

SUBMISSION COVER SHEET

IMPORTANT: Check box if Confidential Treatment is requested

Registered Entity Identifier Code (optional): 21-436

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

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

Please note - only ONE choice allowed.

Filing Date (mm/dd/yy): 09/30/21 **Filing Description:** Increase of Spot Month Position Limits for Bitcoin Futures, Options on Bitcoin Futures, and Micro Bitcoin 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

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: Bitcoin Futures, Options on Bitcoin Futures, Micro Bitcoin Futures

Rule Numbers: 350, 350A, 348

September 30, 2021

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. Increase of Spot Month Position Limits for the Bitcoin Futures, Options on Bitcoin Futures, and Micro Bitcoin Futures Contracts.
 CME Submission No. 21-436**

Dear Mr. Kirkpatrick:

Chicago Mercantile Exchange Inc. (“CME” or “Exchange”) certifies to the Commodity Futures Trading Commission (“CFTC” or “Commission”) amendments to the spot month position limits of the Bitcoin Futures, Options on Bitcoin Futures, and Micro Bitcoin Futures (the “Contracts”), effective at the close of business (“COB”) Friday, October 29, 2021 and commencing with the November 2021 contract month and beyond as more specifically described in the table below.

Contract Title	CME Globex / CME ClearPort Code	CME Rulebook Chapter	Current Spot Month Position Limits	Amended Spot Month Position Limits Commencing with the November 2021 Contract Month
Bitcoin Futures	BTC	350	2,000	4,000 contracts, reducing to 2,000 contracts at the COB three (3) business days (T-3) prior to expiration
Options on Bitcoin Futures	BTC	350A	2,000	4,000 contracts, reducing to 2,000 contracts at the COB three (3) business days (T-3) prior to expiration
Micro Bitcoin Futures	MBT	348	2,000	4,000 contracts, reducing to 2,000 contracts at the COB three (3) business days (T-3) prior to expiration

Given the success of Bitcoin futures, as well as the strong demand from institutional customers, the Exchange intends to amend the spot-month position limit from 2,000 to 4,000 Contracts. In order to ensure a timely and efficient roll out of the expiring month, the Exchange intends to implement a “walk down” of the spot month position limit at the close of trading three business days (T-3) prior to expiration to 2,000 contracts.

Standard Bitcoin futures (BTC), Options on Bitcoin Futures (BTC) and Micro Bitcoin futures (MBT) share one common position limit. All contracts are aggregated and adjusted to the notional size of the BTC contract.

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 amended spot month position limits of the Contracts. Exhibit A reflects the amendments to the Table as of October 18, 2021, the effective date of this submission and Exhibit B reflects the amendments to the Table effective at the close of business on October 29, 2021 (collectively, the “Rule Amendments”). Exhibits A and B are provided in blackline format under separate cover.

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 Amendments may have some bearing on the following Core Principles:

Core Principle 2 – Compliance with Rules: Trading in the Contracts will be subject to CME Rulebook Chapter 4, which includes prohibitions against fraudulent, noncompetitive, unfair, and abusive practices. Additionally, trading in these Contracts will be subject to the Exchange’s trade practice rules, the majority of which are contained in Chapter 5 and Chapter 8 of the Rulebook. Trading activity in the Contracts will be subject 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: The amended position limits remain conservative as demonstrated in Exhibit C and accommodate the continued entry of institutional market participants while promoting the timely roll of positions out of the expiring month. Additional market entrants and trading activity should foster liquidity and price discovery in the Contracts’ spot month of trading and thereby further the Contracts’ non-susceptibility to manipulation.

Core Principle 5 –Position Limits or Accountability: The Exchange intends to amend spot month position limits applicable to the Bitcoin Futures, Options on Bitcoin Futures and Micro Bitcoin Futures contracts from 2,000 to 4,000 contracts, reducing to 2,000 contracts at the close of trading three business days (T-3) prior to expiration. The amended speculative position limit for the Contracts is conservative and consistent with the Commission’s guidance. The Position Accountability level for the Contracts will remain at 5,000 contracts on an aggregated basis.

Core Principle 7 – Availability of General Information: The Exchange will disseminate a Market Surveillance Notice (“MSN”) that sets forth information in regard to the Rule Amendments certified herein.

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 the Contracts 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 these products are identified.

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 the proposal.

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

Should you have any questions concerning the above, please contact the undersigned at (212) 299-2200 or via e-mail at CMEGSubmissionInquiry@cmegroup.com.

Sincerely,

/s/ Christopher Bowen
Managing Director and Chief Regulatory Counsel

Attachments: Exhibit A – Amendments to CME Chapter 5 – Position Limits, Position Accountability and Reportable Level Table (attached under separate cover) [Effective October 18, 2021]

Exhibit B – Amendments to CME Chapter 5 – Position Limits, Position Accountability and Reportable Level Table (attached under separate cover) [Effective close of business October 29, 2021]

Exhibit C – Deliverable Supply Analysis

Exhibit A

**CME Rulebook
Chapter 5
("Trading Qualifications and Practices")
Position Limit, Position Accountability and Reportable Level Table**

(attached under separate cover)

[Effective October 18, 2021]

Exhibit B

**CME Rulebook
Chapter 5
("Trading Qualifications and Practices")
Position Limit, Position Accountability and Reportable Level Table**

(attached under separate cover)

[Effective close of business October 29, 2021]

Exhibit C

Deliverable Supply Analysis

Cash Market Overview

Bitcoin in Circulation

Bitcoin is a decentralized digital currency. The bitcoin protocol defines, in advance, how the currency will be created and at what rate. The supply of new bitcoins is designed to grow toward a ceiling of 21 million units.

Bitcoin mining is the process by which new bitcoin enter circulation. Miners secure the network by verifying transactions and adding them to a public ledger; the bitcoin blockchain, in what is called blocks. Mining requires specialist equipment and great power. As a financial incentive, the miner that finds the newest block first will be rewarded with bitcoin.

The bitcoin code is designed to create a new block every ten minutes. It is estimated that 900 new bitcoin are mined per day. On average, 144 blocks are mined daily and each contains 6.25 bitcoin.

Initially, the block reward was set to 50 bitcoin per solved block. The protocol states that the number of bitcoin created per block, the mining reward, will decrease geometrically. This gradual systematic process will see a 50% reduction every 210,000 blocks, or approximately every four years, until all the 21 million units of bitcoin have been created, which will happen in 2140.

As of 1, September 2021, circa 89%¹ of bitcoin have been issued, meaning there are just over 18.78 million of the 21 million bitcoin in existence today.

The theoretical total number of bitcoin, however, is not the total spendable supply. The total spendable supply is lower than the theoretical total supply, and is subject to accidental loss, willful destruction, and technical peculiarities.

From the total supply, one must discount for unrecoverable bitcoin that are burned; permanently withdrawn from circulation or lost. There is no consensus on the number to be deducted, but best estimates indicate there to be about a 20% loss. Were this used as a proxy for the share of outstanding bitcoin that stands as notional contract-grade supply for CME BTC futures, it would produce an estimate of 15 million bitcoins (equal to 18.78 million x 0.80) as the 'money stock' notionally eligible for delivery in fulfilment of expiring Contracts.

Deliverable Supply

The BTC and MBT futures contracts financially settle to the CME CF Bitcoin Reference Rate (BRR), which is published on the futures contracts' last day of trading.

In theory, all 15 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 one.

¹ September 01, 2021 <https://www.blockchain.com/en/charts/total-bitcoins>

For illustration, consider that during the six months ending August 31, 2021, approximately 60% of bitcoin transaction volume was in the BTC:USD currency pair.² 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 available supply of 9 million bitcoin (equal to 15 million x 0.60) as the notionally eligible for delivery in fulfillment of expiring Contracts.

Additionally, foreign exchange futures products determine the position limit by setting it at or below one percent of the money stock in the contract-grade currency denomination. Using the framework of this alternative approach, the proposed position limit of 4,000 contracts would be 0.22%, thus is well below the 1% test.

Lastly, with the applicable reportable position level remaining fixed at one (1) contract, the proposed position limit amendments will not weaken the Exchange's ability to conduct effective market surveillance.

² Source: data.bitcoinity.org, which consolidates transaction data drawn, currently, from 10 crypto-currency markets. For more information, visit: <http://data.bitcoinity.org/markets/volume/30d?c=e&t=b>