SUBMISSION COVER SHEET

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

Registered Entity Identifier Code (optional): 20-112

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

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

Please note - only ONE choice allowed.

Filing Date (mm/dd/yy): 02/27/20 Filing Description: Implementation of a Variable Price Limit Mechanism, Increase of Daily Price Limits, and Amendments to the Methodology for Triggering/Reverting from Expanded Daily Price Limits of the Lean Hog Futures Contract

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: Lean Hog Futures

Rule Numbers: CME Rulebook Chapter: 152

Christopher Bowen
Managing Director and Chief Regulatory Counsel
Legal Department

February 27, 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 Regulations 40.4(a)/40.5(a). Request for Approval: Implementation of a Variable Price Limit Mechanism, Increase of the Daily Price Limits, and Amendments to the Methodology for Triggering/Reverting from Expanded Daily Price Limits of the Lean Hog Futures Contract.
CME Submission No. 20-112

Dear Mr. Kirkpatrick:

Chicago Mercantile Exchange Inc. ("CME" or "Exchange"), pursuant to Commodity Futures Trading Commission ("CFTC" or "Commission") Regulations 40.4(a)/40.5(a) seeks the Commission's approval to amend the Lean Hog Futures contract (the "Contract") effective on Sunday, April 12, 2020 for trade date Monday, April 13, 2020.[1]

Contract Title	Rulebook Chapter	Clearing Code	CME Globex Code	CME ClearPort Code
Lean Hog Futures	152	LN	HE	LN

Specifically, the Exchange is requesting approval to:

1. Amend Rule 15202.D. ("Daily Price Limits") of the Contract to replace the current fixed daily price limit regime (consisting of a fixed price limit and expansion mechanism) with a variable price limit regime which will be price-based and reset annually. The mechanism herein is similar to the variable price limit mechanism, which has been previously approved by the Commission and implemented by The Board of Trade of the City of Chicago, Inc. ("CBOT") in 2014 on grain and oilseed futures (see CBOT Submission Nos. 14-062 and 14-153);

2. Amend Rule 15202.D. to adjust the current daily price limits of the Contract to \$3.75/cwt., expandable to \$5.50/cwt. from \$3.00/\$4.50 initial and expanded limit based on the price-based methodology and observation from 2019 (see Appendix A: Exhibit 3);

3. Amend Rule 15202.D. regarding the triggering of expanded daily limits and the reversion back to initial limits. Currently, expanded limits are triggered if any of the front three (3) contract months settle at the initial daily limit. Pursuant to the amendments to the Rule, an expansion will be triggered should any of the front eight (8) contract months settle at limit. (Note: according the listing schedule of the Contract, the front eight (8) contract months of the Contract encompass one (1) calendar year); and

[1] In accordance with its standard internal policies and procedures and pursuant to Exchange Rule 230.j, the Exchange determined to adopt the Rule Amendments.

4. Amend Rule 15202.D. regarding the reversion back to the initial daily price limit from the expanded limit. Currently, daily price limits revert from the expanded limit back to the initial limit on the following business day when none of the front three (3) contracts settle at the expanded limit. Pursuant to the amendments to the Rule, daily price limits will remain expanded until all of the front eight (8) contract months settle below the initial level (collectively, the "Rule Amendments").

Background

The spread of African swine fever and the ongoing US/China trade war have combined to produce very high levels of volatility in the Lean Hog market. As a result, the Contract settled at the daily price limit ($3.00 or $4.50/cwt) 31 times (14 percent of trading days) in 2019. Of those days, there were three instances where the Contract settled at the expanded limit of $4.50/cwt. This volatility trend has continued into 2020 with four days of limit settlement as of February 7, 2020.

Limit settlements can inhibit price discovery and can hinder market participants when entering, exiting, and/or rolling positions. To avoid frequency in limit settlements, CBOT implemented a variable price limit mechanism in its grain and oilseeds markets in 2014. Since its implementation in the CBOT grain and oilseed markets, there has been a significant reduction of the number of days those markets have settled at the limit price. (see Appendix A: Exhibit 1).[2]

Appendix C to Part 38 of the Commission's regulations provides guidance on specific product terms and conditions, including discretionary Exchange price limits as follows:

> Maximum Price Fluctuation Limits.
> Designated contract markets may adopt price limits to … provide a ''cooling-off'' period for futures market participants to respond to bona fide changes in market supply and demand fundamentals that would lead to large cash and futures price changes. If price limit provisions are adopted, the limits should be set at levels that are not overly restrictive in relation to price movements in the cash market for the commodity underlying the futures contract.

Market Participant Outreach and Opposing Views

Commencing in November 2019, the Exchange conducted outreach regarding the Rule Amendments. While some market participants would support the elimination of price limits, a significant portion of the market supports daily price limits. Many commercial participants hold the view that it is necessary to have daily price limits in order to provide the "cooling off" period referenced above. Consistent with Commission guidance, the Exchange sets price limits at levels that are not overly restrictive while providing "cooling-off" periods.

Certain market participants also opined that larger daily price limits may lead to higher margin requirements. In response CME clarified that price movements determine margin levels as opposed to price limits. Futures margin is the amount of money required to have on deposit when opening a futures position. Futures margin generally represents a smaller percentage of the notional value of a contract. When markets are changing rapidly, and daily price moves become more volatile, market conditions and prudent risk management may necessitate higher margin requirements to account for increased risk. When market conditions and prudent risk management warrant, margin requirements may be reduced (see Appendix A: Exhibit 2).

[2] Regardless of the limit levels, the Exchange retains the emergency authority to adjust price limits for their agricultural products in response to prevailing market developments that may warrant such adjustments. The most recent use of emergency authority in CME Livestock markets occurred in 2014. At that time, the CME Feeder Cattle futures market experienced high volatility combined with a relatively small price limit, which caused multiple consecutive limit settlement days which, in turn, adversely affected the price discovery function of the market. As a result, CME increased the limit levels and subsequently implemented a mechanism which expanded the daily price limits by 50 percent following a limit settlement day for all livestock products.

300 Vesey Street New York, NY 10282 T 212 299 2200 F 212 301 4645 christopher.bowen@cmegroup.com cmegroup.com

Proposed Mechanism

The new variable price limit mechanism resets price limits of the Contract annually. The reset date will be the first trading day in September based on the following: Daily settlement prices are collected for the nearest August contract over 45 consecutive trading days before and including the tenth business day in July (the Last Trade Date of the nearest July contract). The average price is calculated based on the collected settlement prices and then multiplied by 4.5 percent. The resulting number, rounded down to the nearest $0.25 per hundredweight, will be the new initial price limits for Lean Hog futures.

Additionally, the methodology regarding the implementation of expanded limits and the reversion back to the initial limits will be changed. The mechanism will continue to allow for expanding daily price limits. However, the new methodology will trigger expanded limits on the business day following a limit settlement in any of the first eight rather than first three listed contract months. Lastly, the new methodology will keep expanded limits in place until all the front eight contract months settle below the initial level.

For example, if any of the first eight listed Lean Hog futures contracts subject to daily price limits settle at the initial limit of $3.75/cwt, the limit will expand to $5.50/cwt the following business day. The limit will remain at $5.50/cwt for all contracts until all of the first eight listed Lean Hog futures contracts settle at a price change less than $3.75/cwt.

Newly determined futures price limits will be communicated to the market and become effective on the first trading day in September and will remain in effect through the last trading day in August of the following year.

Rationale

Research conducted by the Exchange indicates that a price limit set at 4.5 percent of the underlying futures price will likely capture daily price moves with approximately 99 percent confidence. Thus, under normal market conditions, two or three limit-move or limit settlement days are expected per year pursuant to the amended mechanism. Similar to implementation of such a prescribed mechanism in the grains and oilseeds, once the Exchange receives approval for the proposed mechanism, annual updates to price limit levels will improve overall operational efficiency.

The Exchange also conducted a lookback analysis with data from 2014 to the present in order to assess the performance of the mechanism in relation to the CFTC standard of being “not overly restrictive.” The year 2014 was similar to 2019 due to the PED virus outbreak in the US resulting in a large number of days with limit settlement (see Appendix A: Exhibit 3). The results showed that price limit levels set according to the adjustment mechanism were similar to the fixed limit levels, except in times of high volatility in 2014 and again in 2018.

As previously noted, pursuant to the listing schedule of the Contract, the front eight (8) contract months encompass one (1) calendar year. The Rule Amendments provide that an expansion will be triggered should any of the front eight (8) contract months settle at limit. The Exchange believes that consideration of liquidity of one (1) full calendar year is appropriate which is consistent with the mechanism in place for CBOT agricultural products.

Core Principles

The Exchange reviewed the designated contract market core principles (“Core Principles”) as set forth in the Commodity Exchange Act (the “Act”) and identified that the Rule Amendments may impact the following Core Principles:

- **<u>Compliance with Rules</u>** – The Rule Amendments will not affect the Exchange’s ability to assure compliance with rules and conduct market surveillance obligation under the Act. The Exchange believes that it has appropriate systems, policies and procedures in place to address the new price limits mechanism.

- **Contracts not Readily Subject to Manipulation** – The Contract is not readily susceptible to manipulation as the cash market transactions are subject to USDA mandatory price reporting regulations and are used to calculate the CME Lean Hog Index.

- **Prevention of Market Disruption** – Appropriate price limits establish boundaries that allow the market to reflect and adjust to shocks and major price moves without becoming too intrusive and regularly disrupting trade.

- **Availability of General Information** – The Exchange will issue a Special Executive Report ("SER") regarding the Rule Amendments. The SER will also be posted on the CME Group website.

- **Execution of Transactions** – Appropriate price limits allow the futures price discovery process to function satisfactorily while still providing time for reflection during periods of high volatility.

- **Trade Information** – The Rule Amendments will not affect the Exchange's ability to record and store identifying trade information in order to assist in the prevention of customer and market abuses.

- **Protection of Market Participants** – The Exchange will continue to monitor all market participants to prevent any abusive practices and to assure equitable trading for all users.

Pursuant to Section 5c(c) of the Act and CFTC Regulations 40.4(a) and 40.5(a), the Exchange hereby certifies that the Rule Amendments comply with the Act, including regulations under the Act.

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: Exhibit 1: Limit Settlement Days in CME Group Agricultural Futures
Exhibit 2: Lean Hog Futures Volatility and Margin
Exhibit 3: Lookback Analysis of Variable Price Limit Mechanism
Appendix B: Amendments to CME Chapter 152 ("Lean Hog Futures")

APPENDIX A

Exhibit 1: Limit Settlement Days in CME Group Agricultural Futures

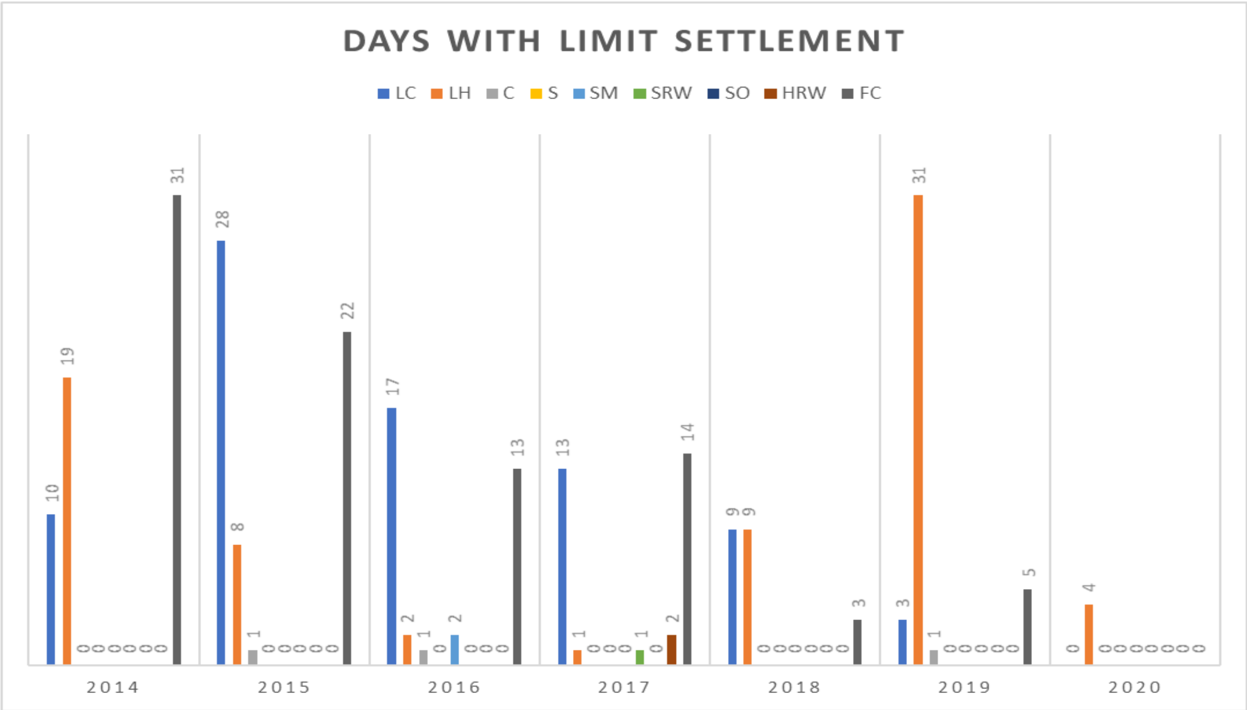

Exhibit 2: Lean Hog Futures Volatility and Margin

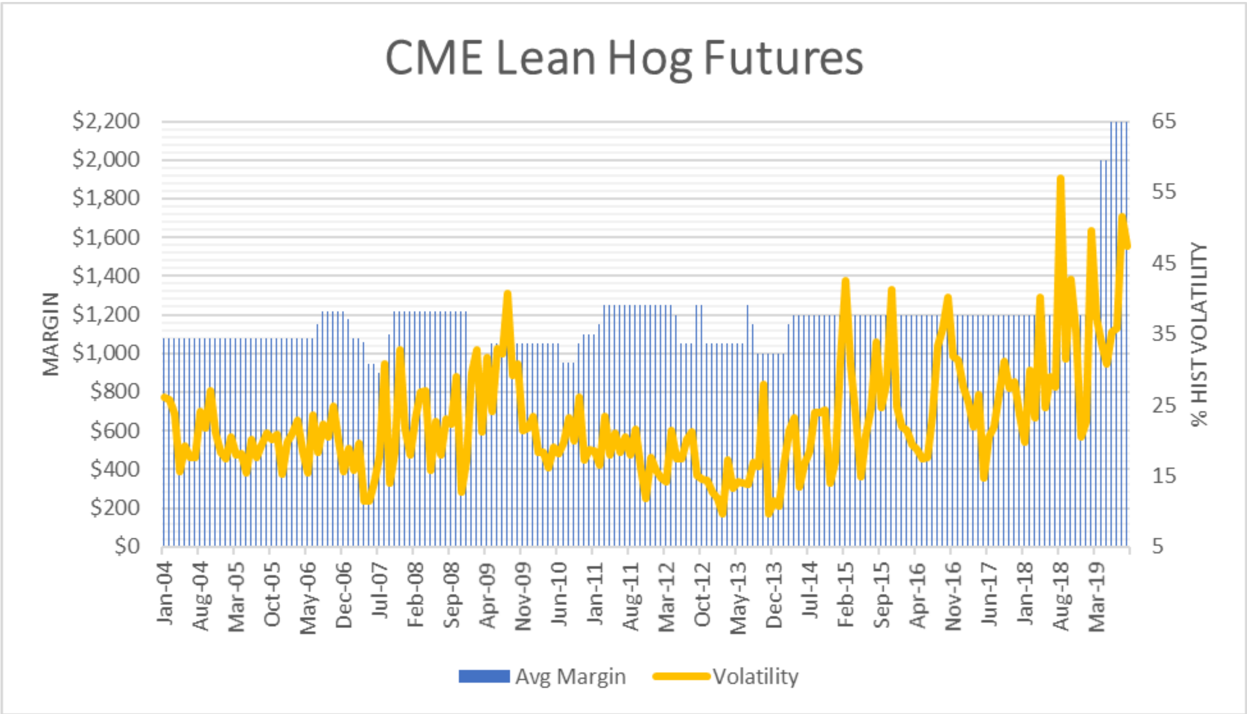

Exhibit 3: Lookback Analysis of Variable Price Limit Mechanism

Year	AUGUST Avg Settlement Price – 45 Days Prior to July LTD	4.5% of AUGUST Avg. Settlement Price	Expanded Limit – 50% greater	**4.5 % Price Limit Rounded Down to Nearest $0.25**	**Expanded Limit Rounded Down to Nearest $0.25**
2014	$128.69	$5.79	$8.69	**$5.75**	**$8.50**
2015	$77.78	$3.50	$5.25	**$3.50**	**$5.25**
2016	$82.93	$3.73	$5.60	**$3.50**	**$5.25**
2017	$80.97	$3.64	$5.47	**$3.50**	**$5.25**
2018	$75.04	$3.38	$5.07	**$3.25**	**$4.75**
2018	$83.32	$3.75	$5.62	**$3.75**	**$5.50**

APPENDIX B

CME Rulebook

(additions **underscored**)

Chapter 152
Lean Hog Futures

* * *

15202. TRADING SPECIFICATIONS **(up to and including April 10, 2020)**

* * *

15202.D. Daily Price Limits

There shall be no trading at a price more than $.030 per pound above or below the previous day's settlement price, except that there shall be no daily price limits in the expiring month contract during the last 2 Trading Days. In the event that any of the first three listed contract months settle at limit, the daily price limits for all contract months shall expand to $0.045 per pound on the next Business Day. If none of the first three listed futures contract months settle at the expanded limit the next Business Day, daily price limits for all contract months shall revert back to $0.030 per pound on the following Business Day. During the last two days of trading, the expiring month contract shall be excluded from triggering expanded limits.

15202. TRADING SPECIFICATIONS (commencing April 13, 2020 and up to and including August 31, 2020)

* * *

15202.D. Daily Price Limits

There shall be no trading at a price more than $0.0375 per pound above or below the previous day's settlement price, except that there shall be no daily price limits in the expiring month contract during the last 2 Trading Days. In the event that any of the first eight listed contract months settle at limit, the daily price limits for all contract months shall expand to $0.0550 per pound on the next Business Day. If none of the first eight listed Lean Hog contracts subject to price limits settles at a price change equal to or greater than $0.0375 on the next business day, daily price limits for all contract months shall revert back to $0.0375 per pound on the following Business Day. During the last two days of trading, the expiring month contract shall be excluded from triggering expanded limits.

15202. TRADING SPECIFICATIONS (commencing September 1, 2020 and beyond)

* * *

Daily price limits for Lean Hog futures are reset annually on the first trading day in September based on the following: Daily settlement prices are collected for the nearest August contract over 45 consecutive trading days before and including the tenth business day in July (Last Trade Date of the nearest July contract). The average price is calculated based on the collected settlement prices and then multiplied by 4.5 percent. The resulting number, rounded down to the nearest $0.0025 per pound, will be the new initial price limits for Lean Hog futures and will become effective on the first trading day in September and will remain in effect through the last trading day in August of the following year. During the last two days of trading, the expiring contract month shall be excluded from triggering expanded limits.

There shall be no trading in Lean Hog futures at a price more than the initial price limit above or below the previous day's settlement price. Should any Lean Hog futures contract month within the first eight listed contracts subject to price limits settle at limit, the daily price limits for all contract months shall increase by 50 percent the next business day, rounded down to the nearest $0.0025 per pound. If none of the first eight listed Lean Hog contracts subject to price limits settles at a price change equal to or greater than the initial price limit on the next business day, daily price limits for all contract months shall revert back to the initial price limit the following business day. There shall be no price limits on the current month contract during the last two trading days.

[Remainder of Rule Unchanged]