

**SUBMISSION COVER SHEET**

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

**Registered Entity Identifier Code (optional):** 20-119 (2 of 2)

**Organization:** The Board of Trade of the City of Chicago, Inc. ("CBOT")

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

**Please note - only ONE choice allowed.**

**Filing Date (mm/dd/yy):** 06/09/20

**Filing Description:** Amendments to the Contract Grade, Price Increments, CME Globex Non-Reviewable Trading Ranges and CME Globex Trade Matching Algorithm for 3-Year U.S. Treasury Note Futures Contracts.

**SPECIFY FILING TYPE**

**Please note only ONE choice allowed per Submission.**

**Organization Rules and Rule Amendments**

- |                                     |                                     |            |
|-------------------------------------|-------------------------------------|------------|
| <input checked="" 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:** See filing.

**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 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:**

**Rule Numbers:**

June 9, 2020

**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 Contract Grade, Price Increments, CME Globex Non-Reviewable Trading Ranges and CME Globex Trade Matching Algorithm of the 3-Year U.S. Treasury Note Futures Contract.  
CBOT Submission No. 20-119 (2 of 2)**

Dear Mr. Kirkpatrick:

Pursuant to Commodity Futures Trading Commission (“CFTC” or “Commission”) Regulation 40.6(a), The Board of Trade of the City of Chicago, Inc. (“CBOT” or “Exchange”) hereby certifies to the Commission amendments to the contract grade, price increments, CME Globex non-reviewable trading ranges and CME Globex trade matching algorithm of the 3-Year U.S. Treasury Note Futures contract (Rulebook Chapter 39; CME Globex Code: Z3N; CME ClearPort and Clearing Code: 3YR) (the “Contract”) (collectively, the “Rule Amendments”), effective Sunday, July 12, 2020, for trade date Monday, July 13, 2020.

**Contract Grade**

CBOT will amend Rule 39101.A. (“Contract Grade”) to permit aging original issue 7-year U.S. Treasury notes with remaining terms to maturity of at least 2 years 9 months but not more than 3 years. Currently, Rule 39101.A. limits the contract grade of the Contract to the original issue 3-Year and 5-Year U.S. Treasury notes. Amendments to Rule 39101.A. will include U.S. Treasury fixed-principal notes which have fixed semi-annual coupon payments, and which have an original term to maturity (i.e. term to maturity at issue) of not more than 7 years. Amendments to Rule 39101.A. are provided in Appendix A below in blackline format.

**Price Increments**

CBOT will amend Rule 39102.C. (“Price Increments”) to reduce the minimum price increment (“MPI”) of the Contract from one-quarter (1/4) of one thirty-second (1/32) of one price point (i.e., 0.0078125 price points) to one-eighth (1/8) of 1/32 of one price point (i.e., 0.00390625 price points). Amendments to Rule 39102.C. are provided in Appendix A below in blackline format.

The reduced MPI shall apply to outright transactions executed on the CME Globex electronic trading platform and to outright transactions submitted for clearing via CME ClearPort. The reduced MPI shall also apply to intermarket and intramarket spread transactions, including calendar spreads. Such outright and spread transactions are as summarized in Exhibit 1.

## Exhibit 1

Product	CME ClearPort Code	CME Globex Code
3-Year U.S. Treasury Note Futures	3YR	Z3N
Z3N vs Long-Term (“Ultra”) US Treasury Bond Futures		TOU
Z3N vs Long-Term US Treasury Note Futures (6 ½ to 10-Year)		TUN
Z3N vs US Treasury Bond Futures		TOB
2-Year US Treasury Note Futures vs Z3N		TYT
Z3N vs Medium-Term US Treasury Note Futures (5-Year)		TOF
Z3N vs 10-Year (“Ultra”) US Treasury Note Futures		TYX

### CME Globex Non-Reviewable Trading Ranges

As a result of the MPI reduction, the Exchange will amend Rule 588.H (“Globex Non-Reviewable Trading Ranges”) by doubling the maximum number of allowable ticks for both outright and spread transactions. The maximum number of ticks for outright markets will be increasing from 60 to 120, but the maximum range will remain 15/32nds or 0.46875 in decimal terms. The maximum number of ticks for spread markets will be increasing from 15 to 30, but the maximum range will remain 0.1171875 in decimal terms. Amendments to Rule 588.H. are provided in Appendix B below in blackline format.

### CME Globex Trade Matching Algorithm

The Exchange will amend Rule 580. (“CME Globex Trade Matching Algorithms”) to change the trade matching algorithm applied to outright and butterfly spread markets of the Contract from Type K with 40% First In First Out (FIFO)/60% Pro-Rata to Type F with 100% FIFO. Currently, all Treasury futures except Short-Term U.S. Treasury Note Futures (2-Year) utilize 100% FIFO for outright markets. The Exchange believes changing the outright matching algorithm of the Contract to 100% FIFO will benefit the price discovery process as it has in other Treasury futures markets. CBOT is implementing this amendment to facilitate the making of continuous markets and thereby enhance liquidity and price discovery of the Contract.

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 following Core Principles may be impacted by this initiative as follows:

- **Contracts Not Readily Subject to Manipulation:** Expanding the contract grade to include aging 7-yr notes will produce a more robust array of deliverable notes. 3-Year U.S Treasury Note Futures will have up to 12 notes eligible for delivery, which will be similar to the current contract grades of Short-Term (2-Year) and Medium-Term (5-Year) U.S. Treasury Note Futures.
- **Availability of General Information:** The Exchange will amend the CBOT rulebook accordingly which is publicly available on the CME Group website. In addition, the Exchange will publish a Special Executive Report (“SER”) to advise the marketplace of the Rule Amendments. The SER will also be posted on the CME Group website.
- **Execution of Transactions:** Reducing the price increment from 1/4 to 1/8 of 1/32nd will enhance the price discovery process and reduce the cost to trade as it has already done for Short-Term (2-Year) U.S. Treasury Note Futures.

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.

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](mailto:CMEGSubmissionInquiry@cmegroup.com).

Sincerely,

/s/ Christopher Bowen  
Managing Director and Chief Regulatory Counsel

Attachments: Appendix A – Amendments to CBOT Rulebook Chapter 39 (blackline format)  
Appendix B – Amendments to CBOT Rule 588.H. (“Globex Non-Reviewable Trading Ranges”) Table (blackline format)

## Appendix A

### CBOT Rulebook

#### Chapter 39

#### 3-Year U.S. Treasury Note Futures

(additions underscoring; deletions ~~struck through~~)

#### 39100. SCOPE OF CHAPTER

This chapter is limited in application to trading of 3-Year U.S. Treasury Note futures. The procedures for trading, clearing, delivery, and settlement, and any other matters not specifically covered herein or in Chapter 7 shall be governed by the general rules of the Exchange.

All times referenced in this chapter are Chicago times and are subject to change by the Exchange.

#### 39101. CONTRACT SPECIFICATIONS

##### 39101.A. Contract Grade

The contract grade for delivery on futures made under these Rules shall be U.S. Treasury fixed-principal notes which have fixed semi-annual coupon payments, and which have:

- (a) an original term to maturity (i.e., term to maturity at issue) of not more than [~~5 years 3 months~~] 7 years; and
- (b) a remaining term to maturity of not more than 3 years; and
- (c) a remaining term to maturity of not less than 2 years 9 months.

For the purpose of determining a U.S. Treasury note's eligibility for contract grade, its remaining term to maturity shall be calculated from the first day of the contract's named month of expiration, and shall be rounded down to the nearest one-month increment (e.g., 2 years 10 months 17 days shall be taken to be 2 years 10 months). New issues of U.S. Treasury notes that satisfy the standards in this Rule shall be added to the contract grade as they are issued.

If the U.S. Treasury Department auctions and issues a Treasury security that meets these standards, such that said security is a re-opening of an extant Treasury issue that had not previously met these standards, then the extant Treasury issue shall be deemed to be a Treasury note meeting these standards and shall be added to the contract grade as of the issue date of said newly auctioned Treasury security.

Notwithstanding the foregoing, the Exchange shall have the right to exclude any new issue from the contract grade or to further limit outstanding issues from the contract grade.

##### 39101.B. Physical Delivery

Each individual contract lot that is delivered must be composed of one and only one contract grade Treasury note issue. The amount at which the short Clearing Member making delivery shall invoice the long Clearing Member taking delivery of said notes (Rule 39105.A.) shall be determined as:

$$\text{Invoice Amount} = (\$2000 \times P \times c) + \text{Accrued Interest}$$

where

$P$  is the contract daily settlement price on the day that the short Clearing Member gives the Clearing House notice of intention to deliver (Rule 39104.A.).  $P$  shall be expressed in points and fractions of points with par on the basis of 100 points (Rule 39102.C.); and

$c$  is a conversion factor equal to the price at which a note with the same time to maturity as said note, and with the same coupon rate as said note, and with par on the basis of one (1) point, will yield 6% per annum according to conversion factor tables prepared and published by the Exchange.

For each individual contract lot that is delivered, the product expression  $(\$2000 \times P \times c)$  shall be rounded to the nearest cent, with half-cents rounded up to the nearest cent.

Example: Assume that  $P$  is 100 and 25.5/32nds. Assume that  $c$  is 0.9633. The product expression  $(\$2000 \times P \times c)$  is found to be \$194,195.259375. The rounded amount that enters into determination of the *Invoice Amount* is \$194,195.26.

In the determination of the *Invoice Amount* for each individual contract lot being delivered, *Accrued Interest* shall be charged to the long Clearing Member taking delivery by the short Clearing Member

making delivery, in accordance with 31 CFR Part 306--General Regulations Governing U.S. Securities, Subpart E--Interest. See also Rule 39102.B.

## **39102. TRADING SPECIFICATIONS**

The number of contract expiration months open for trading at a given time shall be determined by the Exchange.

### **39102.A. Trading Schedule**

The hours of trading shall be determined by the Exchange. On the last day of trading in an expiring contract (Rule 39102.F.), the close of the expiring contract shall begin at 12:00 noon, and trading shall be permitted thereafter for a period not to exceed one minute.

### **39102.B. Trading Unit**

The unit of trading shall be the U.S. Treasury notes having a face value at maturity of two hundred thousand dollars (\$200,000) or multiples thereof.

### **39102.C. Price Increments**

Par shall be on the basis of 100 points, with each point equal to \$2,000 per contract. The minimum price fluctuation shall be one-~~quarter~~eighth of one thirty-second of one point (equal to \$~~15.625~~7.8125 per contract), including intermonth spreads. Contracts shall not be made on any other price basis.

### **39102.D. Special Price Fluctuation Limits**

At the commencement of each trading day, the contract shall be subject to special price fluctuation limits as set forth in Rule 589 and in the Special Price Fluctuation Limits Table in the Interpretations & Special Notices Section of Chapter 5.

### **39102.E. Position Limits, Exemptions, Position Accountability and Reportable Levels**

The applicable position limits and/or accountability levels, in addition to the reportable levels, are set forth in the Position Limit, Position Accountability and Reportable Level Table in the Interpretations & Special Notices Section of Chapter 5.

A Person seeking an exemption from position limits for bona fide commercial purposes shall apply to the Market Regulation Department on forms provided by the Exchange, and the Market Regulation Department may grant qualified exemptions in its sole discretion.

Refer to Rule 559 for requirements concerning the aggregation of positions and allowable exemptions from the specified position limits.

### **39102.F. Termination of Trading**

The last day of trading in an expiring contract shall be the last business day of the contract's named month of expiration. Any contract remaining open after the last day of trading must be either:

- (a) settled by physical delivery no later than the third business day following the last business day of the contract's named month of expiration (Rule 39103.); or
- (b) liquidated by means of a bona fide Exchange of Futures for Related Position (Rule 538.) no later than 12:00 noon on the business day immediately following the last business day of the contract's named month of expiration.

## **39103. DATE OF DELIVERY**

Delivery of contract grade U.S. Treasury notes may be made by a short Clearing Member upon any business day of the contract delivery month that the short Clearing Member may select. The contract delivery month shall be defined so as to commence on, and to include, the first business day of the contract's named month of expiration, and to extend to, and to include, the third business day following the last business day of the contract's named month of expiration.

## **39104. DELIVERIES ON EXPIRING FUTURES CONTRACTS**

Deliveries against expiring contracts shall be by book-entry transfer between accounts of Clearing Members at qualified banks (Rule 39109.) in accordance with 31 CFR Part 306--General Regulations Governing U.S. Securities, Subpart O--Book-Entry Procedure, and 31 CFR Part 357--Regulations Governing Book-Entry of U.S. Treasury Bonds, Notes and Bills Held in Legacy Treasury Direct®. Deliveries against an expiring contract can be made no earlier than the first business day of the contract's named month of expiration, and no later than the third business day following the last business day of the contract's named month of expiration (Rule 39103.).

All deliveries must be assigned by the Clearing House.

### **39104.A. Day of Intention**

No later than 6:00 p.m. on the second business day preceding the intended day of delivery, the short Clearing Member must tender to the Clearing House all notices of intention to make delivery such as it has received from its customers who are short.

Where a futures commission merchant, as a Clearing Member, has an interest both long and short for customers on its own books, it must tender all such notices of intention to deliver.

To each short Clearing Member who has issued a notice of intention to make delivery, the Clearing House shall assign long Clearing Members who shall be obligated to take delivery. Upon making such assignment, the Clearing House shall promptly furnish to each short Clearing Member making delivery the names of the long Clearing Members assigned to take delivery from such short Clearing Member.

**39104.B. Day of Delivery**

No later than 7:30 a.m. on the day of delivery, the long Clearing Member taking delivery must make funds available, and must notify its bank to accept contract grade U.S. Treasury notes (Rules 39101.A. and 39105.A.) and to remit federal funds to the account of the short Clearing Member making delivery, at the short Clearing Member's bank.

In the event the long Clearing Member taking delivery does not agree with the terms of the invoice received from the short Clearing Member making delivery (Rule 39105.A.), the long Clearing Member must notify the short Clearing Member, and the dispute must be settled no later than 9:30 a.m. on the day of delivery.

No later than 10:00 a.m. on the day of delivery, the short Clearing Member making delivery must have contract grade U.S. Treasury notes (Rules 39101.A. and 39105.) in place at its bank, in delivery form that is acceptable to its bank, and must notify its bank to transfer said U.S. Treasury notes by book entry, on a delivery versus payment basis (Rule 39107.), to the account of the long Clearing Member taking delivery, at the long Clearing Member's bank.

No later than 1:00 p.m. on the day of delivery, contract grade U.S. Treasury notes must be transferred, and payment must be made.

**39105. SELLER'S INVOICE NOTIFICATION TO BUYER**

**39105.A. Invoice Terms**

Each short Clearing Member making delivery shall prepare invoices addressed to each long Clearing Member assigned to take delivery from such short Clearing Member (Rule 39104.A.). Said invoices shall:

- (a) identify the U.S. Treasury notes that the short Clearing Member shall tender to said long Clearing Member; and
- (b) show the amounts which said long Clearing Member must pay to said short Clearing Member in settlement of the actual delivery of said U.S. Treasury notes, based on the delivery prices established by the Clearing House, and adjusted for accrued interest (Rule 39101.B.).

**39105.B. Day of Notification**

In the case of deliveries to be made prior to the last permissible day of delivery (Rule 39103.), each short Clearing Member making delivery shall submit said invoices to the Clearing House by 2:00 p.m. on the business day preceding the day of delivery. In the case of deliveries to be made on the last permissible day of delivery, the short Clearing Member shall submit such invoices to the Clearing House by 3:00 p.m. on the business day preceding the day of delivery. Upon receipt of such invoices, the Clearing House shall promptly furnish them to the long Clearing Members to whom they are addressed.

**39106. BUYER'S BANKING NOTIFICATION TO SELLER**

No later than 4:00 p.m. on the business day preceding the day of delivery, the long Clearing Member taking delivery shall provide the short Clearing Member making delivery with a Banking Notification form which shall include:

- (a) date of delivery;
- (b) identification number and name of the long Clearing Member taking delivery;
- (c) notification number of the Clearing House delivery assignment;
- (d) identification number and name of the short Clearing Member making delivery;
- (e) quantity of the contract being delivered; and
- (f) the long Clearing Member's bank, account number, and specific Federal Wire instructions for the transfer of U.S. Treasury securities.

**39107. PAYMENT**

No later than 1:00 p.m. on the day of delivery, the long Clearing Member assigned to take delivery must take delivery and make payment. In the case of banking holidays, said long Clearing Member must take delivery and make payment no later than 9:30 a.m. on the next banking business day.

Payment shall be made in federal funds on a delivery versus payment basis. That is, payment shall not be made until the U.S. Treasury notes to be tendered for delivery (Rule 39105.A.) are delivered. Adjustments for differences between contract prices and delivery prices established by the Clearing House shall be made with the Clearing House in accordance with its rules, policies, and procedures.

**39108. WIRE FAILURE**

In the event that delivery cannot be accomplished because of a failure of the Federal Reserve wire, or because of a failure of either the long Clearing Member's bank or the short Clearing Member's bank to access the Federal Reserve wire, delivery shall be made before 9:30 a.m. on the next business day on which the Federal Reserve wire, or bank access to it, is operable.

In the event of such failure, the short Clearing Member making delivery shall remit to the long Clearing Member taking delivery such interest on the U.S. Treasury notes being delivered as accrues between the day on which the notes were originally to be delivered and the day on which the notes are actually delivered. Both the long Clearing Member and the short Clearing Member must provide to the Exchange documented evidence that they gave instructions to their respective banks in accordance with Rules 39104. and 39107. and that they complied with all other provisions of Rules 39104. and 39107.

**39109. BANKS**

For the purposes of these Rules, "qualified bank" (Rule 39104.) shall mean a U.S. commercial bank (either Federal or State chartered) that is a member of the Federal Reserve System and that has capital (capital, surplus, and undivided earnings) in excess of one hundred million dollars (\$100,000,000).



## Appendix B

### CBOT Rulebook

#### Chapter 5

#### ("Trading Qualifications and Practices")

#### Rule 588.H. ("Globex Non-Reviewable Trading Ranges") Table

(additions underscored; deletions ~~struck through~~)

Instrument	Globex Symbol	Outrights			Spreads	
		Globex Non-Reviewable Ranges (NRR)	NRR: Global Format	NRR: Ticks	NRR: Globex Format	NRR: Minimum Ticks
3-Year U.S.Treasury Note Futures	Z3N	15/32 of 1 point (\$2,000)	0.46875	<del>60</del> <u>120</u>	0.1171875	<del>45</del> <u>30</u>