SUBMISSION COVER SHEET

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Registered Entity Identifier Code (optional): 17-054

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

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

Please note - only ONE choice allowed.

Filing Date (mm/dd/yy): February 15, 2017 Filing Description: Amendments to the Expiring Month Position Limits of the Live Cattle 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

Official Product Name:

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

February 15, 2017

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 40.4(a)/40.5(a) Amendments to the Expiring Month Position Limits of the Live Cattle Futures Contract.
CME Submission No. 17-054

Dear Mr. Kirkpatrick:

Pursuant to Commodity Futures Trading Commission ("CFTC" or "Commission") Regulations 40.4(a) and 40.5(a), Chicago Mercantile Exchange Inc. ("CME" or "Exchange") is requesting approval to implement a reduction in the spot month position limit from 300 to 200 contracts as of the close of trading on the business day immediately preceding the last two (2) trading days of the contract month for the Live Cattle Futures contract (Rule Chapter 101, Commodity Code LE, Clearing Code 48) (the "Contract"). The initial spot month position limit of 450 contracts shall continue to be in effect as of the close of trading on the first business day following the first Friday of the contract month and the second spot month position limit of 300 contracts shall continue to be in effect as of the close of trading on the business day immediately preceding the last five (5) trading days of the contract month. The third reduction in the spot month position limit to 200 contracts, which as noted above, shall take effect as of the close of trading on the business day immediately preceding the last two (2) trading days of the contract month will, pending CFTC approval, become effective as of the close of trading on Wednesday, April 26, 2017 and commencing with the April 2017 contract month and beyond. Lastly, as Options on Live Cattle futures expire prior to the effective date of the initial spot month limit, Options on Live Cattle futures are not subject to spot month position limits. The initial and second spot month position limits for Options on Live Cattle futures were inadvertently populated in the Position Limit, Position Accountability and Reportable Level Table located in CME Chapter 5 (the "Table"), will be deleted concurrently with the aforementioned amendments. Appendix A, attached under separate cover, provides amendments to the Table with additions underscored and deletions overstruck.

The Exchange conducted a review of deliverable supply of the Contract and determined that while there is sufficient supply of cattle in the spot market which meets the Contract's specifications during the delivery period, the capacity of CME approved stockyards to process deliveries, including grading by USDA personnel, warrants a reduction in the spot month position limit as of the close of trading on the business day immediately preceding the last two trading days of the contract month. Appendix B attached provides a cash market overview and analysis of deliverable supply.

In an effort to increase deliverable capacity, the Exchange is continuing to evaluate additional stockyards within the Contract's geographical delivery territories as potential future delivery locations. The Exchange's onboarding process for potential new stockyard facilities which shall meet CME criteria to become a new delivery point will also include consultation with the United States Department of Agriculture ("USDA"), Agricultural Marketing Service ("AMS") to ensure that the availability of USDA graders will be sufficient to service any newly approved locations. In addition, the Exchange is continuing to evaluate potential modifications to the Contract's delivery mechanism.

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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:

- **Position Limitations or Accountability:** The spot-month speculative position limits for the contracts are set with guidance from CFTC Regulation 150.5(c)(1) for physical delivered contracts, as illustrated in the enclosed Analysis of Deliverable Supply, which is attached hereto as Appendix B.

- **Contracts Not Readily Subject to Manipulation:** The Contract is not readily subject to manipulation as illustrated in the Cash Market Overview and Analysis of Deliverable Supply attached herein.

- **Availability of General Information:** The Exchange will make publicly available the details of the decrease in the spot month position limit by publishing a Market Surveillance Notice ("MSN") to the market. The MSN will be available on CME Group's website.

Pursuant to Section 5c(c) of the Act and CFTC Regulations 40.4(a) and 40.5(a), the Exchange hereby certifies that the amendments comply with the Act, including regulations under the Act. Certain market participants have historically expressed concern regarding the impact of a reduction in spot month position limits on the liquidity of the Contract. The Exchange believes that the proposed decrease is warranted by the underlying cash market and will enable CME to continue to perform surveillance responsibilities consistent with the CEA.

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 – Position Limits, Position Accountability and Reportable Level Table Located in CME Chapter 5 (attached under separate cover)
Appendix B – Cash Market Overview and Analysis of Deliverable Supply

Appendix A

Position Limit, Position Accountability, and Reportable Level Table
Located in CME Chapter 5

(Attached under separate cover)

Appendix B

Cash Market Overview and Analysis of Deliverable Supply
Live Cattle Futures

Chicago Mercantile Exchange Inc. ("CME" or "Exchange") conducted a review of the cash market underlying its Live Cattle Futures contract (Rulebook Chapter 101, Commodity Code LE, Clearing Code 48) (the "Contract") which is defined as beef bred steers and heifers sold from feedlots to slaughter plants and herein referred to as "fed cattle." Based on the analysis presented herein, the Exchange determined to implement a reduction of the current spot month limit to 200 contracts as of the close of trading on the business day immediately preceding the last two (2) trading days of the contract month. The initial spot month limit of 450 contracts shall continue to be in effect as of the close of trading on the first business day following the first Friday of the contract month and the second spot month limit of 300 contracts shall also continue to be in effect as of the close of trading on the business day immediately preceding the last five (5) trading days of the contract month.

Background:

The Contract is a physically-deliverable futures contract whose terms are satisfied by the delivery of fed cattle meeting the Contract's specifications that have been transported to and then graded at approved locations. More specifically, the Contract allows for the delivery of qualified fed steers or heifers to either CME-approved stockyards or CME-approved slaughter plants. A short position holder initiates the Contract's delivery process by tendering a certificate of delivery to the Clearing House designating a CME-approved stockyard to which the cattle will be tendered for delivery and the feedlot from which the cattle originate. The long position holder who ultimately receives the delivery notice may accept either a live-graded delivery at that designated stockyard or may alternatively choose to arrange for a carcass-graded delivery at a CME-approved slaughter plant corresponding to the designated stockyard or to a CME-approved slaughter plant within 200 miles of the short position holder's originating feedlot. The delivery period – defined herein as the time frame in which a certificate of delivery may be tendered: the first notice day through the last notice day – for an expiring month of the Contract generally lasts roughly one calendar month.[1]

According to the *National Weekly Slaughter Cattle – Committed and Delivered Cattle* report published by the USDA, roughly 20.5 million head of domestically sourced cattle that had been placed on feed (including non-beef bred cattle) were slaughtered in the United States in 2016. Of that annual number, roughly 3.7 million head of cattle – about 18% of slaughtered cattle in 2016 – fit the description of what CME would estimate as cattle that likely would have been available on a spot basis, likely would have met the Contract's specifications, and likely would have been geographically located in a region containing at least one Contract delivery point stockyard.

The vast majority of the domestic fed cattle supply is committed to slaughter plants on a non-spot basis (i.e., a forward contract, a formula-based contract, etc.) and therefore would typically not be in position to be delivered to fulfill a futures contract obligation[2]. Some classes of cattle such as bulls and cows are not representative of the broader cash fed cattle market due to quality, age, and size differences relative to that of steers and heifers and are therefore not deliverable to satisfy the Contract and are not used in the deliverable supply analysis. Roughly 14% of all cattle sold for slaughter in 2016 originated from feedlots located outside of the main "5-Area" region (defined further in the "Data Sources" section of this

[1] Rule 10104.A in CME Chapter 101 indicates that Certificates of Delivery can be tendered no sooner than the business day following the first Friday of the contract month and not after the third business following contract expiration. For example, the December 2016 Live Cattle Futures contract had a first notice day of December 5, 2016 and a last notice day of January 4, 2017.

[2] Some slaughter plant operators have indicated that their formula agreements with feedlots include an option that allows the feedlot to deliver the cattle versus futures positions if market conditions warrant. However, we are not including formula transacted cattle in our deliverable supply estimate as industry sources indicate this option is rarely utilized.

document) and those cattle would likely not realistically be expected to be in physical position to be delivered to satisfy the Contract.

The sellers of fed cattle are feedlot operators and the buyers of fed cattle are typically slaughter plant operators ("packers"). Most feedlots are family or individually operated, indicating a low level of industry concentration at the producer level.[3] However, there is a high amount of industry concentration amongst the beef packers: According to the National Cattlemen's Beef Association ("NCBA"), the four largest beef packers represented roughly 90% of the daily beef slaughter capacity among the top ten largest beef packers in the U.S. in 2015.[4]

The fed cattle market is primarily domestic: only roughly 1% of slaughtered steers and heifers in the U.S. were imported by packers in 2016 according to the *National Weekly Slaughter Cattle – Committed and Delivered Cattle* report. According to the United States Department of Agriculture ("USDA") Foreign Agricultural Service, only 69,760 head of any type of cattle were exported out of the U.S. in 2016, representing only a tiny fraction of the total inventory of U.S. cattle.

Fed Cattle are primarily graded in two ways that affect their economic value: quality and yield. Quality grading reflects the expected eating characteristics of the meat (tenderness, flavor, etc.) once it is cooked. The yield grade reflects the estimated amount of lean, edible meat produced by a carcass.[5] Inspecting fed cattle on a carcass-graded basis leads to more precise grading because the grader is able to review the actual carcass, allowing for more accurate premiums and discounts to be assigned to the base price paid for the cattle by the packer. When cattle are inspected on a live-graded basis, the grader must make estimations on future carcass grading outcomes based on external visual indicators when inspecting the live animal. According to the *5 Area Weekly Weighted Average Direct Slaughter Cattle* report, 64% of fed cattle marketed on a spot / negotiated transaction were priced on a live-graded basis between February 2004 and June 2016, while only 20% of cattle marketed on a formula price agreement were graded on a live basis between January 2014 and June 2016 (dates prior were not available in the *5 Area Weekly Direct Slaughter Cattle – Formula, Grid and Contract Purchases* report).

The Exchange believes that the best method for assessing the deliverable supply of fed cattle is to measure the observed transactions of fed cattle between feedlots and packers over time. CME believes that these transactions are indicative of available market-ready fed cattle at any given time given their non-storable nature. The purchases of cattle by packers are subject to livestock mandatory price reporting legislation and therefore the Exchange's analysis of the deliverable supply of fed cattle makes use of mandatorily reported volumes of packer purchases of all grades of beef bred steers and heifers priced on either a live or dressed basis as aggregated and published by the USDA Agricultural Marketing Service ("AMS") division on a monthly basis.[6]

Live Cattle Futures Delivery Capacity:

The delivery territories for delivery against the Contract are Colorado; Iowa/Minnesota/South Dakota; Kansas; Nebraska; and Texas/Oklahoma/New Mexico. Cattle may be delivered at par at any of the approved stockyard or slaughter plants with one exception currently: beginning in October 2017, any deliveries whose certificates of delivery were originally tendered for delivery at Worthing, SD to satisfy an

[3] According to the 2012 USDA Census of Agriculture, "In 2012, 80 percent of feedlots were family or individually operated." https://www.agcensus.usda.gov/Publications/2012/Online_Resources/Highlights/Cattle/Cattle_Highlights.pdf.

[4] See page 48 of this NCBA document: http://www.beefusa.org/CMDocs/BeefUSA/Producer%20Ed/2015%20CattleFax%20section.pdf.

[5] For more information on beef grading, it is suggested to read *Beef Grading* by Daryl Tatum of Colorado State University: http://www.beefresearch.org/cmdocs/beefresearch/beef%20grading.pdf.

[6] Legislation regarding the mandatory reporting of cattle can be found in 7 CFR Part 59, Subpart B - Cattle Reporting: https://www.gpo.gov/fdsys/pkg/CFR-2016-title7-vol3/pdf/CFR-2016-title7-vol3-part59-subpartB.pdf.

October futures contract will be made at a $1.50/cwt discount to the short position holder making delivery.[7]

USDA AMS provides graders at the stockyard delivery points at the scheduled time of delivery to facilitate deliveries where the long position holder receiving delivery has selected that final settlement and transfer of ownership of the cattle be completed on a live-graded basis. The USDA provides input to the Exchange on their staffing as well as each stockyard's infrastructure (i.e. scales, employees) which are factored into the Exchange's self-imposed daily limits on the maximum number of contracts that can be delivered on any given day to each stockyard. Based on delivery constraints identified by the USDA, CME instituted a daily limit on the number of certificates of delivery that could be tendered for delivery at any given stockyard. The daily limits at each stockyard are based on USDA grader estimations on the size and quality of the stockyard as well as their own staffing availability for grading. It is important to note that the daily maximum number of contracts allowed per stockyard by the Exchange is typically lower than the stockyards' actual maximum daily capacity. CME believes that this helps remove the risk of delivery congestion and promotes an orderly delivery process for the Contract.

Each delivery point stockyard conducts feeder cattle sales and other types of cash market auctions each week where the facility is unavailable to provide capacity in support of deliveries for the Contract. It is the responsibility of the delivering short position holder to ensure that the delivery point stockyard will be able to receive a Contract delivery prior to tendering a delivery certificate to that stockyard. However, the stockyards provide an expected schedule to the Exchange of days in which they anticipate that they will be unable to facilitate Contract deliveries. In turn, the Exchange communicates these schedules to the market as it changes.[8]

Table 1 in the Appendix of this document lists the weekly stockyard delivery capacity for the Contract and blackout days as communicated to the Exchange by the stockyards.

The approved slaughter plant delivery points for the Contract do not have a limit on the number of deliveries that they may receive because the short position holder will be able to make delivery at a stockyard even if the long is unable to schedule a delivery at any of the plants associated with that stockyard. It is the responsibility of the long position holder to schedule a delivery to be received at a slaughter plant if the long prefers for the final settlement of the delivery to be done by a carcass grading instead of by live grading at the originally tendered stockyard. Slaughter plant grading capacity is not an issue because each plant is staffed by USDA meat graders on a daily basis as part of their normal business operations. Because all deliveries must be tendered to a stockyard to initiate the delivery process, the capacity of the stockyard accounts for the delivery constraint irrespective of whether the ultimate delivery consists of live-graded or carcass-graded beef cattle. Further, as indicated in the "background" section above, the majority of spot / negotiated fed cattle transactions are priced on a live FOB basis, indicating that it is expected for stockyards to receive the majority of Contract deliveries.

Data Sources:

CME's analysis of the deliverable supply of fed cattle makes use of data provided by USDA AMS within its *5 Area Monthly Weighted Average Direct Slaughter Cattle – Negotiated* report.[9]

A monthly data series is used because the delivery period for an expiring month of the Contract generally lasts roughly one calendar month. The "5 Area" geographic region – which is comprised of the "Texas/Oklahoma/New Mexico," "Kansas," "Nebraska," "Colorado," and "Iowa/Minnesota" sub-regions – is

[7] Please see CME Submission No. 16-304 for further information on the discount being applied to deliveries originally tendered to a stockyard in Worthing, SD in the October contract month: http://www.cmegroup.com/market-regulation/rule-filings/2016/08/16-304.pdf.

[8] Please see the latest such notice here: http://www.cmegroup.com/notices/clearing/2016/10/Chadv16-456.pdf.

[9] The most current "5 Area monthly Weighted Average Direct Slaughter Cattle – Negotiated" Report can be found at this static location on the USDA's website: https://www.ams.usda.gov/mnreports/lm_ct180.txt.

used because it most closely represents the geographical area where fed cattle are realistically expected to physically be in a position to be delivered to a delivery point stockyard. Only negotiated cattle were used in the calculation of deliverable supply because all other forms of marketing fed cattle result in those cattle being committed to another party and therefore reasonably assumed to be unavailable for delivery by a short position holder of the Contract. Steers and heifers priced on both a live or dressed basis are used in the calculation of deliverable supply because both steers and heifers are deliverable and can be graded on either a live or a carcass/dressed basis to satisfy Contract delivery terms. All grades are utilized in the calculation of deliverable supply because the four main USDA quality grades of cattle (prime, choice, select, standard) and most predominant yield grades (grades 1 – 5) are deliverable and the terms of the Contract make use of the most current USDA published *National Weekly Direct Slaughter Cattle – Premiums and Discounts* report to assess quality grade and yield grade premiums and discounts on delivered cattle accordingly.

USDA AMS maintains a historical database of its mandatory price reports on its website at the following location: https://mpr.datamart.ams.usda.gov/.

Table 2 in the Appendix at the end of this document for a list of delivery point stockyard locations and their associated geographical cash market regions, all of which are represented within 5 Area price reports published by USDA AMS.

Deliverable Supply Calculation Methodology:

The following steps using the *5 Area Monthly Weighted Average Direct Slaughter Cattle – Negotiated* report allow for the estimate of the deliverable supply of fed cattle:

1. Obtain the head count and average weight for "Total all grades" for:
    a. Live FOB Basis – Beef Breeds, Steers
    b. Live FOB Basis – Beef Breeds, Heifers
    c. Dressed Delivered Basis – Beef Breeds, Steers
    d. Dressed Delivered Basis – Beef Breeds, Heifers

2. Convert the dressed weights to 'live equivalent weights' by dividing the dressed weights by 63% (the par yield of carcass graded cattle in the Contract).

3. Multiply each category's head count by its live-equivalent weight to get the category's total live-equivalent weight for the month, then add each category's total monthly live-equivalent weight together to get a monthly total live equivalent weight.

4. Divide the total live equivalent weight for the month by 40,000 lbs. (the size of the futures contract) to arrive at that month's deliverable supply in terms of the number of futures contracts the total weight represented.

Analysis of Deliverable Supply:

Table 3 in the Appendix at the end of this document for a monthly estimate of the deliverable supply of fed cattle for the previous three years using the data and calculation methodology described above.

The Exchange estimates that the average monthly supply of fed cattle meeting contract specifications over the previous three years was equivalent to **9,216** contracts. The Contract currently has two spot month position limits: 1) 450 contracts on the close of trading on the first business day following the first Friday of the contract month, which is 4.9% of deliverable supply, and 2) 300 contracts on the close of trading on the business day immediately preceding the last 5 trading days of the contract month, which is 3.3% of supply.

However, the ability to deliver cattle to fulfill Contract obligations is constrained by the daily live grading capacity limits imposed on the approved stockyards by the Exchange which is approximately 249 contract equivalents a day (inclusive of blackout days). CME believes that the most prudent way to measure deliverable supply available at contract expiration is to measure the maximum stockyard capacity permitted by the Exchange during the three business days following contract month expiration, inclusive of 'blackout' days in which the stockyards self-report themselves as not being available to facilitate deliveries. The last three days are used because short-position holders of open interest following contract expiration have three business days after the expiration to schedule a delivery for final settlement of their positions.

The typical weekly stockyard capacity inclusive of 'blackout' days, as shown in **Table 1** in the Appendix, is 1,245 contracts per 5-day week or an average daily capacity of 249 contracts, inclusive of 'blackout' days. That daily average multiplied by three days gives you an average stockyard capacity of **747** contracts in total over any given three-day period. Based on the foregoing, the Exchange determined to implement a further reduction in the spot month limit to 200 contracts effective as of the close of trading on the business day immediately preceding the last two (2) trading days of the contract month, which represents 25% of estimated deliverable supply available over any given three-day period rounded up to the nearest 100. The initial spot month limit of 450 contracts shall continue to be in effect as of the close of trading on the first business day following the first Friday of the contract month and the second spot month limit of 300 contracts shall continue to be in effect as of the close of trading on the business day immediately preceding the last five (5) trading days of the contract month.

Appendix

Table 1: Maximum Daily Grading Capacity (Contracts)

Stockyard	Monday	Tuesday	Wednesday	Thursday	Friday	Weekly
Amarillo, TX		60	60	60	60	240
Clovis, NM	15	15		15	15	60
Columbus, NE	15	15				30
Dodge City, KS	40	40		40	40	160
North Platte, NE	20		20	20	20	80
Ogallala, NE	25	25			25	75
Pratt, KS	10	10	10		10	40
Syracuse, KS	25	25	25	25		100
Texhoma, OK	30	30		30	30	120
Tulia, TX	30	30	30		30	120
Worthing, SD		60		60	60	180
Wray, CO	10		10	10	10	40
Total	**220**	**310**	**155**	**260**	**300**	**1,245**

Table 2: USDA Cash Reporting Regions vs. Associated Stockyard Delivery Points

USDA Cash Reporting Region	**Associated Stockyard Delivery Points**
Iowa / Minnesota	Worthing, SD
Colorado	Wray, CO
Nebraska	Columbus, NE; North Platte, NE; Ogallala, NE
Kansas	Dodge City, KS; Pratt, KS; Syracuse, KS
Texas / Oklahoma / New Mexico	Amarillo, TX; Clovis, NM; Texhoma, OK; Tulia, TX
5-Area	Representative of all delivery points

Table 3: Monthly negotiated steers and heifers by contract month (contract equivalents, or 40,000 live equivalent pounds)

Contract Month	Contract Year	Dressed Heifers	Dressed Steers	Live Heifers	Live Steers	Total
Feb	**2014**	764	1,510	2,054	3,094	7,421
	2015	1,002	2,042	1,725	2,357	7,126
	2016	1,330	2,415	2,516	3,333	9,594
Apr	**2014**	612	1,809	1,697	2,519	6,636
	2015	939	2,336	1,238	2,216	6,729
	2016	1,051	3,110	2,086	4,043	10,291
Jun	**2014**	963	2,124	1,682	4,460	9,229
	2015	770	2,221	969	2,353	6,314
	2016	1,053	2,774	2,144	5,693	11,664
Aug	**2014**	1,251	2,532	2,405	4,945	11,134
	2015	768	2,529	1,032	3,148	7,477
	2016	1,225	3,530	2,618	5,911	13,283
Oct	**2014**	1,270	2,522	2,274	4,274	10,341
	2015	1,153	2,106	2,044	3,876	9,179
	2016	1,123	2,202	2,414	4,605	10,344
Dec	**2014**	960	2,066	1,391	3,202	7,618
	2015	1,997	3,290	1,948	3,317	10,552
	2016	1,316	2,824	2,620	4,204	10,964
	3-Year Avg.	1,086	2,441	1,937	3,753	9,216