

SUBMISSION COVER SHEET

IMPORTANT: Check box if Confidential Treatment is requested

Registered Entity Identifier Code (optional): 24-252

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

Filing as a: DCM SEF DCO SDR

Please note - only ONE choice allowed.

Filing Date (mm/dd/yy): 09/09/24 Filing Description: Amendments to Rule 101X02.D. ("Daily Price Limits") of the Live Cattle Futures and Feeder Cattle Futures Contracts

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:

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: Live Cattle & Feeder Cattle Futures.

Rule Numbers: CME Rulebook Chapters 101 & 102.

September 9, 2024

VIA ELECTRONIC PORTAL

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

Re: CFTC Regulations 40.4(a)/40.5(a). Request for Approval: Amendments to Rule 101X02.D. (“Daily Price Limits”) of the Live Cattle Futures and Feeder Cattle Futures Contracts. CME Submission No. 24-252

Dear Mr. Kirkpatrick:

Chicago Mercantile Exchange Inc. (“CME” or “Exchange”), pursuant to Commodity Futures Trading Commission (“CFTC” or “Commission”) Regulations 40.4(a) and 40.5(a), requests the Commission’s approval to amend Rule 101X02.D. (“Daily Price Limits”) of the Live Cattle and Feeder Cattle Futures contracts as noted in Table 1. below (the “Contracts”) (collectively, the “Rule Amendments”) effective on trade date Friday, October 25, 2024. Upon the Commission’s approval, the Exchange will disseminate a Special Executive Report (“SER”) advising the marketplace of the amended price limits for the Contracts which shall be effective until June 2025.

Table 1.

Contract Title	Rulebook Chapter	Clearing Code	CME Globex Code	CME ClearPort Code
Live Cattle Futures	101	48	LE	48
Feeder Cattle Futures	102	62	GF	62

Pursuant to Exchange rules, CME recently reset price limits for the Contracts effective June 3, 2024 (see [SER 9385](#) dated May 24, 2024). Specifically, the Exchange is requesting approval to:

- Live Cattle:** Amend Rule 10102.D. (“Daily Price Limits”) to decrease the percentage utilized to establish initial price limits for the Live Cattle Futures contract each year from 4.25 percent to 3.5 percent and implement rounding up rather than rounding down to calculate the initial price limit for the contract. If these amendments had been effective at the time of the June 3, 2024 price limit reset, the initial daily price limit would have been \$0.065 per pound, reduced from the initial limit of \$0.075 per pound that is currently in place. While the rules in connection with the calculation of expanded price limits shall remain unchanged, had these amendments been in place at the time of the June 3, 2024 price limit reset, the aforementioned daily price limit would have been \$0.0975 per pound, reduced from the expanded limit of \$0.1125 per pound that is currently in place as noted in Table 2. below; and
- Feeder Cattle:** Amend Rule 10202. D. (“Daily Price Limits”) to implement rounding up rather than rounding down in connection with the calculation of the initial price limit for the contract. If this amendment had been effective at the time of the June 3, 2024 price limit reset, the initial daily price limit would have been \$0.0825 per pound, reduced from the initial limit of \$0.0925 per pound that is currently in place. While the rules in connection with the calculation of expanded price limits

shall remain unchanged, had this amendment been in place at the time of the June 3, 2024 price limit reset, the aforementioned daily price limit would have been \$0.1225 per pound, reduced from the expanded limit of \$0.1375 per pound that is currently in place as noted in Table 2. below.

Table 2.

Contract Title	Current Initial Price Limit	Decreased Initial Price Limit	Current Expanded Price Limit	Decreased Expanded Price Limit
Live Cattle Futures	\$0.075/lb.	<u>\$0.065/lb.</u>	\$0.1125/lb.	<u>\$0.0975/lb.</u>
Feeder Cattle Futures	\$0.0925/lb.	<u>\$0.0825/lb.</u>	\$0.1375/lb.	<u>\$0.1225/lb.</u>

Exhibit A below provides the Rule Amendments with additions underscoring and deletions ~~struck through~~.

Background and Rationale

The Exchange utilizes a variable price limit mechanism in most agricultural products. The mechanism resets price limits at defined periods based on a percentage of the average settlement price of a specified contract expiration.

The Commission’s regulations provide guidance on specific product terms and conditions, including discretionary Exchange price limits as follows:

...Designated contract markets may adopt price limits to ... provide a “cooling-off” period for futures market participants to respond to bona fide changes in market supply and demand fundamentals that would lead to large cash and futures price changes. If price limit provisions are adopted, the limits should be set at levels that are not overly restrictive in relation to price movements in the cash market for the commodity underlying the futures contract...

...Within the specific array of controls that are selected, the designated contract market also must set the parameters for those controls, so long as the types of controls and their specific parameters are reasonably likely to serve the purpose of preventing market disruptions and price distortions...

For Live Cattle Futures and Feeder Cattle Futures, price limits are updated on the first trading day in June each year based on the following: Daily settlement prices are collected for the nearest June Live Cattle Futures contract over forty-five (45) consecutive trading days before and including the last trading day in April (the Last Trade Date of the nearest April contract). The average price is calculated based on the collected settlement prices and then multiplied by 4.25 percent. The resulting number rounded down to the nearest \$0.0025 per pound, or \$0.04, whichever is higher, will be the new initial price limits for Live Cattle Futures.

The new daily price limits in Feeder Cattle Futures are set at 1.25 times the initial daily price limit of Live Cattle Futures, rounded down to the nearest \$0.0025 per pound. These daily price limits will also be reset annually on the first trading day in June.

As previously noted and pursuant to Exchange rules, CME recently reset price limits for the Contracts effective June 3, 2024 (see [SER 9385](#) dated May 24, 2024). Current cattle prices are near record high. As such, the related updated daily price limits were also determined at record high levels. Multiple market participants contacted the Exchange with concerns that financing potentially large price limit moves could force small producers and cattle feeders out of the market. The Exchange responded by conducting analysis to evaluate the validity of the current parameters of the price limit mechanism.

The Exchange had conducted an analysis of the Contracts' daily settlement prices from 2015 to 2020. The analysis concluded that a price limit set at 4.25 percent of the underlying Live Cattle Futures price would likely capture daily price moves with approximately 99 percent confidence. Conducting similar analysis on daily settlement prices from 2019 to current indicates that a price limit set at 3.50 percent of the underlying Live Cattle Futures price will likely capture daily price moves with approximately 99 percent confidence. Additionally, rounding the initial price limits in Live Cattle Futures and Feeder Cattle Futures up rather than rounding down shall further provide a higher level of confidence.

During the 2023 June – May price limit cycle with price limits set at 4.25 percent of the underlying June Live Cattle Futures price, there were two (2) limit move days in which at least one (1) of the front four (4) Live Cattle Futures contracts and/or at least one (1) of the front four (4) Feeder Cattle Futures contracts settled at limit. During this time period, if price limits had been set at 3.50 percent rather than 4.25 percent and the initial price limits rounded up rather than down, the outcome would have resulted in six (6) limit move days. During the three (3)-year period from June 2021 through May 2024, if price limits had been set at 3.50 percent rather than 4.25 percent and the initial price limits rounded up rather than down, the outcome would have resulted in seven (7) limit move days.

The proposed Rule Amendments result in initial and expanded price limits for Live Cattle Futures in the current June – May price limit cycle slightly below the price limits during the last (June 2023 – May 2024) price limit cycle. The proposed Rule Amendments result in initial and expanded price limits for Feeder Cattle Futures that are equivalent to the price limits during the last cycle.

Market Participant Outreach and Opposing Views

The Exchange engaged with a significant number of commercial market participants, as well as several industry associations, that voiced concerns that the price limits initially established with the June 2024 reset are too wide and would support lowering the limits in some capacity. At various points in the past, certain participants expressed differing opinions regarding the benefits of utilizing price limits in that they may be deemed restrictive. This includes, for example, index fund participants who generally have opined that frequent days where markets trade at daily price limits were unaligned with their strategies. Non-commercial participants tend to favor wider price limits over narrower. The Exchange believes that the Rule Amendments which reduce the price limits from 4.25% to 3.5% to establish limits on an annual basis will continue to allow price discovery and avoid market disruption. Analysis indicates that hypothetical limits at the 3.5% level from June 2023 – May 2024 would have resulted in small number of limit move days in the market, with four (4) additional limit move days over 240 trading days in that period or roughly a 1.6 percent increase in limit move days in a fairly volatile year.

Some market participants opined that the Exchange should consider reverting back from variable to fixed limits for the Contracts. The Exchange intends to continue to work with industry participants and further review the price limit methodology of the Contracts.

Core Principles

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

- **Compliance with Rules** – The Rule Amendments will not affect the Exchange’s ability to assure compliance with rules and conduct market surveillance obligation under the Act. The Exchange believes that it has appropriate systems, policies and procedures in place to address the new price limits mechanism.
- **Contracts not Readily Subject to Manipulation** – The Contracts are not readily susceptible to manipulation as the cash market transactions of slaughter cattle are subject to United States Department of Agriculture (“USDA”) mandatory price reporting regulations. Additionally, cash

market transactions of feeder cattle are reported and published by the USDA and are used to calculate the CME Feeder Cattle Index.

- **Prevention of Market Disruption** – Appropriate price limits establish boundaries that allow the market to reflect and adjust to shocks and major price moves without becoming too intrusive and regularly disrupting trade.
- **Availability of General Information** – The Exchange will issue a Special Executive Report (“SER”) regarding the Rule Amendments. The SER will also be posted on the CME Group website.
- **Execution of Transactions** – Appropriate price limits allow the futures price discovery process to function satisfactorily while still providing time for reflection during periods of high volatility.
- **Trade Information** – The Rule Amendments will not affect the Exchange’s ability to record and store identifying trade information in order to assist in the prevention of customer and market abuses.
- **Protection of Market Participants** – The Exchange will continue to monitor all market participants to prevent any abusive practices and to assure equitable trading for all users.

Pursuant to Section 5(c) of the Act and CFTC Regulations 40.4(a) and 40.5(a), the Exchange hereby certifies that the proposal complies with the Act, including regulations under the Act. Market participant feedback is noted above. There were no substantive opposing views to the Rule Amendments.

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

The Exchange certifies that this submission has been concurrently posted on the CME Group website at.

Should you have any questions concerning the above, please contact the undersigned at (312) 466-7478 or via e-mail at CMEGSubmissionInquiry@cmegroup.com.

Sincerely,

/s/ Timothy Elliott
Managing Director and Chief Regulatory Counsel

Attachment: Exhibit A – Amendments to CME Rule 10102.D. and 10202.D. (blackline format)

EXHIBIT A
CME Rulebook
(additions underscored; deletions ~~struck through~~)

Chapter 101
Live Cattle

10102. TRADING SPECIFICATIONS

10102.D. Daily Price Limits

Daily price limits for Live Cattle futures are reset annually on the first trading day in June based on the following: Daily settlement prices are collected for the nearest June contract over 45 consecutive trading days before and including the last trading day in April (Last Trade Date of the nearest April contract). The average price is calculated based on the collected settlement prices and then multiplied by ~~4.25~~ 3.5 percent. The resulting number rounded ~~down~~ up to the nearest \$0.0025 per pound, or \$0.040 per pound, whichever is higher, will be the new initial price limits for Live Cattle futures and will become effective on the first trading day in June and will remain in effect through the last trading day in May of the following year.

There shall be no trading in Live Cattle futures at a price more than the price limit above or below the previous day's settlement price. Should any Live Cattle futures contract month within the first four listed contract months subject to price limits settle at limit, or should any Feeder Cattle futures contract month within the first four listed contract months subject to price limits settle at its limit, the daily price limits for all contract months shall increase on the next business day by 50 percent, rounded down to the nearest \$0.0025 per pound.

If none of the first four listed contract months for Live Cattle and Feeder Cattle futures contracts subject to price limits settle at a price change equal to or greater than their respective initial price limits on the next business day, daily price limits for all contract months shall revert back to the initial price limit on the following business day. During the last two days of trading, the expiring contract month shall be excluded from triggering expanded limits.

During the last two trading days in the expiring contract month, the daily price limit shall be equal to the expanded price limit above or below the previous day's settlement price. All other contract months remain subject to an initial or expanded price limit pursuant to the provisions set forth above.

If an expiring Live Cattle futures contract settles at its price limit on the day prior to the last trading day, the price limit for an expiring Live Cattle futures contract on the last trading day shall be two times the expanded price limit.

[End of Rule.]

Chapter 102
Feeder Cattle Futures

10202. TRADING SPECIFICATIONS

10202.D. Daily Price Limits

Daily price limits for Feeder Cattle futures are reset annually on the first trading day in June based on the price limit levels for Live Cattle futures (see CME Rulebook Chapter 10102.D. Daily Price Limits). Initial daily price limits for Feeder Cattle futures are set at 1.25 times the initial daily price limit level for Live Cattle futures, rounded ~~down~~ up to the nearest \$0.0025 per pound.

There shall be no trading in Feeder Cattle futures at a price more than the price limit above or below the previous day's settlement price. Should any Feeder Cattle or Live Cattle futures contract month within the

first four listed contracts subject to price limits settle at its initial limit, the daily price limits for all contract months shall increase by 50 percent on the next business day, rounded down to the nearest \$0.0025 per pound.

If none of the first four listed Feeder Cattle and Live Cattle contract months subject to price limits settle at a price change equal to or greater than the initial price limit on the next business day, daily price limits for all contract months shall revert back to the initial price limit on the following business day.

If at the end of trade on the day prior to last trade day for an expiring Feeder Cattle futures contract, the CME Feeder Cattle Index differs from the settlement price of the expiring Feeder Cattle futures contract by an increment that exceeds the initial price limit (if under initial price limits), or if the CME Feeder Cattle Index differs from the settlement price of the expiring Feeder Cattle futures contract by an increment that exceeds the expanded price limit (if under expanded price limits), the price limits on the last trading day for the expiring Feeder Cattle futures contract shall be two times the expanded price limit.

[End of Rule.]