

SUBMISSION COVER SHEET

IMPORTANT: Check box if Confidential Treatment is requested

Registered Entity Identifier Code (optional): 19-362

Organization: Chicago Mercantile Exchange Inc. (CME)

Filing as a: DCM SEF DCO SDR

Please note - only ONE choice allowed.

Filing Date (mm/dd/yy): 10/18/19 **Filing Description:** Elimination of the Spot-Month Limit of the Mexican Peso/U.S. Dollar (MXN/USD) Futures and 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 |

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: Mexican Peso/U.S. Dollar (MXN/USD) Futures and Options Contracts.

Rule Numbers: See filing.

October 18, 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 the Elimination of the Spot-Month Position Limit of the Mexican Peso/U.S. Dollar (MXN/USD) Futures and Options Contracts.
CME Submission No. 19-362**

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 eliminate the current spot month position limit of 45,000 contracts for the Mexican Peso/U.S. Dollar (MXN/USD) futures and options contracts provided in the table below (the “Contracts”) commencing with the December 2019 contract month and beyond effective on Monday, November 4, 2019.

Contract Title	Rulebook Chapter	CME Globex Code	Clearing and CME ClearPort Codes
Mexican Peso/U.S. Dollar (MXN/USD) Futures	256	6M	MP
Options on Mexican Peso/U.S. Dollar (MXN/USD) Futures	256A	6M	MP
Weekly Options on Mexican Peso/U.S. Dollar (MXN/USD) Futures	256A	1M-5M	1M-5M

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 changes to the spot month position limits for the contracts listed above. Exhibit A, attached under separate cover, provides the Table in blackline format effective on November 4, 2019 commencing with the December 2019 contract month and beyond. Exhibit A also provides the Table in blackline format effective on November 18, 2019 when the December 2019 contract month becomes the lead listed month (collectively, the “Rule Amendments”).

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

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:** Eliminating the spot the position limits of the Contracts will not make the contracts susceptible to market manipulation. CME defines the deliverable grade for MXN/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 Mexican peso is readily available from the economic database of the Federal Reserve Bank of St. Louis (FRED).¹ The money supply underlying MXN/USD futures and options is vast and growing. According to the recently released 2019 Triennial Central Bank Survey conducted by the Bank for International Settlements, the Mexican peso is the most traded currency in Latin America and the 15th most traded currency in the world with an average daily volume composed of spot transactions, outright forwards, foreign exchange swaps, currency swaps, and foreign exchange options totaling 114 billion US dollars.² Exhibit B summarizes Mexican M1 money supply on a monthly basis between September 2016 and August 2019. During this three-year period, Mexican M1 increased by 15.1 percent to 3.8 trillion pesos. Given the size, growth, and activity in the underlying cash market for Mexican peso, CME has concluded that MXN/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 Mexican peso, including notional 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>.

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: Position Limit, Position Accountability, and Reportable Level Table in Chapter 5 of the CME Rulebook (attached under separate cover) (blackline format) (effective November 4, 2019 and November 18, 2019, respectively)
Exhibit B: Cash Market Overview and Analysis of Deliverable Supply

¹ See <https://fred.stlouisfed.org/series/M1#0>.

² See *Triennial Central Bank Survey: Global Foreign Exchange Market Turnover in 2019*, Monetary and Economic Department, Bank for International Settlements, September 2019, table 5, page 13, https://www.bis.org/statistics/rfx19_fx.pdf.
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Exhibit A

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

(attached under separate cover)

(Effective Monday, November 4, 2019 and November 18, 2019, respectively)

Exhibit B

Cash Market Overview and Analysis of Deliverable Supply

Chicago Mercantile Exchange (“CME” or “Exchange”) currently lists Mexican Peso/U.S. Dollar (MXN/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 Mexican peso currency. Increased client interest in these contracts show that an elimination of the spot-month position limit for the Contracts is warranted.

Recommendation

The Exchange recommends the following:

- Eliminate the current spot month position limit of **45,000** contracts during the last four (4) trading days of an expiring MXN/USD futures.
- Maintain the current single month and all months position accountability thresholds of 6,000 contracts in MXN/USD futures and options.
- Implement the proposed recommendation in MXN/USD futures and options effective on Sunday, November 3, 2019 for trade date Monday, November 4, 2019, commencing with the December 2019 contract month and beyond.

MXN Futures

- ***Currency Background***

The Mexican peso is the national currency of the United Mexican States. According to the recently released 2019 Triennial Central Bank Survey conducted by the Bank for International Settlements, the Mexican peso is the most traded currency in Latin America and the 15th most traded currency in the world with an average daily volume composed of spot transactions, outright forwards, foreign exchange swaps, currency swaps, and foreign exchange options totaling 114 billion US dollars.³ The Mexican peso is a freely convertible currency and is one of 18 member currencies of the CLS Group (“CLS”) global cash settlement system, an international payment versus payment settlement service that mitigates settlement risk for foreign currency transactions of its settlement members and their customers through central bank accounts.

- ***Contract Description***

CME initially launched MXN/USD futures and options in 1995.

MXN/USD futures is a physically deliverable contract that is quoted using CME foreign exchange pricing conventions (*i.e.*, Mexican pesos per US dollar); delivers a notional contract size of 500,000 Mexican pesos; features monthly and quarterly contract listings out one and a half years; and trades in a minimum price increment of 0.00001 US dollars per Mexican peso (\$5.00). Since MXN/USD futures are quoted in US dollars relative to the base currency of Mexican pesos, pays and collects with respect to variation margin are translated and banked in US dollars twice daily. CME Globex trading hours are 5:00 pm to 4:00 pm Central Time (“CT”), Sunday through Friday. The hours for submission for clearing via CME ClearPort are 5:00 pm to 4:15 pm CT, Sunday through Friday. Trading in expiring contracts ceases at 9:16 am CT on the second business day immediately preceding the third Wednesday of the contract month (usually Monday). MXN/USD futures are eligible for all-or-none (“AON”), block, and exchange for related position (“EFRP”) transactions.

³ See *Triennial Central Bank Survey: Global Foreign Exchange Market Turnover in 2019*, Monetary and Economic Department, Bank for International Settlements, September 2019, table 5, page 13, https://www.bis.org/statistics/rpfx19_fx.pdf.

MXN/USD options exercise into one MXN/USD futures contract that delivers a notional contract size of 500,000 Mexican pesos; list weekly and monthly contract expiries out one year; trade in a minimum price increment of 0.00001 US dollars per Mexican peso (\$5.00), and feature European-style exercise with no contrary instructions and auto-exercise against an official CME MXN/USD fixing price at contract expiry on the last trading day. Since MXN/USD options are quoted in US dollars relative to the base currency of Mexican pesos, pays and collects with respect to variation margin are translated and banked in US dollars twice daily. CME Globex trading hours are 5:00 pm to 4:00 pm CT, Sunday through Friday. CME open outcry hours are 7:20 am to 2:00 pm CT, Monday through Friday. CME ClearPort submission hours are 5:00 pm to 4:15 pm CT, Sunday through Friday. Trading in expiring weekly option contracts ceases at 9:00 am CT on the Friday of the contract week while trading in monthly option contracts ceases on the second Friday prior to the third Wednesday of the contract month. Like the underlying futures contract, MXN/USD options are eligible for all-or-none ("AON"), block, and exchange for related position ("EFRP") transactions.

- ***Price Reporting Agency***

The MXN/USD futures contract calls for the physically delivery of 500,000 Mexican pesos in exchange for U.S. dollars and thus does not use a price reporting agency to determine the final settlement price of an expiring futures or option contract.

- **Cash Market Analysis**

Appendix 1 summarizes Mexican M1 money supply on a monthly basis between September 2016 and August 2019. During this three-year period, Mexican M1 increased by 15.1 percent to 3.8 trillion pesos.

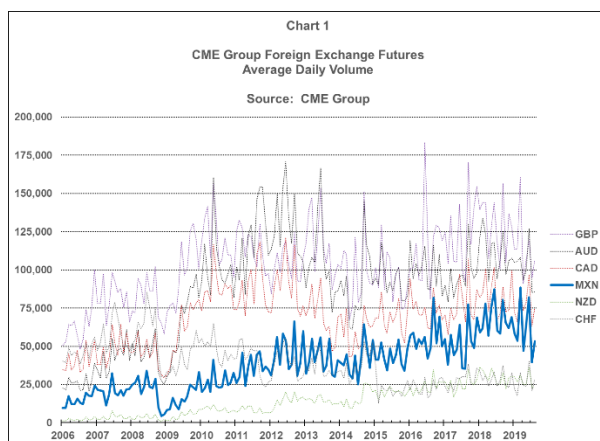
- **Spot Month Contract Position Limit**

The MXN/USD futures contract currently has a spot month position limit of 45,000 contracts during the last four (4) trading days of an expiring futures.

Over the years, several large market participants in MXN/USD futures have reached out to CME to petition for increases in the spot month position limit. With the continued success and development of the MXN/USD futures market, these clients have become more active and, as a result, have accumulated larger market positions. At the same time, these clients have found it increasingly difficult from an execution and operational standpoint to meet extant spot month position limits in timely fashion when these clients need to roll their futures positions forward in time prior to the cessation of trading in an expiring MXN/USD futures. The Exchange has responded in the past by conducting detailed analysis of the deliverable supply of the Mexican peso currency and, based on this analysis, it has increased spot month limits when warranted. The last time CME increased spot month position limits in expiring MXN/USD futures was June 2013 when the Exchange increased spot month limits from 20,000 to 45,000 contracts.⁴

As evidenced in Appendix 1, current Mexican M1 would support an additional increase in spot month limits from 45,000 to 75,000 contracts based on August 2019 data. The Exchange would support such an increase under normal circumstances. However, given the continued development of the MXN/USD futures market, CME believes the Exchange will find itself continually pursuing higher spot month limits in the future. Increasing spot month limits to 75,000 contracts in expiring MXN/USD futures represents a significant threshold already.

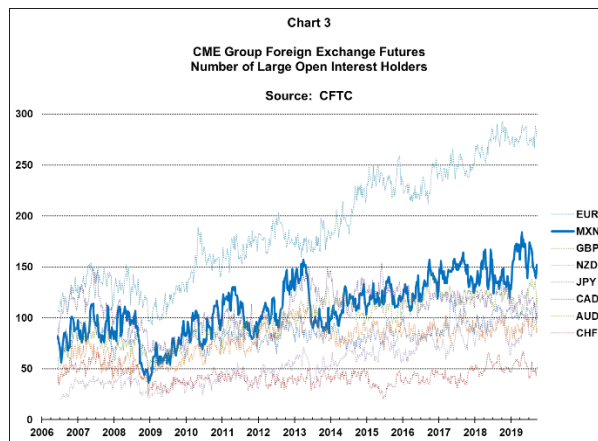
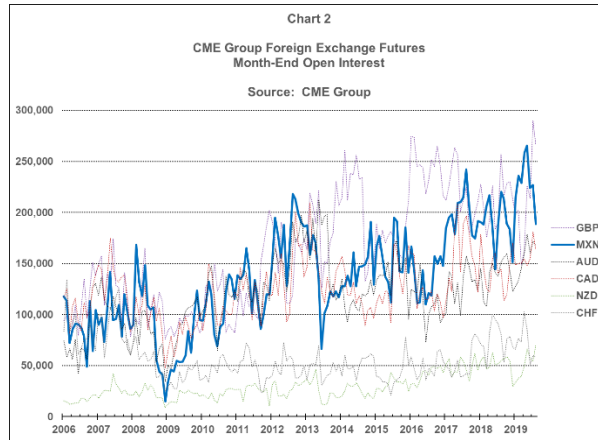
In terms of volume, open interest, and number of large open interest holders (“LOIH”), MXN/USD futures has developed to the point that it trades like a futures contract on a major currency pair rather than on an emerging market currency. MXN/USD futures posts higher volume⁵ and higher open interest⁶ than several major foreign exchange futures that have no spot month limits (see Charts 1 and 2). In terms of LOIH, MXN/USD futures has increased by a factor of four since 2008 – only the Euro/US Dollar (“EUR”) futures contract, which has no spot month limits, has performed similarly (see Chart 3).



⁴ See <https://www.cmegroup.com/tools-information/lookups/advisories/market-regulation/SER-6704.html#pageNumber=1>.

⁵ Since 2016, MXN/USD futures has consistently posted a higher average daily volume than the New Zealand Dollar/US Dollar (“NZD”) and Swiss Franc/US Dollar (“CHF”) futures contracts.

⁶ Since 2016, MXN/USD futures has consistently recorded a higher open interest than the Australian Dollar/US Dollar (“AUD”), Canadian Dollar/US Dollar (“CAD”), NZD, and CHF futures contracts.



In addition, the Mexican peso is one of 18 CLS currencies. CLS is a specialist US financial institution that provides settlement services to its members in the foreign currency market. CLS mitigates settlement risk for foreign exchange trades while benefiting from operational efficiencies, in addition to best-in-class netting and liquidity management. The 18 currencies covered by CLS are the most actively traded currencies globally. These currencies are sovereign and CLS maintains accounts with each of the central banks whose currencies are eligible for CLS settlement. Funds are paid and received through these accounts. CLS operates a global multi-currency cash settlement system through which settlement risk – *i.e.*, Herstatt risk – can be mitigated with finality using a combination of payment versus payment settlement (“PvP”) over CLS central bank accounts, local real-time gross settlement systems, and multilateral payment netting. In a PvP system, both sides’ payment instructions for a foreign exchange transaction are settled simultaneously.

Given the steady progression of market development in MXN/USD futures over the years, and its likely continuance, CME seeks approval to have these spot month limits removed altogether in order to mitigate the burden large clients encounter during roll periods. The Exchange believes MXN/USD futures is a maturing, established market that no longer requires spot month position limits and thus should be viewed and treated like the Exchange’s other physically- deliverable futures contract markets based on the major foreign currency pairs that have no spot month limits.

- ***Single Month Contract Position Accountability***

MXN/USD futures and options have a current single month contract position accountability threshold of 6,000 contracts. CME is not seeking changes to this level at this time.

- ***All Months Contract Position Accountability***

MXN/USD futures and options have a current all months contract position accountability threshold of 6,000 contracts. CME is not seeking changes to this level at this time.

