602-2 may have some bearing on the following Core Principles:

- Core Principle 7 – Availability of General Information. The Exchange will issue RA1602-2 to the marketplace regarding the rule amendment and other changes on March 14, 2016. RA1602-2 will also be publicly available on the CME Group website.
- Core Principle 12 – Protection of Market Participants. The existing trading restrictions under Rule 515.E. are intended to ensure that members of broker associations trade more frequently with

unaffiliated members in the pit. The restriction seeks to limit the internalization of order flow by requiring the percentage of intra-association trading to remain relatively low. The changes to the restricted contract months and allowable percentage of intra-association trading in Eurodollar options remain in compliance with this Core Principle.

The amendments to CME Rule 515.E. appear in Exhibit A, with additions underscored and deletions overstruck. RA1602-2 appears in Exhibit B.

Pursuant to Section 5c(c) of the Act and CFTC Regulation 40.6(a), the Exchange certifies that the amendments to Rule 515.E. and the issuance of RA1602-2 comply with the Act and regulations thereunder. There were no substantive opposing views to this proposal.

The Exchange certifies that this submission has been concurrently posted on the Exchanges' website at <http://www.cmegroup.com/market-regulation/rule-filings.html>.

If you require any additional information regarding this submission, please contact me at 212.299.2200 or via e-mail at [CMEGSubmissionInquiry@cmegroup.com](mailto:CMEGSubmissionInquiry@cmegroup.com).

Sincerely,

/s/ Christopher Bowen  
Managing Director and Chief Regulatory Counsel

Attachments: Exhibit A: Amendments to CME Rule 515.E.  
Exhibit B: RA1602-2

# EXHIBIT A

## CME Rulebook

### Chapter 5 Trading Qualifications and Practices

(additions underlined; deletions ~~overstruck~~)

#### **Rule 515. REGISTRATION AND IDENTIFICATION OF BROKER ASSOCIATIONS**

[Sections A. – D. are unchanged.]

##### **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 1224 month period:

First Occurrence Letter of Warning

~~Second Occurrence \$1,000 fine~~

Second~~Third~~ 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 Probable Cause Committee.

## EXHIBIT B

### 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>March 14, 2016</b>
<b>Advisory Number</b>	<b>CME RA1602-2</b>
<b>Effective Date</b>	<b>April 1, 2016</b>

This Advisory Notice supersedes CME Market Regulation Advisory Notice RA1401-2 from April 7, 2014. It is being issued to notify CME members of the following changes that will become effective, pending all relevant CFTC regulatory review periods, on April 1, 2016. As of that date:

- All contract months of Eurodollar options and Eurodollar MidCurve options (collectively, “Eurodollar options”) will be subject to the intra-association trading restrictions pursuant to CME Rule 515.E. (“Trading Restrictions”);
- The allowable percentage of intra-association trading in Eurodollar options will be increased from 15% to 20%;
- The fining schedule pursuant to CME Rule 515.E. will be modified to:
  - Increase the fine for a second violation from \$1,000 to \$5,000;
  - Increase the fine for a third violation from \$5,000 to \$10,000; and
  - Shorten the rolling period for application of the fines from 24 months to 12 months; and
- The requirements to document best and only bid and offers will be modified to require that the document submitted to the Market Regulation Department include the acronym of the signing member.

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

#### **Eurodollar Options Trading Restrictions as of April 1, 2016**

Effective April 1, 2016, the intra-association trading restrictions among members of CME broker associations operating in Eurodollar options will be as 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.

#### **Current 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 not changing, and 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.
- 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 located in Suite 940A on the ninth floor of the CBOT Building 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

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