

SUBMISSION COVER SHEET

IMPORTANT: Check box if Confidential Treatment is requested

Registered Entity Identifier Code (optional): 20-049 (1 of 4)

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

Filing as a: DCM SEF DCO SDR

Please note - only ONE choice allowed.

Filing Date (mm/dd/yy): 10/01/20

Filing Description: Amendments to CME, CBOT, NYMEX/COMEX Rule 588.C. ("Price Adjustments and Cancellations") and CME, CBOT, NYMEX/COMEX Rule 588.H. ("Globex Non-Reviewable Trading Ranges") Table Relating to all Option on Futures Contracts

SPECIFY FILING TYPE

Please note only ONE choice allowed per Submission.

Organization Rules and Rule Amendments

- | | | |
|-------------------------------------|-------------------------------------|------------|
| <input checked="" type="checkbox"/> | Certification | § 40.6(a) |
| <input type="checkbox"/> | Approval | § 40.5(a) |
| <input type="checkbox"/> | Notification | § 40.6(d) |
| <input type="checkbox"/> | Advance Notice of SIDCO Rule Change | § 40.10(a) |
| <input type="checkbox"/> | SIDCO Emergency Rule Change | § 40.10(h) |

Rule Numbers: 588.

New Product

Please note only ONE product per Submission.

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|--------------------------|---------------------------------------|------------|
| <input type="checkbox"/> | Certification | § 40.2(a) |
| <input type="checkbox"/> | Certification Security Futures | § 41.23(a) |
| <input type="checkbox"/> | Certification Swap Class | § 40.2(d) |
| <input type="checkbox"/> | Approval | § 40.3(a) |
| <input type="checkbox"/> | Approval Security Futures | § 41.23(b) |
| <input type="checkbox"/> | Novel Derivative Product Notification | § 40.12(a) |
| <input type="checkbox"/> | Swap Submission | § 39.5 |

Official Product Name:

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

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

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

Rule Numbers:

October 1, 2020

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. Notification Regarding Amendments to CME, CBOT, NYMEX/COMEX Rule 588.C. (“Price Adjustments and Cancellations”) and CME, CBOT, NYMEX/COMEX Rule 588.H. (“Globex Non-Reviewable Trading Ranges”) Table Relating to all Option on Futures Contracts. CME Submission No. 20-049 (1 of 4)

Dear Mr. Kirkpatrick:

Pursuant to Commodity Futures Trading Commission (“CFTC” or “Commission”) Regulation 40.6(a), Chicago Mercantile Exchange Inc. (“CME”), The Board of Trade of the City of Chicago, Inc. (“CBOT”), New York Mercantile Exchange, Inc. (“NYMEX”) and Commodity Exchange, Inc. (“COMEX”) (collectively, the “Exchanges”) hereby certify to the Commission amendments to CME, CBOT, NYMEX/COMEX Rule 588.C. (“Price Adjustments and Cancellations”) to change the process for adjusting prices and cancelling trades on CME Globex for all options on futures contracts and related amendments to the CME, CBOT, NYMEX/COMEX 588.H. (“Globex Non-Reviewable Trading Ranges”) table (the “Table”) (collectively, the “Rule Amendments”) effective on trade date Monday, October 19, 2020.

Rule 588. (“Trade Cancellations and Price Adjustments”) authorizes the Global Command Center (“GCC”) to adjust trade prices or cancel trades where, in its discretion, the GCC believes such action is necessary to mitigate market disrupting events caused by the improper or erroneous use of the electronic trading system or by system defects. Specifically, the GCC will first determine whether a trade should be subject to review. Upon determining a trade will be subject to review, the GCC will analyze the trade price as described in Rule 588.C.

Currently, the analysis of the trade price under review varies based on whether the product is a futures contract or an options on a futures contract. If the product is a futures contract, the GCC simply analyzes the price of the trade in comparison to the Globex non-reviewable trading range (“NRR”) for the product, as set forth in Rule 588.H., to determine if a price adjustment or cancellation is appropriate. If the product is an options on a futures contract, the GCC will conduct a two-step process by first determining the Bid/Ask Reasonability Allowance and then by applying the NRR in order to determine whether a price adjustment or cancellation is appropriate.

The concept of using a Bid/Ask Reasonability Allowance and the NRR for options on futures products was initially adopted when such contracts were much less liquid on CME Globex. At that time, the purpose of the two-step process was to create a simulated market in lieu of actual on-screen liquidity. Since that time, liquidity on CME Globex has grown. After analysis of trade cancellations and adjustments in options on futures contracts by the GCC, it was determined that for options on futures contracts, simply applying the NRR would be sufficient in determining whether a price adjustment or cancellation was appropriate.

Additionally, it was determined that the NRR for options on futures contracts was constrained by a cap on

the delta calculation and a 1-tick minimum range. Therefore, the Exchanges are amending the NRR in the Table for options on futures contracts to be the greater of the following:

- Delta multiplied by the underlying futures non-reviewable range;
- 20% of premium up to ¼ of the underlying futures non-reviewable range; or
- A certain number of minimum price increments depending on the liquidity profile of the options on futures contract (either 2 or 5).

The Rule Amendments will harmonize the current futures process for all options on futures contracts.

The amendments to CME, CBOT, NYMEX/COMEX Rule 588.C. are set forth in Exhibit A with deletions overstruck. The related amendments to CME, CBOT, NYMEX/COMEX 588.H. Table are set forth in Exhibit B with additions underscored and deletions overstruck.

The Exchanges reviewed the designated contract market core principles (“DCM Core Principles”) as set forth in the Commodity Exchange Act (“CEA” or “Act”) and identified that the Rule Amendments may have some bearing on the following Core Principle:

Protection of Market Participants: Rule 588.C. provides a methodology for determining whether a trade cancellation or adjustment is appropriate to remediate errors. As such, the Rule Amendments will continue to be in compliance with this core principle.

Prevention of Market Disruption: The Rule Amendments provide a methodology for the GCC to cancel or adjust error trades to prevent market disruption. Therefore, the Rule Amendments are in compliance with this core principle.

Availability of General Information: The Rule Amendments will be posted on the CME Group website in satisfaction of this core principle. In addition, the Exchanges will issue a Special Executive Report (“SER”) to the marketplace in advance of the amendments to Rule 588.C. becoming effective, which will also be posted on the CME Group website.

Pursuant to Section 5c(c) of the Act and CFTC Regulation 40.6(a), the Exchanges certify that the Rule Amendments comply with the Act and regulations thereunder. There were no substantive opposing views to this proposal.

The Exchanges certify 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 the undersigned at 212.299.2200 or via email at CMEGSubmissionInquiry@cmegroup.com.

Sincerely,

/s/ Christopher Bowen
Managing Director and Chief Regulatory Counsel

Attachments: Exhibit A: CME, CBOT, NYMEX/COMEX Rule 588.C. (blackline format)
Exhibit B: CME, CBOT, NYMEX/COMEX Rule 588.H. Table (blackline format) (under separate cover)

EXHIBIT A

CME, CBOT, NYMEX/COMEX Rulebooks Chapter 5 ("Trading Qualifications and Practices") (deletions overstruck)

588. TRADE CANCELLATIONS AND PRICE ADJUSTMENTS

[Subsections 588.A. – 588.B. are unchanged.]

588.C. Price Adjustments and Cancellations

Upon making a determination that a trade will be subject to review, the GCC will first determine whether the trade price is within the Non-Reviewable Range ~~for futures or within the Bid/Ask Reasonability Allowance for options~~, as described in Section H. ~~The Bid/Ask Reasonability Allowance for an option is the maximum width of the bid/ask range which will be considered reasonable for use in applying the parameters necessary to establish the Non-Reviewable Range for the option.~~ In applying the Non-Reviewable Range, the GCC shall determine the fair value market price for that contract at the time the trade under review occurred. The GCC may consider any relevant information, including, but not limited to, the last trade price in the contract or a better bid or offer price on the electronic trading system, a more recent price in a different contract month, the price of the same or related contract established in another venue or another market, the market conditions at the time of the trade, the theoretical value of an option based on the most recent implied volatility and responses to a Request for Quote (RFQ).

1. Trade Price Inside the Non-Reviewable Range
If the GCC determines that the price of the trade is inside the Non-Reviewable Range, the GCC will issue an alert indicating that the trade shall stand.

2. Trade Price Outside the Non-Reviewable Range

~~a. Futures Contract~~

~~If the GCC determines that a trade price is outside the Non-Reviewable Range for a futures contract (including futures spreads), the trade price shall be adjusted to a price that equals the fair value market price for that contract at the time the trade under review occurred, plus or minus the Non-Reviewable Range. In the event there are multiple parties, prices and/or contracts involved in the transactions at issue, the GCC has the authority, but not the obligation, to cancel rather than price adjust such transactions. The GCC will issue an alert regarding its decision.~~

~~b. Option Contracts~~

~~If the GCC determines that a trade price is outside the applicable Non-Reviewable Range for an option contract, the trade price shall be adjusted. In the case of a buy (sell) error, the price will be adjusted to the determined ask (bid) price set forth in the Bid/Ask Reasonability Allowance in Section H, plus (minus) the Non-Reviewable Range. In the event there are multiple parties, prices and/or contracts involved in the transactions at issue, the GCC has the authority, but not the obligation, to cancel rather than price adjust such transactions. The GCC will issue an alert regarding its decision.~~

Cancelled trade prices and any prices that have been adjusted shall be cancelled in the Exchange's official record of time and sales. Trades that are price adjusted shall be inserted in the time and sales record at the adjusted trade price.

[The remainder of the rule is unchanged.]

EXHIBIT B

**CME, CBOT, NYMEX/COMEX Rulebooks
Chapter 5
("Trading Qualifications and Practices")**

Rule 588.H. ("Globex Non-Reviewable Trading Ranges") Table

(additions underscored; deletions ~~overstruck~~)

(attached under separate cover)