

**AAC**

SEPTEMBER 22, 2015

# CME GROUP AGRICULTURAL FUTURES

COMMODITY	FEDERAL LIMITS			EXCHANGE LIMITS		
	SPOT	SINGLE	ALL	SPOT	SINGLE	ALL
Corn	X	X	X	X	X	X
Soybean	X	X	X	X	X	X
Soybean Meal	X	X	X	X	X	X
Soybean Oil	X	X	X	X	X	X
Wheat	X	X	X	X	X	X
Oat	X	X	X	X	X	X
KC HRW Wheat	X	X	X	X	X	X
Rough Rice				X	X	X
Black Sea Wheat				X	X	X

## CME GROUP AGRICULTURAL FUTURES

COMMODITY	FEDERAL LIMITS			EXCHANGE LIMITS		
	SPOT	SINGLE	ALL	SPOT	SINGLE	ALL
Class III Milk					X	
Nonfat Dry Milk				X	X	
Class IV Milk					X	
Cash Settled Butter				X	X	
CME Dry Whey				X	X	
Cheese					X	
Live Cattle				X	X	
Feeder Cattle				X	X	
Lean Hog				X	X	
Random Length Lumber				X	X	

# CME GROUP MARKET REGULATION RESOURCES & RESPONSIBILITIES

- A CME Group department with offices in Chicago & New York
- Market Surveillance 56 employees
  - Monitor reported large trader positions (90% of OI) and physical market prices, fundamentals and news
  - Detect and deter market manipulation
  - Ensure (real-time) that price aberrations in the futures or physical markets are not caused by the market power of large traders
  - Oversee orderly liquidation of contracts
  - Review compliance with CFTC & exchange imposed position limits
  - Review and inspect physical delivery sites for approval to deliver
  - Review positions exceeding position accountability levels
  - Review Exchange for Related Position (EFRP) transactions
  - Monitor deliveries in cooperation with CME Clearing

# DCM SURVEILLANCE PRACTICES

## CONCEPTS

- Exchange to obtain detailed information from position holders
- Exchange has the authority to require the participant not increase their position or to order liquidation of a position

## CONSIDERATIONS

- The absolute size of a position relative to open interest/stocks held and other positions
- Nature of the customer's business (e.g. speculator/hedger/swap dealer)
- Position holder's historical position level and handling of large positions
- Market fundamentals (e.g. congested market, unusual basis or spread relationship)

## CORNERSTONE POINTS

- List of enumerated hedges (proposed: Fixed Price Purchases/Sales, Inventory, Anticipatory Processing, Cross Hedge) should be expanded to include the examples of hedging activity described in comment letters and petitions. This is an essential top priority.
- The Commission should authorize through the passage of rule(s), the authority for DCM/SEF (“Exchange”) to determine what constitutes permissible Non-Enumerated hedging exempt from federal and Exchange speculative position limits.
- The Commission may alter or reverse any Exchange exercise of such granted authority through an interpretive action process by staff which provides Exchanges the ability to respond ahead of any final action by the Commission.

# CURRENT EXCHANGE EXEMPTION PROCESS

## APPLICATION

- Applicant applies before exceeding limit, Rule carve out for ex post
- Market participant requests exemption limit for certain strategy(s)
- Applicant provides documentation to support underlying exposure

## EXCHANGE REVIEW

### Market Surveillance Reviews

- Justification and supporting documentation
- Applicant internal procedures

## EXCHANGE DETERMINATION

- May approve, deny or conditionally approve the exemption
- Will determine the appropriate exemption level, which may be less than requested level
- Provide applicant with written determination

## ONGOING SURVEILLANCE

- Per surveillance procedures, there will be continued oversight of positions even though they are subject to an exemption

## CONCEPTUAL FOR NON-ENUMERATED EXEMPTIONS

- The application and exchange review processes for non-enumerated exemptions remains the same
- Any hedger granted an exemption from Exchange speculative position limits for a non-enumerated hedge who transacts and/or maintains positions on the Exchange, shall also be permitted by Commission rule, to effect exemption from federal speculative position limits for OTC transactions with respect to the strategy underlying the transactions/positions.
- Based on the analysis conducted by the Exchange, the determined overall exposure for a particular strategy will be sent to the CFTC and may act as a boundary for the hedger which the CFTC can rely upon in monitoring the hedger's OTC positions or their impact on the hedger's compliance with federal speculative position limits

## CHANGES FROM ENUMERATED PROCESS

- All approvals and denials would be forwarded to the Commission.
- Exchange maintains responsibility for ongoing surveillance on its market, but CFTC takes responsibility for OTC monitoring and for Federal limit
- Exchanges would publish on their website a summary of the type of Non-Enumerated exemptions they have approved and coordinate to offer similar characterization, where possible, regarding description.
- Commission, through the RER process or any other time, may request from an Exchange all materials and documentation supporting an exemption it approved or denied

## EFFECTIVENESS OF ACCOUNTABILITY VS. LIMITS

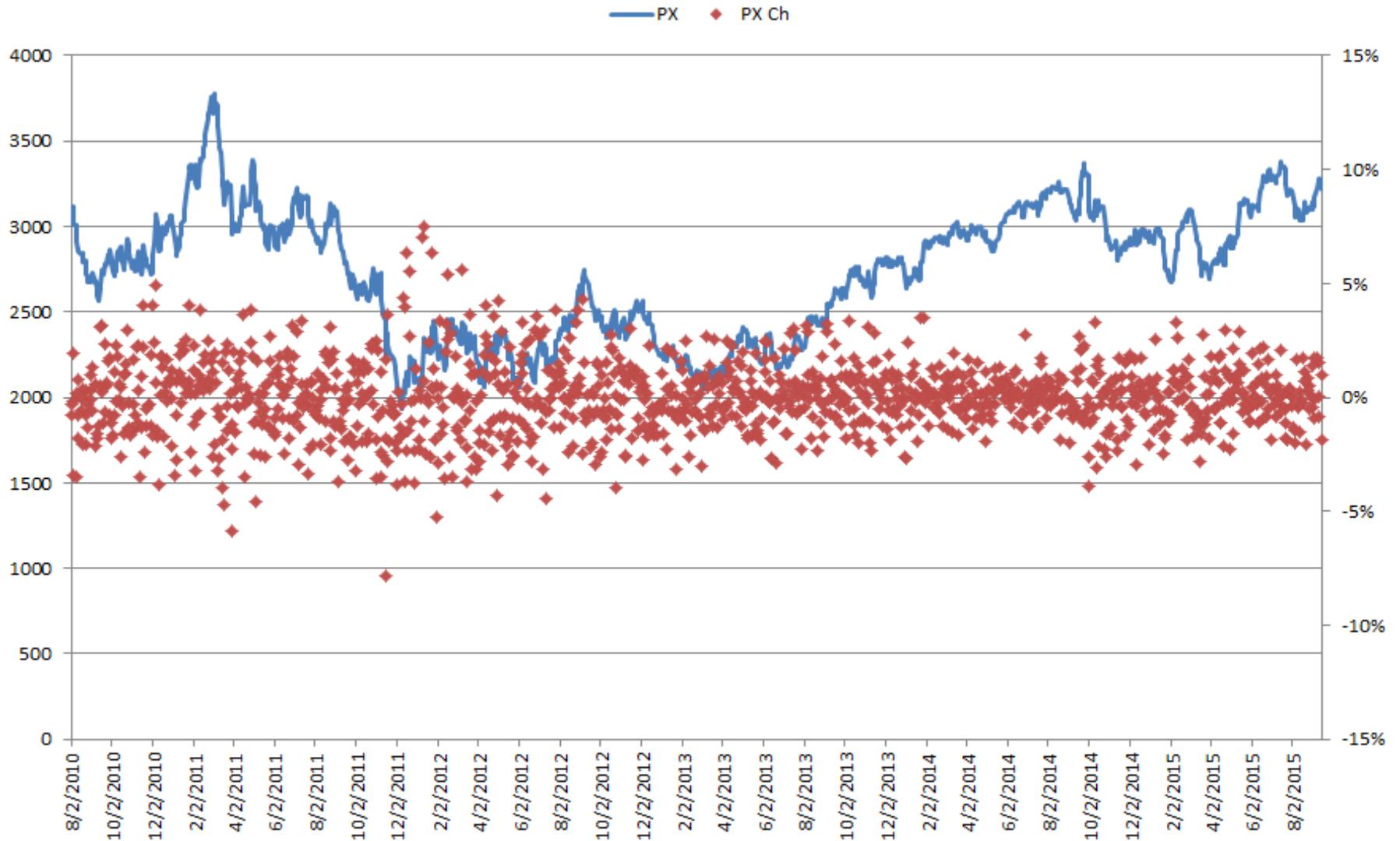
- Single and All-Month Accountability allows the market surveillance process to review and/or manage large positions
- Exchange accountability rules can be more readily effective than limits due to the ability to force hold/reduction
- Data across multiple asset classes reflects that accountability is an effective tool

# ICE FUTURES U.S. SOFT COMMODITIES

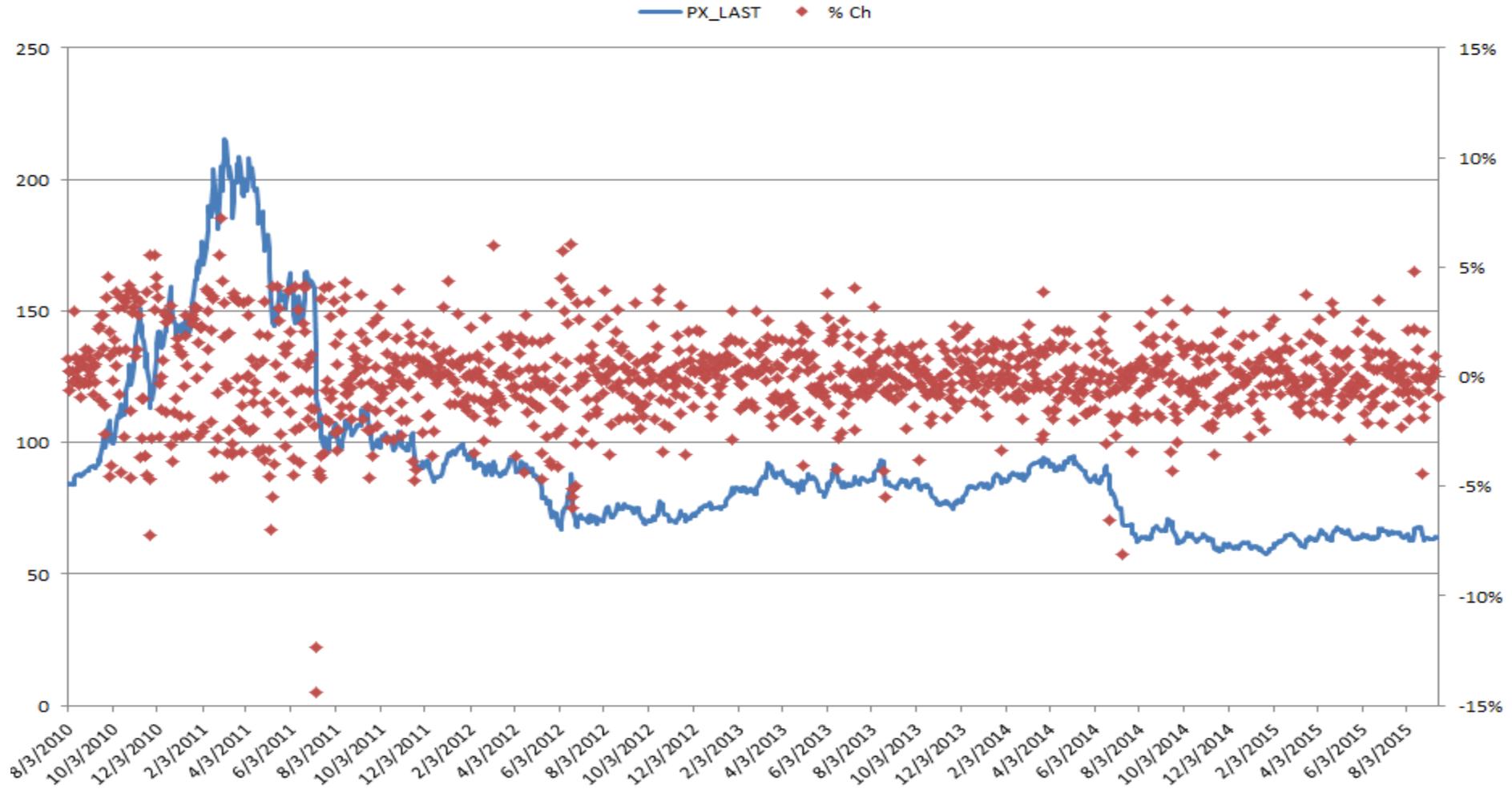
Commodity	Commodity origin	Federal limits			Exchange limits		
		Spot	Single	All	Spot	Single	All
Cotton	Domestic	X	X	X	X	X	X
FCOJ	Domestic				X	X	X
Sugar 16	Domestic				X	X	X
World Cotton	Intl				X	X	X
Cocoa	Intl				X	A	A
Coffee	Intl				X	A	A
Sugar 11	Intl				X	A	A

\*A: denotes single and all-month accountability

# COCOA PRICE PAST 5 YEARS: +4%



# COTTON PRICE PAST 5 YEARS: -24%



Reference text goes here