

SUBMISSION COVER SHEET

IMPORTANT: Check box if Confidential Treatment is requested

Registered Entity Identifier Code (optional): 19-334

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

Filing as a: **DCM** **SEF** **DCO** **SDR**

Please note - only ONE choice allowed.

Filing Date (mm/dd/yy): 09/12/19 **Filing Description:** Increase of Spot Month Position Limits for the Bitcoin Futures Contract

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

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: See Filing.

Rule Numbers: See Filing.



Christopher Bowen
Managing Director and Chief Regulatory Counsel
Legal Department

September 12, 2019

VIA ELECTRONIC PORTAL

Mr. Christopher J. Kirkpatrick
Office of the Secretariat
Commodity Futures Trading Commission
3 Lafayette Center
1155 21st Street NW
Washington, DC 20581

Re: CFTC Regulation 40.6(a) Rule Certification. Notification Regarding Increase of Spot Month Position Limits for the Bitcoin Futures Contract. CME Submission No. 19-334

Dear Mr. Kirkpatrick:

Chicago Mercantile Exchange Inc. (“CME” or “Exchange”) hereby notifies the Commodity Futures Trading Commission (“CFTC” or “Commission”) that it is self-certifying an increase of the spot month position limits for the Bitcoin Futures contract (the “Contract”), commencing with the October 2019 contract month and beyond, as noted in the table below. Specifically, the increased spot month limits shall go into effect at the close of trading on Monday, September 30, 2019 for the October 2019 contract month and all contract months thereafter. The submission shall become effective Friday, September 27, 2019

(bold/underline indicates addition; strikethrough indicates deletion)

Contract Title	Rule Chapter	Commodity Code	Reporting Level	Spot-Month Limit (In Net Futures Equivalents)	Single Month Accountability Level (In Net Futures Equivalents)	All Month Accountability Level (In Net Futures Equivalents)
Bitcoin Futures	350	BTC	1	4,000 <u>2,000</u>	5,000	5,000

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”) will be amended to reflect the increased spot month position limits of the Contract. (See Exhibit A effective September 27, 2019 and Exhibit B effective, September 30, 2019: Position Limit, Position Accountability, and Reportable Level Table in Chapter 5 of the CME Rulebook with additions underscored and bolded and deletions overstruck (collectively, the “Rule Amendments”) attached under separate cover.

The Exchange has reviewed the designated contract market core principles (“Core Principles”) set forth in the Commodity Exchange Act and has identified that the Rule Amendments may bear upon the following Core Principles:

Core Principle 2 – Compliance with Rules

Trading in Bitcoin futures is subject to CME Rulebook Chapter 4, which includes prohibitions against fraudulent, noncompetitive, unfair, and abusive practices. Trading in Bitcoin futures also is subject to the Exchange's trade practice rules, the majority of which are contained in Chapters 5 and 8 of the Rulebook, and to monitoring and surveillance by the Exchange's Market Regulation Department, which has the authority to exercise its investigatory and enforcement power where potential rule violations are identified.

Core Principle 3 – Contracts Not Readily Subject to Manipulation

Each contract delivers by cash settlement, by reference to the CME CF Bitcoin Reference Rate ("BRR") benchmark, which is based on market transactions in bitcoin versus US dollar ("USD").¹ The contract size is five (5) bitcoins.

Bitcoin itself is a digital asset, the supply of which is designed to grow toward a ceiling of 21 million units. Around 17.9 million units are in now circulation. At the current mining rate, thought to be approximately 1,800 bitcoin per day, around 18.6 million should be in circulation in a year's time.² In theory, all 17.9 million units extant may be considered as notional deliverable supply of contract-grade commodity. A prudentially conservative estimate, however, would acknowledge that bitcoin is traded in multiple currency denominations, of which USD is but one. During the six months ending September 5, 2019, for example, around 52.9 percent of bitcoin transaction volume was made directly in exchange for USD.³ Were this used as a proxy for the share of bitcoin in circulation that stands as the supply of contract-grade commodity notionally eligible for delivery in fulfillment of expiring Bitcoin futures, it would produce an estimate of 9.5 million bitcoins (equal to 17.9 million x 0.529).

The increased spot-month position limit certified herein -- 2,000 net contracts, ie, a notionally deliverable quantity of 10,000 bitcoins -- represents one tenth of one percent of this estimate of the notionally deliverable supply. The Exchange deems this to be adequately stringent to discourage attempted manipulation of the BRR benchmark in connection with final settlements of expiring contracts.⁴

Core Principle 5 – Position Limits or Accountability

As detailed in the preceding discussion of Core Principle 3, the amended spot-month position limit certified herein is sufficiently conservative in relation to the scale of the corresponding underlying market in bitcoin to deter attempted crowding or manipulation of the BRR benchmark in connection with final settlement of expiring contracts.

Additionally, with the applicable reportable position level remaining at one (1) contract, the amended spot-month position limit certified herein will not in any way weaken the Exchange's ability to conduct effective market surveillance.

Core Principle 7 – Availability of General Information

The Exchange shall publish a Market Surveillance Notice ("MSN") that sets forth information regarding the Rule Amendments. The MSN will also be posted on the CME Group website.

¹ The BRR is produced currently on the basis of trading activity on four crypto-currency markets: Bitstamp, Coinbase (formerly GDAX), Gemini, and Kraken. For more information, visit: <https://www.cmegroup.com/trading/cryptocurrency-indices/cf-bitcoin-reference-rate.html>

² See, eg, <https://www.buybitcoinworldwide.com/how-many-bitcoins-are-there/>

³ The source of these and other data describing the scale of the global bitcoin market is *data.bitcoinity.org*, which consolidates transaction data drawn, currently, from 10 crypto-currency markets, including Bit-x, BitBay, Bitfinex, Bitstamp, CEX.IO, GDAX, EXMO, Gemini, itBit, and Kraken. For more information, visit: <http://data.bitcoinity.org/markets/volume/30d?c=e&t=b>

⁴ For comparison, the amended spot-month position limit would be two orders of magnitude smaller than the 25 percent maximum share of estimated deliverable supply that would comply with the Commission's guidance for spot-month position limits for futures contracts for physical delivery (17 CFR Part 151).

Core Principle 13 – Disciplinary Procedures

CME Rulebook Chapter 4 provides for the Exchange to discipline, suspend, or expel members or market participants who violate the rules of the Exchange. Trading in Bitcoin futures is subject to these provisions. The Exchange's Market Regulation Department has the authority to exercise its powers of enforcement, in the event that Rule violations in this product are identified.

The Exchange certifies that Rule Amendments comply with the Act, including all regulations thereunder. There were no substantive opposing views to this proposal.

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

Should you have any questions concerning the above, please contact the undersigned at (212) 299 2200 or CMESubmissionInquiry@cmegroup.com.

Sincerely,

/s/ Christopher Bowen
Managing Director and Chief Regulatory Counsel

Attachments: Exhibit A - Amendments to CME Rulebook Chapter 5 -- Interpretations Section, Position Limit, Position Accountability and Reportable Level Table (effective September 27, 2019) (attached under separate cover)

Exhibit B - Amendments to CME Rulebook Chapter 5 -- Interpretations Section, Position Limit, Position Accountability and Reportable Level Table (effective September 30, 2019) (attached under separate cover)

Exhibit A

**CME Rulebook
Chapter 5
(Trading Qualifications and Practices”)**

Position Limit, Position Accountability and Reportable Level Table

(attached under separate cover)

(Effective September 27, 2019)

Exhibit B

**CME Rulebook
Chapter 5
(Trading Qualifications and Practices”)**

Position Limit, Position Accountability and Reportable Level Table

(attached under separate cover)

(Effective September 30, 2019)