

SUBMISSION COVER SHEET

IMPORTANT: Check box if Confidential Treatment is requested

Registered Entity Identifier Code (optional): 16-304

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

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

Please note - only ONE choice allowed.

Filing Date (mm/dd/yy): 08/05/16 **Filing Description:** Amendments to the Live Cattle Futures Deliveries and Listing of the October 2017 Live Cattle Futures and Options Contracts

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: Live Cattle Futures, Live Cattle TAS Futures, Live Cattle Options, and Live Cattle Calendar Spread Options.

Rule Numbers: CME Rulebook Chapters: 101, 101A, 101B.

August 5, 2016

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 Live Cattle Futures Contract and Listing of the October 2017 Contract Month of Live Cattle Futures and Options Contracts.
CME Submission No. 16-304**

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 amendments to the Live Cattle Futures rules (Rule Chapter: 101; Clearing Code: LC; CME Globex Code: LE; CME ClearPort Code: 48) to: 1) reflect a discount of \$1.50/cwt. on delivered live graded or carcass graded cattle that are originally tendered to Worthing, South Dakota (the “Worthing Discount”); 2) adjust the par quality grade of delivered cattle to 60% choice, 40% select steers or heifers (the “New Grade”); and 3) list the October 2017 contract month (collectively, the “Live Cattle Amendments”) effective on Sunday, August 21, 2016 for trade date Monday, August 22, 2016.

Specifically, the Worthing Discount and New Grade shall be effective with the October 2017 contract month and beyond. After extensively reviewing the available data and soliciting feedback from the cattle industry, CME believes that the Worthing Discount will: 1) better align the value of futures market deliveries at Worthing with the underlying cash market; 2) reduce futures price volatility that can occur in and around October contract month delivery periods; and 3) further support the Live Cattle contract’s compliance with the CFTC’s policy on locational price differentials as set forth in Appendix C to Part 38 of the CFTC guidelines for Designated Contract Markets.

Worthing has accounted for nearly half of all Live Cattle Futures deliveries, and over 70% of October contract month deliveries since it became a CME-approved delivery point in 2009. CME believes this is caused by two factors: 1) the underlying cash region surrounding Worthing has a counter-seasonal supply of cattle (relative to the other major fed cattle regions) around the October contract month delivery period; and 2) the underlying cash region surrounding Worthing has less access to nearby slaughter capacity than other delivery points. These two factors can mix together and cause supply/demand imbalances that in turn cause the cash region (Iowa & Minnesota) represented by the Worthing delivery point to see cash discounts relative to other major cattle regions, as shown in Figure 1 in Appendix A. The Exchange believes that this cash market dynamic typically causes the Worthing delivery point to be regularly discounted to all other Live Cattle delivery points specifically during the October contract month. This, therefore, constitutes usual differences in values between delivery points per Appendix C to Part 38 in the CFTC guidelines, and requires a discount. The \$1.50 discount is the rounded average of weekly mandatorily reported USDA cash price data for the major five cattle producing regions in the U.S.

CME held a public comment period to solicit feedback regarding the implementation of an October contract month Worthing Discount which was, at the request of market participants, twice extended and approximately six (6) weeks in duration. The vast majority of comments received by the Exchange were provided by parties located in the region surrounding Worthing and generally indicated that CME should not implement the Worthing Discount. It is important to note that since the feedback was obtained from a specific geographic concentration surrounding Worthing, the Exchange does not consider the feedback reflective of the broader marketplace. CME also received feedback that a seasonal discount as high as \$4.50/cwt should be implemented, as well as feedback that Worthing should be eliminated altogether as a delivery point. There was also feedback that indicated the Worthing Discount commencing with the October 2017 contract month was agreeable.

The Exchange also solicited an independent review of its proposal for a Worthing Discount from an outside organization, and the results of that review aligned with CME's internal analysis indicating that the Worthing area is regularly a discount cash region during the month of October.

CME has also received feedback from a wide array of market participants that the par quality grades for delivered cattle should be updated to better reflect trends in the cash cattle market. Specifically, most feedback which the Exchange received indicated that the par percentage of animals on a delivered load of live or carcass graded cattle should be higher than 55% choice and lower than 45% select. Although there can be large differences in quality grading between the different cash regions reflected in the delivery territory for Live Cattle Futures, updating the par quality grade for both live and carcass graded deliveries to 60% choice and 40% select is appropriate because it better reflects a trend of increasing quality grades seen in all major cash fed cattle regions. The five-year average (2011-2015) of nationally graded cattle according to the USDA National Steer & Heifer Estimated Grading Percent Report (NW_LS196) was 64.3% choice and 26.4% select. However, according to that same report, there is significant variance in the average quality grade in different regions, and the Exchange is concerned that making the par quality specifications simply the national average could make it overly difficult for deliveries to be tendered at some of its current delivery points.

Previously, the Exchange temporarily delayed the listing schedule of four live cattle futures and options contracts (the "Contracts"), as noted in the table below, commencing with the October 2017 contract month and beyond. See CME Submission No. 16-141 dated April 14, 2016. At this time, the Exchange will list the October 2017 contract month of the Contracts, but will continue to delay listing subsequent contract months pending further Live Cattle Futures contract review.

Contract Title	Rulebook Chapter	Clearing Code	CME Globex Code	Trading Floor Code	CME ClearPort Code
Live Cattle Futures	101	LC	LE	N/A	48
Live Cattle TAS Futures	101	LET	LET	N/A	N/A
Live Cattle Options	101A	LC	LE	CK, PK	48
Live Cattle Calendar Spread Options	101B	C0A, C0B, C0C	L0A, L0B, L0C	C0A, C0B, C0C	N/A

The Exchange has been notified by the CFTC that a review of livestock deliverable supply is forthcoming. Market supply overview and analysis is not provided in this submission.

The Exchanges reviewed the designated contract market core principles ("Core Principles") as set forth in the Commodity Exchange Act ("the Act") and identified that the new Rule 590 may impact the following Core Principles:

- **Contracts Not Readily Subject to Manipulation** – The Worthing Discount addresses a regularly-observed seasonal disparity in regional cash prices that likely resulted in more deliveries than would normally be expected. The Worthing Discount should therefore help balance out the contract and encourage more deliveries from other delivery points. The new par quality grade of 60% choice and 40% select is intended to reflect an upward trend of higher quality cattle being

sold in the cash cattle market, but is not being set high enough that it would significantly preclude any particular region from being able to deliver cattle into the futures market.

- **Prevention of Market Disruption** – The Exchange is implementing the Worthing Discount in an effort to promote orderly markets leading up to and during the delivery period of Live Cattle futures.
- **Availability of General Information** – The Exchanges will amend the CME rulebook accordingly on the effective date. The Exchange will make these amendments publically available on the CME Group website. In addition, the Exchanges will publish a Special Executive Report (“SER”) to advise the marketplace of the changes to CME Chapter 101 and the listing of the October 2017 Live Cattle futures and options contracts. The SER will also be posted on the CME Group website.

Pursuant to Section 5c(c) of the Act and CFTC Regulation 40.6(a), the Exchange hereby certifies that Live Cattle Amendments comply with the Act, including regulations under the Act. The Exchange sought feedback from market participants regarding the Live Cattle Amendments. There was a wide array of responses, some of them wanting far more extreme measures enacted upon Worthing, and also a large amount of disagreement that any action should be taken specific to Worthing mainly coming from market constituents located in the region around Worthing. CME believes that its proposal balances the middle of those two extremes.

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>. 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,

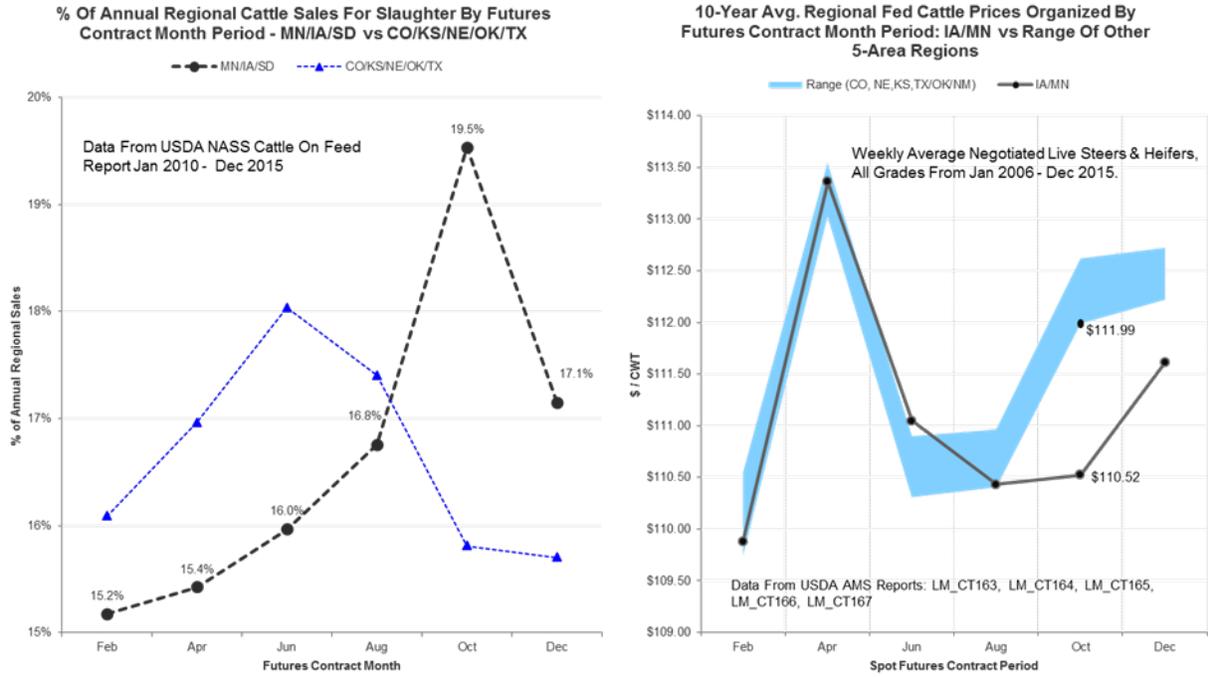
/s/Christopher Bowen
Managing Director and Chief Regulatory Counsel

Attachments:

Appendix A: Figure 1: Counter-Seasonal Nature of the Iowa/Minnesota Region’s Supply and Pricing
Appendix B: Amended CME Chapter 101 (“Live Cattle Futures”) (blackline format) (attached under separate cover)

Appendix A

Figure 1: Counter-Seasonal Nature of the Iowa/Minnesota Region's Supply and Pricing



Appendix B

CME Rulebook

Chapter 101

Live Cattle Futures

(blackline format)

(Attached under separate cover.)