

**SUBMISSION COVER SHEET**

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

Registered Entity Identifier Code (optional): 19-182

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

Filing as a:  DCM  SEF  DCO  SDR

Please note - only ONE choice allowed.

Filing Date (mm/dd/yy): May 22, 2019 Filing Description: Amendments to the Position Limits for the Brazilian Real/U.S. Dollar (BRL/USD) Futures and Options Contracts and Termination of Trading Rule of the BRL/USD Weekly Options Contracts

**SPECIFY FILING TYPE**

Please note only ONE choice allowed per Submission.

**Organization Rules and Rule Amendments**

- |                          |                                     |            |
|--------------------------|-------------------------------------|------------|
| <input 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:**

**New Product**

Please note only ONE product per Submission.

- |                          |                                       |            |
|--------------------------|---------------------------------------|------------|
| <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 checked="" 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: See filing. Rule Numbers: See filing.

May 22, 2019

**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 Regulation 40.6(a) Certification. Notification Regarding Amendments to the Position Limits for the Brazilian Real/U.S. Dollar (BRL/USD) Futures and Options Contracts and Termination of Trading Rule of the BRL/USD Weekly Options Contracts.  
 CME Submission No. 19-182**

Dear Mr. Kirkpatrick:

Chicago Mercantile Exchange Inc. (“CME” or “Exchange”) is notifying the Commodity Futures Trading Commission (“CFTC” or “Commission”) that it is self-certifying amendments to spot month, single month and all month position limits for the Brazilian Real/U.S. Dollar (BRL/USD) futures and options contracts provided in the table below (the “Contracts”) and amendments to Rule 257A01.H. (“Termination of Trading”) of the Weekly Options on Brazilian Real/U.S. Dollar (BRL/USD) Futures contract (collectively, the “Rule Amendments”) effective on Sunday, June 9, 2019 for trade date Monday, June 10, 2019. Amendments to the position limits shall become effective commencing with the August 2019 contract month and beyond.

Contract Title	Rulebook Chapter	Clearing Code and CME ClearPort Code	CME Globex Code
Brazilian Real/U.S. Dollar (BRL/USD) Futures	257	BR	6L
Options on Brazilian Real/U.S. Dollar (BRL/USD) Futures	257A	BR	BR
Weekly Options on Brazilian Real/U.S. Dollar (BRL/USD) Futures	257A	1R-5R	1R-5R

The Position Limit, Position Accountability and Reportable Level Table and Header Notes located in the Interpretations and Special Notices Section of Chapter 5 of the CME Rulebook (the “Table”) is being amended to reflect the change to the position limits for the contracts listed above. Exhibit A, attached under separate cover, provides the Table in blackline format effective on June 10, 2019 (commencing with the August 2019 contract month and beyond) as well as effective on June 28, 2019 when August 2019 shall become the lead contract month.

Exhibit B below provides a cash market overview and analysis of deliverable supply of the Contracts.

CME is amending Rule 257A01.H. in an effort to realign the termination of trading time on the last trading day of the Weekly Options on Brazilian Real/U.S. Dollar (BRL/USD) Futures contract to be consistent with the currency market conventions of the local Brazilian real home market. Amendments to Rule 257A01.H. is provided in Exhibit C in blackline format.

CME reviewed the designated contract market core principles (“Core Principles”) as set forth in the Commodity Exchange Act (“CEA” or “Act”) and identified the following Core Principles as being potentially impacted:

- **Contracts Not Readily Subject to Manipulation:** Changing the position limits of the Contracts will not make the contracts susceptible to market manipulation. CME defines the deliverable grade for BRL/USD futures and options as equal to the M1 money supply. In general terms, M1 money supply consists of currency in circulation plus demand deposits, such as checking and savings accounts.  
M1 is the narrowest and most conservative definition of the deliverable currency stock available on a spot market basis. Money supply data on the Brazilian real is readily available from the Brazilian Central Bank. The money supply underlying BRL/USD futures and options is vast and growing. The Brazilian real is the 19th most traded currency in the world. According to the 2016 Triennial Central Bank Survey conducted by the Bank for International Settlements, the Brazilian real had an average daily volume of \$50 billion. Changes in the spot month, single month and all month position limits of the Contracts will provide the market participants in Brazilian real marketplace with additional means to mitigate their risk in this market. During the three-year period between April 2016 and March 2019, M1 money supply increased 17 percent. Given the size, growth, and activity in the underlying cash market for Brazilian real, CME has concluded that BRL/USD futures and options are not readily susceptible to market manipulation.
- **Position Limitations or Accountability:** CME has adopted necessary and appropriate changes to the position limits of the Contracts based on a detailed market analysis of the underlying cash market for the Brazilian real including the size, growth, and trading activity. The Exchange has set the amended position limits at levels that are significantly below the 25 percent maximum threshold of estimated deliverable supply that the Commission stipulates for determining the speculative spot month limits of a futures contract as codified in Part 150 of the CEA.
- **Availability of General Information:** CME will disseminate advisory notices to inform market participants of the Rule Amendments. In addition, the Exchange will update the online rulebook to reflect the Rule Amendments in a timely manner.

Pursuant to Section 5c(c) of the Act and CFTC Regulation 40.6(a), the Exchange hereby certifies that the Rule Amendments comply with the Act, including regulations under the Act. There were no substantive opposing views to this proposal.

CME certifies that this submission has been concurrently posted on the Exchange’s 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 [Christopher.Bowen@cmegroup.com](mailto:Christopher.Bowen@cmegroup.com).

Sincerely,

/s/ Christopher Bowen  
Managing Director and Chief Regulatory Counsel

Attachments: Exhibit A: Position Limit, Position Accountability, and Reportable Level Table in Chapter 5 of the CME Rulebook (attached under separate cover) (blackline format) (effective June 10, 2019 and June 28, 2019)

Exhibit B: Cash Market Overview and Analysis of Deliverable Supply

Exhibit C: CME Rule 257A01.H. (“Termination of Trading”) of CME Chapter 257A (“Options on Brazilian Real/U.S. Dollar (BRL/USD) Futures”) (blackline format)

**Exhibit A**

**Position Limit, Position Accountability, and Reportable Level Table in Chapter 5  
of the CME Rulebook**

(attached under separate cover)

(Effective June 10, 2019 and June 28, 2019)

## **Exhibit B**

### **Cash Market Overview and Analysis of Deliverable Supply**

Chicago Mercantile Exchange (“CME” or “Exchange”) currently lists Brazilian Real/U.S. Dollar (BRL/USD) futures and options (the “Contracts”) on the CME Globex electronic trading platform and for submission for clearing via CME ClearPort. The options contracts are also listed for trading on the CME trading floor. The Contracts are established benchmark products for the Brazilian real currency. Increased client interest in these contracts show a position limit increase for the Contracts is warranted.

#### **Recommendation**

The Exchange recommends the following:

- Add a 45,000 contract spot month position limit during the last seven trading days of an expiring BRL/USD futures contract
- Change to a 6,000 contract single month position accountability from a 30,000 contract single month position limit
- Change to a 6,000 contract all month position accountability threshold from a 60,000 contract all month position limit

#### **Analysis**

As a basis for providing a uniform and methodical analysis of the position limits for the Contracts, we have adopted three metrics to frame our analysis quantitatively.

The Exchange defines the deliverable grade for the Contracts as equal to the M1 money supply of Brazil. In general terms, M1 money supply consists of currency in circulation plus demand deposits, such as checking and savings accounts. M1 is the narrowest and most conservative definition of the deliverable currency stock available on a spot market basis. M1 data is also readily available from the Central Bank of Brazil.<sup>1</sup>

First, we recommend spot month position limits for the Contracts equal to one or two percent of M1 money supply, rounded to the nearest 5,000-contract increment. We believe one or two percent is a reasonable target level since it is well below the 25 percent maximum threshold of estimated deliverable supply that the Commodity Futures Trading Commission (CFTC) stipulates for determining the speculative spot month limits of a futures contract as codified in Part 150 of the Commodity Exchange Act.

Second, we recommend a single month position accountability equal to one or two percent of M1 money supply. The Exchange believes one or two percent is a conservative level as it is substantially below the CFTC’s 25 percent maximum threshold.

Third, the Exchange recommends all month position limits for the BRL/USD contracts equal to two percent of M1 money supply. Again, the Exchange believes two percent is a conservative level as it is substantially below the CFTC’s 25 percent maximum threshold.

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<sup>1</sup> See <http://www.bcb.gov.br/?BROADMONEYSUPPLY>

## **BRL/USD Futures and Options**

- ***Currency Background***

According to the 2016 Triennial Central Bank Survey conducted by the Bank for International Settlements, the Brazilian real is the 19th most traded currency in the world.<sup>2</sup> BIS data show that the Brazilian real had a daily average volume of \$50 billion.<sup>3</sup>

- ***Contract Descriptions***

CME launched BRL/USD futures in November 1995 for trading in open outcry and on CME Globex. BRL/USD futures are cash settled contracts with a notional contract size of 100,000 real; monthly contract listings out 5 years; and a minimum tick size of \$0.00005 per one Brazilian real (\$5.00). Trading hours are currently 5:00 p.m. to 4:00 p.m. Central Time/CT, Sunday through Friday, on CME Globex. Trading in expiring contracts ceases at 9:15 a.m. Central time on the last business day of the month immediately preceding the contract month. BRL/USD futures are eligible for block and EFRP transactions.

Also in November 1995, CME launched a companion option contract on BRL/USD futures for trading in open outcry and on CME Globex. BRL/USD options are cash-settled contracts that exercises into one BRL/USD futures. The options feature weekly and monthly contract listings out 12 months and a minimum tick size of \$0.00005 per one Brazilian real (\$5.00). The options trade 7:20 a.m. to 2:00 p.m. CT, Monday through Friday, in open outcry and 5:00 p.m. to 4:00 p.m. CT, Sunday through Friday, on CME Globex. Trading in expiring monthly options ceases at 9:15 a.m. Central time on the last business day of the month immediately preceding the contract month, while trading in expiring weekly options will commence ceasing at 4:00 pm São Paulo time on those Fridays that are not also the termination of trading of a monthly option concurrent with the effective date of this submission. BRL/USD options are eligible for block and EOO transactions.

- ***Price Reporting Agency***

After the close of trading on the last trading day, CME Clearing liquidates all open positions in the Contracts by cash settlement at a price equal to the Final Settlement Price. The CME Brazilian real/U.S. dollar futures contract Final Settlement Price is equal to the reciprocal of the “BRL PTAX” or “BRL09” rate which is the “Brazilian real per U.S. Dollar” spot exchange rate, defined as the average offered rate calculated by the Central Bank of Brazil on the last Business Day of the month for the Central Bank of Brazil immediately preceding the contract month, to 5 decimal places. The PTAX rate is considered the industry benchmark for the Brazilian real/U.S. dollar exchange rate. The current settlement calculation procedures, safeguards, and confirmation process of the PTAX rate is designed to ensure that final cash settlements following the close of trading on the last trading day are not readily susceptible to cash market manipulation as required by CFTC Core Principle 3.

- ***Cash Market Analysis***

Exhibit 1 summarizes M1 money supply on a monthly basis between April 2016 and March 2019. During this three-year period, M1 increased by 17 percent.

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<sup>2</sup> See *Triennial Central Bank Survey*, Bank for International Settlements, September 2016, table 2.1, page 2, <http://www.bis.org/publ/rpx16.htm>

<sup>3</sup> Ibid. See table 2.9, page 10.

- ***Spot Month Contract Position Limit***

The Contracts currently do not have a spot month position limit. Adding a spot month position limit will align the BRL/USD contracts with the same position limit structure as other CME emerging market contracts. The new spot month position limit of 45,000 is equal to 1.2 percent of M1. We believe one or two percent is a reasonable target level since it is well below the 25 percent maximum threshold of estimated deliverable supply that the Commodity Futures Trading Commission (CFTC) stipulates for determining the speculative spot month limits of a futures contract as codified in Part 150 of the Commodity Exchange Act.

- ***Single Month Contract Position Limit***

The contracts have a single month contract position limit of 30,000 contracts. Changing to a 6,000 contract single month position accountability aligns the BRL/USD contracts with the majority of other CME emerging market contracts. The 6,000 contract single month position accountability is equal to 0.2% of M1. This is a conservative level as it is substantially below the CFTC's 25 percent maximum threshold.

- ***All Month Contract Position Limit***

The Contracts have a current all month position limit of 60,000 contracts. Changing to a 6,000 contract single month position accountability aligns the BRL/USD contracts with the majority of other CME emerging market contracts. The 6,000 contract single month position accountability is equal to 0.2% of M1. This is a conservative level as it is substantially below the CFTC's 25 percent maximum threshold.

- ***Aggregation of Position Limits***

Options positions are netted against the spot month position limit and the single and all month position accountability levels of the corresponding futures contract.

### Exhibit 1: Brazilian Real Position Limit Analysis

	M1 for Brazil, National Currency, Monthly	Spot Month	Single Month	All Months
1.) April 2016	316,640,863,915	1.4%	0.2%	0.2%
2.) May 2016	314,364,643,404	1.4%	0.2%	0.2%
3.) June 2016	315,458,133,043	1.4%	0.2%	0.2%
4.) July 2016	313,978,055,640	1.4%	0.2%	0.2%
5.) August 2016	313,375,646,897	1.4%	0.2%	0.2%
6.) September 2016	323,287,076,160	1.4%	0.2%	0.2%
7.) October 2016	322,983,773,315	1.4%	0.2%	0.2%
8.) November 2016	332,706,191,558	1.4%	0.2%	0.2%
9.) December 2016	363,028,546,469	1.2%	0.2%	0.2%
10.) January 2017	326,435,804,790	1.4%	0.2%	0.2%
11.) February 2017	333,845,630,178	1.3%	0.2%	0.2%
12.) March 2017	325,270,675,929	1.4%	0.2%	0.2%
13.) April 2017	327,570,799,767	1.4%	0.2%	0.2%
14.) May 2017	326,536,999,733	1.4%	0.2%	0.2%
15.) June 2017	333,582,469,186	1.3%	0.2%	0.2%
16.) July 2017	333,533,428,380	1.3%	0.2%	0.2%
17.) August 2017	330,016,863,076	1.4%	0.2%	0.2%
18.) September 2017	335,224,185,824	1.3%	0.2%	0.2%
19.) October 2017	334,125,388,774	1.3%	0.2%	0.2%
20.) November 2017	348,897,769,260	1.3%	0.2%	0.2%
21.) December 2017	383,839,562,260	1.2%	0.2%	0.2%
22.) January 2018	347,816,119,692	1.3%	0.2%	0.2%
23.) February 2018	349,603,125,726	1.3%	0.2%	0.2%
24.) March 2018	355,419,946,500	1.3%	0.2%	0.2%
25.) April 2018	359,192,039,304	1.3%	0.2%	0.2%
26.) May 2018	358,130,097,063	1.3%	0.2%	0.2%
27.) June 2018	359,116,891,587	1.3%	0.2%	0.2%
28.) July 2018	356,789,582,598	1.3%	0.2%	0.2%
29.) August 2018	365,719,880,136	1.2%	0.2%	0.2%
30.) September 2018	371,430,694,766	1.2%	0.2%	0.2%
31.) October 2018	362,857,187,651	1.2%	0.2%	0.2%
32.) November 2018	376,198,863,513	1.2%	0.2%	0.2%
33.) December 2018	410,226,238,913	1.1%	0.1%	0.1%
34.) January 2019	369,466,021,280	1.2%	0.2%	0.2%
35.) February 2019	373,068,767,239	1.2%	0.2%	0.2%
36.) March 2019	371,584,749,207	1.2%	0.2%	0.2%
Maximum:	410,226,238,913	1.4%	0.2%	0.2%
75 Percentile:	362,900,027,355	1.4%	0.2%	0.2%
Median:	341,520,152,758	1.3%	0.2%	0.2%
25 Percentile:	326,511,700,997	1.2%	0.2%	0.2%
Minimum:	313,375,646,897	1.1%	0.1%	0.1%
3 Year Growth Rate:	17.4%			



## Exhibit C

### CME Rulebook Chapter 257A

### Options on Brazilian Real/U.S. Dollar (BRL/USD) Futures

(Additions are underlined; deletions are ~~struck through~~.)

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#### 257A01. OPTIONS CHARACTERISTICS

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##### 257A01.H. Termination of Trading

###### 1. Monthly Options

Trading in monthly options on the Brazilian real/U.S. dollar futures contract shall terminate at the same date and time as the underlying futures contract.

###### 2. Weekly Options

Trading in weekly options on the Brazilian real/U.S. dollar futures contract shall terminate at 4:00 p.m. São Paulo time~~the close of trading (usually 2:00 p.m.)~~ on those Fridays that are not also the termination of trading of a monthly option as described in the immediately preceding paragraph. If the foregoing date for termination is a scheduled Exchange holiday, trading in weekly options shall terminate on the immediately preceding Business Day. In the event that the underlying futures market does not open on the scheduled expiration day, the option expiration shall be extended to the next day on which the underlying futures market is open for trading.

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