

SUBMISSION COVER SHEET

IMPORTANT: Check box if Confidential Treatment is requested

Registered Entity Identifier Code (optional): 14-109

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

Filing as a: DCM SEF DCO SDR

Please note - only ONE choice allowed.

Filing Date (mm/dd/yy): July 17, 2014 **Filing Description:** Revisions to Live Cattle Rules to Expand Daily Price Limits in the Expiring Month Contract During the Final Two (2) Trading Days.

SPECIFY FILING TYPE

Please note only ONE choice allowed per Submission.

Organization Rules and Rule Amendments

- | | | |
|-------------------------------------|-------------------------------------|------------|
| <input type="checkbox"/> | Certification | § 40.6(a) |
| <input checked="" 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: CME Rules 10102.D

New Product

Please note only ONE product per Submission.

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|--------------------------|---------------------------------------|------------|
| <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:



Christopher Bowen
Managing Director and Chief Regulatory Counsel
Legal Department

July 17, 2014

VIA ELECTRONIC PORTAL

Ms. Melissa Jurgens
Office of the Secretariat
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, DC 20581

RE: CFTC Regulation 40.5(a). Request for Approval of Rule Amendments to CME Rulebook Daily Price Limits for Live Cattle Futures Contract. CME Submission No. 14-109

Dear Ms. Jurgens:

Pursuant to Commodity Futures Trading Commission (“CFTC” or “Commission”) Regulation 40.5(a), Chicago Mercantile Exchange Inc. (“CME” or “Exchange”) is requesting approval for rule amendments to CME Rulebook Chapter 101 (“Live Cattle Futures,” Clearing Code: LC; CME Open Outcry Code: LC; CME Globex Code: LE; CME ClearPort Code: 48) effective Sunday, September 7, 2014 for trade date Monday, September 8, 2014. The amendments will be effective for all contract months listed as of the effective date. Specifically, the Exchange is seeking approval to amend CME Rule 10102.D. (“Daily Price Limits”). These amendments are non-material and can be applied to contracts with open interest.

Beginning with the October 2014 Live Cattle futures contract month, the Exchange will expand the Daily Price Limits for the expiring contract month during the last two (2) trading days from the current level of \$0.30 per pound to \$0.050 per pound. Changes to the Daily Price Limits during the expiring contract month have significant precedence in CME Group products. Among physically delivered agricultural products, the daily price limits are fully removed for Grain and Oilseed products listed by the Exchange for the entire delivery month. Additionally, the daily price limits are removed for the final ten (10) trading days in Random Length Lumber futures and the final two (2) trading days in Lean Hog futures. Thus, significant precedent has been set for expanding or removing the daily price limits for a specific period of time before contract expiration in both Livestock and Grains/Oilseed products.

Exchange business staff responsible for the amendments and the Exchange Legal Department collectively reviewed the designated contract market Core Principles (“Core Principles”) as set forth in the Commodity Exchange Act (“CEA” or “Act”) and identified that the amendments may have some bearing on the following Core Principles:

- Compliance with the Rules: Trading in these contracts is subject to CME Rulebook Chapter 4, which includes prohibitions against fraudulent, noncompetitive, unfair, and abusive practices. Additionally, trading in these contracts 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 these contracts 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 certified 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 Susceptible to Manipulation: The rule amendments certified herein will further prevent manipulation by allowing traders to more fully react to changing market fundamentals and execute trades based on the economics of physical delivery. Trading volume during the last two trading days is typically very small and is closely watched by the Exchange's Market Regulation Department.
- Prevention of Market Disruption: Trading in Live Cattle 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 Live Cattle futures shall be subject to monitoring and surveillance by CME Group's Market Regulation Department.

One of the key reasons for the requested rule change is to prevent potential market disruptions in the future. The cash cattle markets do not have price limits so extreme moves in cash price during the final two trading days could cause futures prices to become locked at the existing daily price limits. This would effectively be a disruption of the market's price discovery function and would negatively impact market convergence. Expanding the daily price limits during the last two trading days would further limit such disruption from occurring, providing a more efficient market for all participants.

- 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.

Rationale for Current Proposal

The Exchange contends expansion of the daily price limits during the final two (2) trading days of the expiring month contract ("final two (2) trading days") is necessary to better facilitate price discovery, the orderly liquidation of positions, and convergence with the underlying cash markets.

Research conducted by the Exchange shows price discovery and position liquidation may be adversely impacted by the existing price limits. Since February, 2004 there have been three (3) occasions where intraday prices for Live Cattle touched the upper limit during the last five (5) trading days, two (2) of which occurred during the final two (2) trading days. During the same time period, there were also nine (9) cases where the Live Cattle futures price touched the lower trading limit during the last five (5) trading days. Of those nine (9) instances, there were seven (7) occurrences where the intraday price traded at the lower limit *during the last day of trading*. Of those seven (7) days, the contract *settled limit-down* on two (2) days.

Of the twelve (12) total limit moves during the last five (5) trading days of all expiring Live Cattle futures contracts since 2004, only three (3) limit moves occurred outside the final two (2) trading days. The remaining nine (9) limit moves occurred on the final two (2) trading days. There were two (2) limit moves on the penultimate trading day (both limit up moves) and seven (7) limit moves on the last trading day (all limit down moves). This may be indicative of traders who are attempting to exit positions to avoid physical delivery and who may be prevented from offering even higher or lower prices due to the daily limits. While there have been no complaints thus far regarding price limits on the last two (2) trading days, expanding the price limits would be proactive in warding off any potential problems. Moreover, expanding the daily price limits will allow the futures market to more fully react to changes in the underlying cash fed cattle market.

Impact of Proposed Rule Changes

Expansion of these price limits will not have any adverse effects on traders, CME Group, or the broader livestock markets. Trading during the last two (2) days is typically limited to those market participants wishing to make or take physical delivery. As such, traders' open positions are carefully evaluated against the economics of physical delivery, leaving little room for speculative price movements. Potential for market manipulation is also extremely low as the Exchange constantly monitors customer positions during the expiring contract month. Expanding the daily price limits will in no manner adversely impact the Exchange's ability to monitor and enforce fair and equitable trading during the final two (2) trading days.

Broader markets will not be adversely impacted as the cash and futures markets are converging (or have already converged) during the last two (2) trading days. Therefore, price changes in the futures market will be reflected in the cash market, and vice versa. In fact, this relationship is one key justification for expanding price limits during the last two (2) trading days. There are, of course, no price limits on the cash market and cash prices may move unrestricted. With futures daily trading limits at current levels, however, futures traders are unable to fully react to cash market price moves during the final two (2) trading days. Therefore, the daily price limits should be expanded to ensure futures traders can react more fully according to cash market conditions and either avoid an uneconomical delivery or take action to further encourage market convergence.

Public Feedback and Opposing Views

The Exchange asked for public feedback regarding a preceding rule change proposal to fully remove the daily price limits in Live Cattle via a notification and request for comment published in the Daily Livestock Report dated April 3, 2014. The Daily Livestock Report is one of the industry's most widely read publications and has been utilized by the Exchange previously to solicit public comments. The Exchange received many comments in support and in opposition to the proposal to remove the daily price limits from the expiring Live Cattle futures contract month. Many of the respondents indicated, in spite of their opposition to complete removal of the price limits, support for expanding the limits during the final two (2) trading days.

As a result of this feedback, the Exchange modified the proposal to the current version shown in this letter; to expand the Live Cattle price limits. Further vetting of this proposal with members of all areas of the beef and financial industries showed strong support for this current proposal. Only a few customers contacted about the revised initiative offered substantive opposing views. These opposing views were concentrated at different extremes; complete removal of the daily price limits versus maintaining the current daily price limit. Those wishing for complete removal of the daily price limits cited reasons of allowing convergence even under extreme cash price moves. Those preferring the current daily price limit did not believe sufficient justification for the change existed. The Exchange contends the current proposal of expanding the daily price limit to \$5/cwt. during the final two trading days fits well between these two extremes and, moreover, was supported by many other customers. Finally, other interviewed customers asked the Exchange to conduct research to ensure expanding the daily price limits would not: 1) encourage additional risk/profit-seeking behavior, or 2) increase the intraday price risk present in the market.

In response to these requests, the Exchange performed historical data research on five (5) selected benchmark agricultural commodity futures markets; Corn, Soybeans, Wheat, Lean Hog, and Lumber. Results from this study show completely removing the daily price limits from these commodities does not increase the volume of trade occurring in a given day or substantially increase the level of price risk in the market. Therefore, the Exchange concludes, given the similar nature of these commodities and the Live Cattle futures contract, expanding the daily price limits to \$0.050 per pound in Live Cattle will not draw additional traders to the market or increase the intraday price risk of the Live Cattle futures market.

Pursuant to Section 5c(c) of the Act and CFTC Regulation 40.5(a), the Exchange hereby certifies that the attached contracts 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 Christopher.Bowen@cmegroup.com.

Sincerely,

/s/ Christopher Bowen
Managing Director and Chief Regulatory Counsel

Attachment: Appendix A – CME Rulebook Chapter 1010, Rule 10102.D (in blackline format)

Appendix A

Text of Proposed Rule Changes

(additions are underlined)

CME Rulebook Chapter 101 Live Cattle Futures

10102.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 trading at a price more than \$0.050 per pound above or below the previous day's settlement price in the expiring month contract during the last two trading days.