

SUBMISSION COVER SHEET

IMPORTANT: Check box if Confidential Treatment is requested

Registered Entity Identifier Code (optional): **14-314**

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

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

Please note - only ONE choice allowed.

Filing Date (mm/dd/yy): **September 9, 2014** Filing Description: **Request for Approval of Rule Amendments to Daily Price Limits Rules for Four (4) Dairy Futures Contracts**

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: Nonfat Dry Milk Futures; Cash-Settled Butter Futures; Dry Whey Futures; Cheese Futures

Rule Numbers: 5402.D; 5602.D; 5702.D; 6002.D

September 9, 2014

VIA ELECTRONIC PORTAL

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 40.5(a). Request for Approval of Rule Amendments to Daily Price Limits Rules for Four (4) Dairy Futures Contracts.
CME Submission No. 14-314**

Dear Mr. Kirkpatrick:

Pursuant to Commodity Futures Trading Commission (“CFTC” or “Commission”) Regulation 40.5(a), Chicago Mercantile Exchange Inc. (“CME” or “Exchange”) is requesting approval to amend Exchange rules governing daily price limits for four (4) CME dairy products (“Dairy Products”) shown in Table 1 directly below. The proposed effective date of these changes is Sunday, November 2, 2014 for trade day Monday, November 3, 2014. The amendments will be effective for all contract months listed as of the effective date.

Table 1

Rulebook Chapter Number	Product Name	CME Clearing Code/Open Outcry Code	CME Globex Code/ClearPort Code
5402.D	Nonfat Dry Milk Futures	NF/NF	NF/not applicable
5602.D	Cash-Settled Butter Futures	CB/CB	CB/not applicable
5702.D	Dry Whey Futures	DY/DY	DY/not applicable
6002.D	Cheese Futures	CSC/not applicable	CSC / CSC

The Exchange is requesting approval for two changes to the daily price limits for the Dairy Products:

- 1) Remove spot-month price limits for Nonfat Dry Milk, Cash-Settled Butter, and Dry Whey futures; and
- 2) Amend the rules governing the triggering of expanded price limits for Cash-Settled Butter and Cheese futures contracts.

Each of these rule amendments will be discussed in detail, separately in the following paragraphs.

Removal of Daily Price Limits from Spot Month Contract:

Beginning with the November 2014 contract month and beyond for CME Nonfat Dry Milk (“NFDm”), Cash-Settled Butter (“Butter”), and Dry Whey futures, the daily price limits will be removed from the spot month contract for the duration of the spot month. This amendment is consistent with Cheese futures price limits and with other CME Group agricultural products. It should be noted that the daily price limits were previously removed from The Board of Trade of the City of Chicago, Inc. grains and oilseed products upon entering the spot month.

When the rulebook chapters for NFDm, Butter, and Dry Whey were written they were designed following the deliverable product template of other CME legacy agricultural products, which included daily price limits during the spot month up to the final five (5) trading days. Accordingly, the daily price limits were applied to the spot month contract except during the final five (5) trading days of the spot month contract for NFDm, Butter, and Dry Whey.

However, when the Cheese futures contract was developed in 2010, the rules were designed to reflect an improved understanding of how the dairy industry uses Exchange products to manage their risk. One significant change came in the settlement practices of the Dairy Products. By 2010, the dairy industry had transitioned from physically-delivered contracts to cash-settled contracts based on a month-long, weighted-average price of USDA prices. This change in market practice prompted the Exchange to specify that the daily price limits be removed during the spot month contract in Cheese futures.

The Exchange contends daily price limits on the spot month contract were made obsolete by the move to have all dairy contracts cash settled to a month-long weighted average price of USDA reported cash prices. The volatility of the weighted-average price diminishes through the spot month as additional observations are added and, therefore, the final settlement index value can be reliably anticipated by the middle of the spot month. As a result, the volatility of both futures and the weighted-average price diminishes rapidly as the spot month contract approaches expiration and futures volatility is insufficient to touch the daily price limit¹. Indeed, of the four (4) Dairy Products mentioned in this letter, from 2008 to present, only two (2) products (NFDM and Butter) experienced a limit move day during the spot month (see Tables 4 and 6 in Appendix B). Of the four (4) limit moves in that time period, only one (NFDM on August 21, 2009) occurred past the middle of the spot month. Therefore, the Exchange contends daily price limits are unnecessary in the spot month due to the diminished volatility of futures prices.

Because of the improved understanding of the characteristics of dairy products trading practices, the Exchange now seeks to harmonize the rules pertaining to daily price limits in NFDM, Butter, and Dry Whey futures with those of Cheese futures. Not only will this bring consistency and clarity between the dairy products futures contract rules, it will allow trading in NFDM, Butter, and Dry Whey to occur under rules written with updated knowledge of industry risk management needs and contract performance.

Amendment of Rules Pertaining to Price Limit Expansion:

At the request of many industry participants, brokers, and traders, the Exchange is proposing revisions to the rules governing the expansion of daily price limits in Butter and Cheese futures. This change came at the request of industry members whose trading and risk management was being adversely impacted by the current expansion rule structure. Due to national and global economic trends in dairy products, the volatility in Butter futures has reached historic highs in 2014 and the contracts have experienced a record breaking number of limit moves. In Butter futures, the vast majority of these moves (85%) occurred in the 3rd through 24th listed contract months.

Under current rules, daily price limits in Butter and Cheese futures are only expanded if the “contract that is nearest to expiration that is subject to daily price limits” settles at the limit bid or offer. Consequently, the numerous limit settlements which have occurred this year in the deferred Butter futures contract months have not triggered expanded daily price limits. Trading has thus been constrained, to the detriment of hedgers and traders, to the initial daily price limit levels. This has resulted in decreased price discovery in these markets and inhibited their use for managing risk.

The Exchange seeks to amend the rule language of Butter and Cheese futures so that *any contract* month which settles at the limit bid or offer will trigger expanded price limits for Butter and Cheese futures. This amendment will allow of the price limit mechanism for Butter and Cheese futures to be consistent with the triggering methods of Dry Whey and NFDM futures trading. Furthermore, conversations with commercial hedgers, floor traders, brokers, and other participants in the dairy products markets revealed this change is highly embraced by the industry.

One of the key reasons the Exchange believes the rule language of Butter and Cheese futures should match the language of Dry Whey and NFDM stems from the fundamental relationships of these products to each other. Butter and NFDM are products of manufacturing Class 4 Milk, similarly, Cheese and Dry Whey are products of the cheese manufacturing process, which starts with Class 3 Milk. The prices for Cheese, Dry Whey, Butter, and NFDM vary based on USDA component formulas for various “milk components” (e.g., butter fat or protein). These component formulas create an intrinsic relationship between each Dairy Product. Thus, the price of Class 3 Milk is dependent

¹ The average monthly volatility of the spot month contract is significantly less than the deferred months. For graphical depictions of this, please see Figures 1-4 in Appendix B.

on the price of cheese and the price of dry whey while the Class 4 Milk price is dependent on the price of butter and nonfat dry milk.

Because of these relationships, trading spreads between Class 3 Milk, Class 4 Milk, and the Dairy Products is a very critical aspect of risk management for commercial dairy firms. It is important for commercial hedgers to have access to all the necessary markets at the same time in order to manage risk through futures and options. Different structures for daily price limits, then, quickly become a challenge to navigate and a barrier to trade and risk management. For example, Butter futures price limits expand only when the contract closest to expiration still subject to daily price limits settles at the limit bid/offer but NFDM (the product closely linked to Class 4 Milk and butter) price limits expand when *any* futures contract settles at the limit bid/offer.

Therefore, it is possible (and, indeed has frequently happened in recent history) that the 3rd listed NFDM and 3rd listed Butter futures contract settle at limit on the same day. However, the current rule structure mandates that NFDM price limits be expanded while Butter futures price limits remain at the initial level. If NFDM trades outside the initial price limit range on the second day, Butter futures remain unable to trade outside the initial price limit range and will “lock” at the limit bid/offer while NFDM continues to trade. This has a severe negative impact on the spread relationships and inhibits market participants from managing risk. Thus, the Exchange contends the rulebook language governing the expansion of daily price limits must be harmonized between Butter, Cheese, Dry Whey, and NFDM futures.

Implications on “Core Principles”

The Exchange has identified the following “Core Principles” of the Commodity Exchange Act (“CEA” or “Act”) as being impacted by these rulebook amendments.

- **Compliance with the Rules:** Trading in Dairy Products futures is subject to CME Rulebook Chapter 4, which includes prohibitions against fraudulent, noncompetitive, unfair, and abusive practices. Additionally, trading in this contract is subject to the Exchange’s trade practice rules, the majority of which are contained in Chapter 5 and Chapter 8 of the Rulebook. As with all products listed for trading on one of CME Group’s designated contract markets, trading activity in this contract is subject to monitoring and surveillance by CME Group’s Market Regulation Department, which has the authority to exercise its investigatory and enforcement power where potential rule violations are identified. The rule amendments submitted herein strengthen the ability of the Exchange to monitor and enforce compliance with the rules of the contract market, specifically in respect of trading actions relating to the convergence of cash and futures markets.
- **Contracts Not Readily Subject to Manipulation:** The rule amendments submitted herein will further prevent manipulation by allowing traders to more fully react to changing market fundamentals and execute trades based on expected future prices. Trading volume during the spot month is statistically very small and is closely watched by the Exchange’s Market Regulation Department. Removing the price limits from the spot month contract, then, is unlikely to attract manipulative trading behavior due to the structure of the index used in the settlement of these contracts.
- **Prevention of Market Disruption:** Trading in Dairy Products futures is subject to CME Rulebook Chapters 4 and 7, which include prohibitions on manipulation, price distortion, and disruption to the physical delivery process. As with any product listed for trading on a CME Group designated contract market, trading activity in Dairy products futures shall be subject to monitoring and surveillance by CME Group’s Market Regulation Department.
- **Availability of General Information:** The Exchange shall publish on its website information in regard to futures contract specifications, terms and conditions, and any changes to the trading rules. In this case, a market notification in the form of a Special Executive Report (SER) will be published.

The Exchange contacted key brokers and traders in Dairy Products futures and options to solicit feedback on this proposal. No substantive opposition was noted and all contacted parties were supportive of these amendments to the rulebook.

The Exchange certifies that these amendments comply with the Act, including regulations under the Act.

The Exchange certifies that this submission has been concurrently posted on the CME Group 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 Christopher.Bowen@cmegroup.com.

Sincerely,

/s/ Christopher Bowen
Managing Director and Chief Regulatory Counsel

Attachments: Appendix A – CME Rulebook Chapters 54, 56, 57, and 60, Rules 5402.D, 5602.D, 5702.D, and 6002.D, respectively (blackline format)

Appendix B – Supporting Statistical Data

Appendix A

CME Rulebook Chapters 54, 56, 57, and 60; Rules 5402.D, 5602.D, 5702.D, and 6002.D

(Underscore denotes additions, ~~strikethrough~~ denotes deletions.)

Chapter 54

Nonfat Dry Milk Futures

5402.D. Daily Price Limits

There shall be no trading at a price more than \$0.04 per pound above or below the previous day's settlement price, except that there shall be no daily price limits in the spot month ~~during the last 5 Trading Days in the spot month.~~

If any contract that is subject to a daily price limit settles on the limit bid or the limit offer, then the daily price limit shall be raised to \$0.08 per pound for all contracts subject to a daily limit. If none of the contracts that are subject to a daily price limit of \$0.08 settles at a limit bid or limit offer, the price, without regard to market direction, limits for all contracts subject to a daily limit shall revert to \$0.04 per pound on the next Business Day.

Chapter 56

Cash-Settled Butter Futures

5602.D. Daily Price Limits

There shall be no trading at a price more than \$0.05 per pound above or below the previous day's settlement price, except that there shall be no daily price limits in the spot month ~~during the last 5 days of trading.~~

If ~~the any~~ contract ~~nearest to expiration~~ that is subject to a daily price limit settles on the limit bid or the limit offer, then the daily price limit shall be raised to \$0.10 per pound for all contracts subject to a daily price limit.

If, after the daily price limits have been increased to \$0.10 per pound, ~~the any~~ contract ~~nearest to expiration~~ that is subject to a daily price limit settles on the limit bid or the limit offer, then the daily price limit shall be raised to \$0.20 per pound for all contracts subject to a daily price limit.

If ~~the any~~ contract ~~nearest to expiration~~ that is subject to a daily price limit of \$0.20 does not settle at the limit bid or offer, the price limits shall revert to \$0.10 per pound on the next Business Day.

If ~~the any~~ contract ~~nearest to expiration~~ that is subject to a daily price limit of \$0.10 does not settle at the limit bid or offer, the price limits shall revert to \$0.05 per pound on the next Business Day.

Chapter 57

CME Dry Whey Futures

5702.D. Daily Price Limits

There shall be no trading at a price more than \$0.06 per pound above or below the previous day's settlement price, except that there shall be no daily price limits in the spot month ~~during the last 5 Trading Days in the spot month.~~

If any contract that is subject to a daily limit settles on the limit bid or the limit offer, then the daily price limit shall be raised to \$0.12 per pound for all contracts. If none of the contracts that are subject to a daily price limit of \$0.12 settles at the limit bid or offer, the price, without regard to market direction, limits for all contracts subject to a daily limit shall revert to \$0.06 per pound on the next Business Day.

Chapter 60

Cheese Futures

6002.D. Daily Price Limits

There shall be no trading at a price more than \$0.075 per pound above or below the previous day's settlement price, except that there shall be no daily price limits in the spot month.

If ~~the any~~ contract ~~nearest to expiration~~ that is subject to a daily price limit settles on the limit bid or the limit offer, then the daily price limit shall be raised to \$0.15 per pound for all contracts subject to a daily price limit.

If, after the daily price limits have been increased to \$0.15 per pound, ~~the any contract nearest to expiration~~ that is subject to a daily price limit settles on the limit bid or the limit offer, then the daily price limit shall be raised to \$0.30 per pound for all contracts subject to a daily price limit.

If ~~the any contract nearest to expiration~~ that is subject to a daily price limit of \$0.30 does not settle at a limit bid or limit offer, without regard to market direction, the price limits shall revert to \$0.15 per pound the next Business Day.

If ~~the any contract nearest to expiration~~ that is subject to a daily price limit of \$0.15 does not settle at a limit bid or limit offer, without regard to market direction, the price limits shall revert to \$0.075 per pound the next Business Day.

Appendix B

Supporting Statistical Data

Volatility Charts:

Figure 1

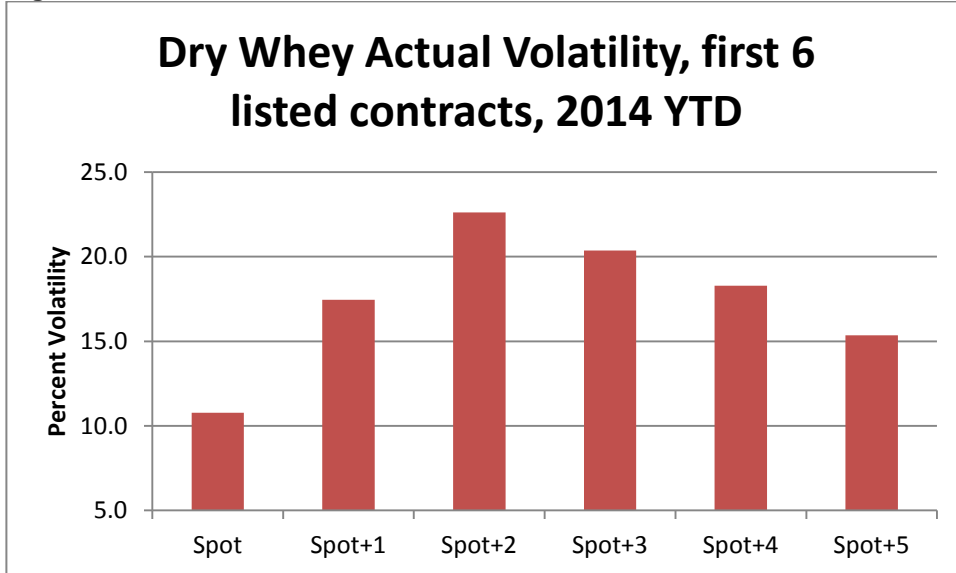


Figure 2

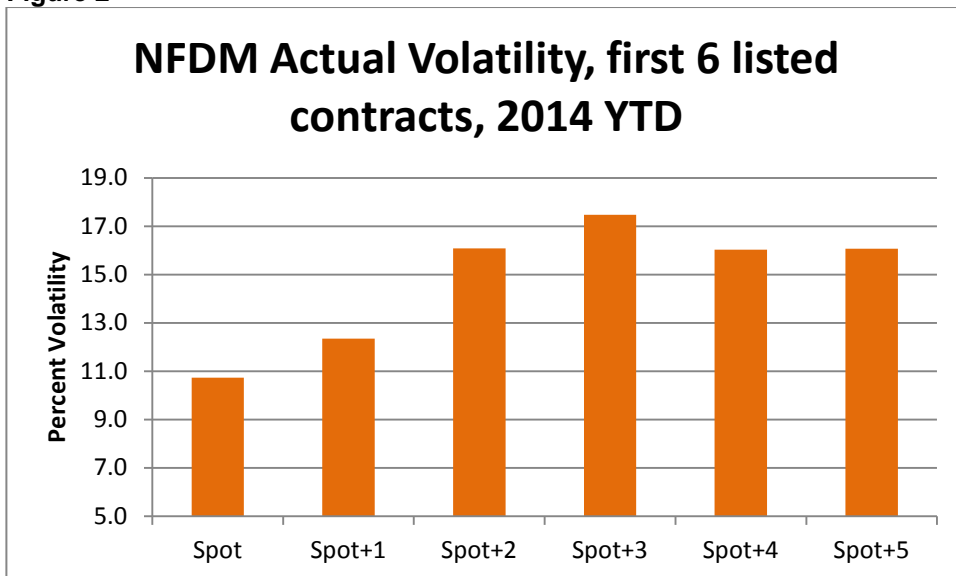


Figure 3

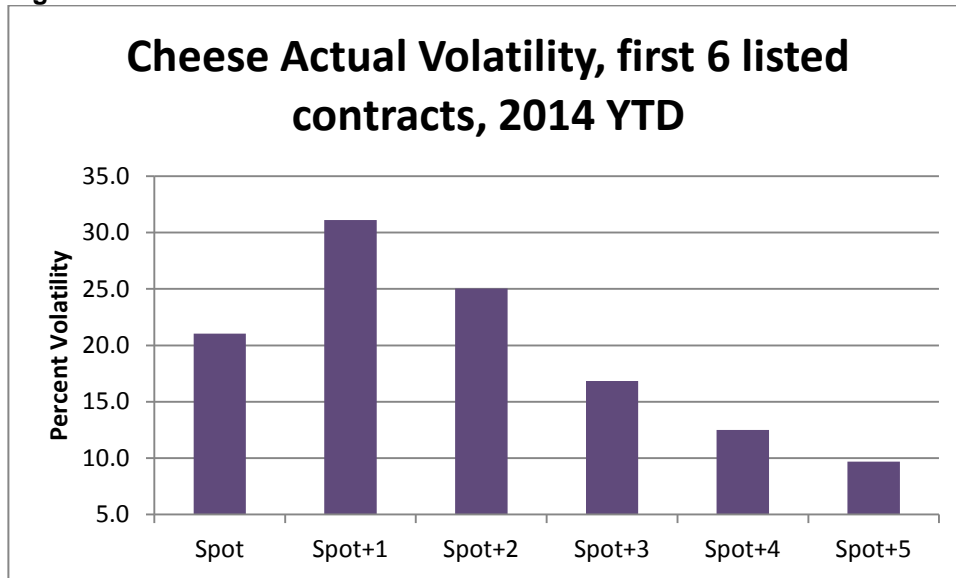
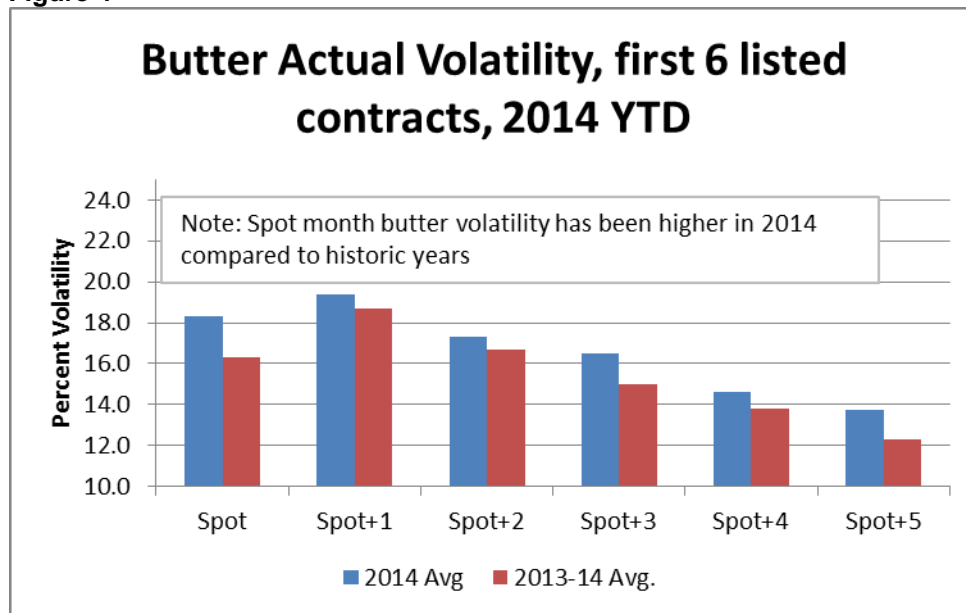


Figure 4



Limit Move Statistics and Tables

Note: the following tables identify the “ith” listed contract by Bloomberg data ticker and contract month. For example, the 1st listed (or spot month), 2nd listed, ..., Nth listed cheese contracts are identified as CHE1, CHE2,..., CHEN and so on. Table 2 matches the CME futures product with the corresponding Bloomberg data ticker.

Table 2

CME Futures	Bloomberg Ticker
Cash-Settled Cheese	CHE
Nonfat Dry Milk	LE
Dry Whey	DRW
Cash-Settled Butter	V6

Table 3
Number of Days During Which "ith" Contract
Settled at Limit Bid/Offer,
2008 - June 2014

Cash Settled			
Cheese			
Contract	1st Limit	2nd Limit	3rd Limit
CHE1	0	0	0
CHE2	7	0	0
CHE3	2	0	0
CHE4	0	0	0
CHE5	0	0	0
CHE6	0	0	0
CHE7	0	0	0
CHE8	0	0	0
CHE9	0	0	0
CHE10	0	0	0
CHE11	0	0	0
CHE12	0	0	0
CHE13	0	0	0
CHE14	0	0	0
CHE16	0	0	0
CHE17	0	0	0
CHE18	0	0	0
CHE19	0	0	0
CHE20	0	0	0
CHE21	0	0	0
CHE22	0	0	0
CHE23	0	0	0
CHE24	0	0	0
Total Number of Days when at Least 1 Contract Reached Limit Bid/Offer (does not sum because more than one contract may be at limit per day)			
Total Limit			
Days	7	0	0
Total No. Contracts at Limit	9	0	0

Table 4
Number of Days During Which "ith" Contract
Settled at Limit Bid/Offer, 2008 - June 2014

Nonfat Dry Milk			
Contract	1st Limit	2nd Limit	3rd Limit
LE1	3	0	0
LE2	4	0	0
LE3	8	0	0
LE4	8	0	0
LE5	8	0	0
LE6	5	0	0
LE7	4	0	0
LE8	3	0	0
LE9	5	0	0
LE10	4	2	0
LE11	5	2	0
LE12	10	1	0
LE13	10	0	0
LE14	7	0	0
LE16	3	0	0
LE17	0	0	0
LE18	1	0	0
LE19	0	0	0
LE20	0	0	0
LE21	0	0	0
LE22	0	0	0
LE23	0	0	0
LE24	0	0	0
Total Number of Days when at Least 1 Contract Reached Limit Bid/Offer (does not sum because more than one contract may be at limit per day)			
Total Limit			
Days	43	2	0
Total No. Contracts at Limit	88	5	0

Table 5
Number of Days During Which "ith" Contract
Settled at Limit Bid/Offer,
2008 - June 2014*

Dry Whey Contract	1st Limit	2nd Limit
DRW1	0	0
DRW2	0	0
DRW3	0	0
DRW4	0	0
DRW5	0	0
DRW6	0	0
DRW7	0	0
DRW8	0	0
DRW9	0	0
DRW10	0	0
DRW11	0	0
DRW12	1	0
DRW13	1	0
DRW14	1	0
DRW16	0	0
DRW17	1	0
DRW18	0	0
DRW19	0	0
DRW20	0	0
DRW21	0	0
DRW22	0	0
DRW23	0	0
DRW24	0	0
Total Number of Days when at Least 1 Contract Reached Limit Bid/Offer (does not sum because more than one contract may be at limit per day)		
Total Limit Days	2	0
Total Number of Contracts at Limit	4	0

*Note: Dry Whey has never hit the third daily price limit level, and so it is not included in Table 5.

Table 6
Number of Days During Which "ith" Contract
Settled at Limit Bid/Offer,
2008 - June 2014

CS Butter Contract	1st Limit	2nd Limit	3rd Limit
V61	1	0	0
V62	31	1	0
V63	30	1	0
V64	26	0	0
V65	21	0	0
V66	15	1	0
V67	8	1	0
V68	5	0	0
V69	7	0	0
V610	9	0	0
V611	7	0	0
V612	9	0	0
V613	12	0	0
V614	11	0	0
V616	10	0	0
V617	3	0	0
V618	4	0	0
V619	3	0	0
V620	2	0	0
V621	0	0	0
V622	0	0	0
V623	0	0	0
V624	0	0	0
Total Number of Days when at Least 1 Contract Reached Limit Bid/Offer (does not sum because more than one contract may be at limit per day)			
Total Limit Days	98	1	0
Total Number of Contracts at Limit	214	4	0