# ⊕ CME Group

A CME/Chicago Board of Trade Company

March 12, 2008

Mr. David Stawick
Office of the Secretariat
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, DC 20581

> RE: CME & CBOT Market Regulation Advisory Notice RA0805-3
> CME & CBOT Submission No. 08-56

Dear Mr. Stawick:

Chicago Mercantile Exchange Inc. ("CME") and The Board of Trade of the City of Chicago, Inc. ("CBOT") (collectively, "the Exchanges") hereby notify the Commission that the Exchanges have issued the following Market Regulation Advisory Notice: CME & CBOT RA0805-3 ("Computerized Trade Reconstruction ("CTR") Monthly Edit Programs"). A copy of this Notice is attached.

CME and CBOT certify that this Notice neither violates nor is inconsistent with any provision of the Commodity Exchange Act or of the rules and regulations thereunder.

If you have any questions regarding this matter, please contact Robert Sniegowski, Associate Director, Market Regulation Department, at 312.648.5493 or me at 312.648.5422.

Sincerely,

/s/ Stephen M. Szarmack
Director and Associate General Counsel

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# MARKET REGULATION ADVISORY NOTICE

| Exchange | CME & CBOT |
| --- | --- |
| Subject | Computerized Trade Reconstruction ("CTR") Monthly Edit Programs |
| Rule References | Rule 536 |
| Advisory Date | March 12, 2008 |
| Advisory Number | CME & CBOT – RA0805-3 |
| Effective Date | April 1, 2008 |

**Effective April 1, 2008,** the CTR rules and enforcement programs of CME and CBOT related to trading floor recordkeeping by individual members and clearing member firms will be fully harmonized. The portion of the new rule related to the CTR monthly edit programs is presented below and is followed by an FAQ that addresses questions about the CTR programs.

In addition to the changes necessary to harmonize the underlying CTR programs and violation threshold levels, there are additional procedural changes that will occur. For CME members, the current hardcopy status reports will be discontinued and the reports will be available exclusively online in the Member Reporting System ("MRS") for both CME and CBOT members. For CBOT members, consistent with current CME practice, the CTR program will become a monthly program. Additionally, the automatic sanctions generated by the program will be reconsidered only upon a showing by the member within 15 days that the threshold level was violated as a result of administrative or keypunching errors beyond the member's control.

**536.F.      CTR Enforcement Program and Sanction Schedule**

CTR Monthly Enforcement Program

The CTR threshold levels for members with 100 or more transactions per month are as follows:

| Exception Type | Threshold Level |
| --- | --- |
| Bracket Exceptions | 8% and above |
| Time of Execution for Verbal Orders | 8% and above |
| Sequence Errors | 8% and above |
| Quotes not found in Time and Sales | 5 or more for futures 10 or more for options and back-month Eurodollar futures |

A letter of warning shall be issued for a first occurrence of exceeding any threshold. Subsequent occurrences within 12 months of exceeding a threshold shall result in automatic fines in accordance with the following schedule:

| Second occurrence | $500 |
| Third occurrence | $1,000 |
| Subsequent occurrence(s) | $5,000 |

A member will have 15 days after receipt of a letter of warning or a fine to present evidence to the Market Regulation Department in support of having the letter of warning or fine dismissed showing that administrative, clerical, or other errors by the clearing firm caused the member to exceed the threshold level. If the member does not submit such evidence, or if the Market Regulation Department determines that the evidence submitted is insufficient to reduce the percentage below the threshold level, the letter of warning or fine shall be final and may not be appealed.

The monthly CTR enforcement of timestamp exceptions for firms with 1,000 or more transactions per month is 8% and above. A letter of warning shall be issued for a first occurrence of exceeding the threshold. Subsequent occurrences within 12 months of exceeding the threshold shall result in automatic fines in accordance with the following schedule:

| Second occurrence | $1,500 |
| Third occurrence | $5,000 |
| Subsequent occurrence(s) | $10,000 |

A firm will have 15 days after receipt of a letter of warning or a fine to present evidence to the Market Regulation Department in support of having the letter of warning or fine dismissed. If the firm does not submit such evidence, or if the Market Regulation Department determines that the evidence submitted is insufficient to reduce the percentage below the threshold level, the letter of warning or fine shall be final and may not be appealed.

Notwithstanding the provisions of this Section, the Market Regulation Department may, at any time, refer matters that it deems egregious to the Probable Cause Committee.

Questions regarding this Advisory should be directed to the following individuals in Market Regulation:

| Lou Abarcar, Associate Director | 312.648.3623 |
| Terry Quinn, Manager | 312.435.3753 |

## FAQ Related to CME and CBOT Rule 536.F.
## CTR Monthly Edit Programs

**Q1:** What time period does the CTR Program use to determine whether the threshold levels have been exceeded?

**A1:** Both the individual edit programs and firm edit program are run for each calendar month.

**Q2:** How will historical CTR violations be factored into the schedule of escalating sanctions?

**A2:** All parties will begin with a clean CTR violation slate April 1, 2008, for the purposes of applying the automatic sanction schedule. Therefore, a member's first offense following the initiation of the new program will result in a warning letter; subsequent offenses in the same program within a 12 month period will result in escalating fines of $500, $1,000 and $5,000. As is presently the case, however, egregious violations of recordkeeping rules may be referred directly to the Probable Cause Committee for disciplinary action.

**Q3:** How many categories of error exceptions (edits) are included in the "Bracket Exception Program"?

**A3:** Three. The Bracket Exception Program includes edits for "? Bracket," "Trade Price Not Found During Bracket" and "More Than 1 Bracket per Card."

**Q4:** Are there separate percentages for each of the three edits in the "Bracket Exception Program"?

**A4:** No. There is only one error percentage for this program and it is based on the total number of combined edits ("? Bracket," "Trade Price Not Found in Bracket" and "More than one Bracket per Card") divided by the total number of outright trades for the month. For example, a member who executes 300 outright trades and has 10 errors for "? Bracket," 7 errors for "Trade Price Not Found During Bracket" and 4 errors for "More than 1 Bracket per card" will have a total of 21 errors and a "Bracket Exception" percentage of 7% (21/300).

**Q5:** What is the requirement for the edit "More Than one Bracket per Card"?

**A5:** This edit applies to local traders and to proprietary traders who record trades in the same manner as local traders. The requirement is that all trades on a particular trading card must be from the same time bracket. The only exception is that trades in the opening bracket "$" and the corresponding 15-minute bracket period may be on the same card.

**Q6:** How many categories of error exceptions (edits) are included in the "Time of Execution Program"?

**A6:** Two. The "Time of Execution Program" includes edits for "No Execution Time" and "Execution Time Not during Bracket." An edit for "No Execution Time" is cited if the broker filling a verbal order for another member fails to record the time of execution to the nearest

minute on his trading card. An edit for "Execution Time Not during Bracket" is cited if the recorded execution time does not agree with the reported time bracket.

**Q7:** **How is the error percentage calculated for the "Time of Execution Program"?**

**A7:** The percentage represents the total number of combined edits ("No Execution Time" and "Execution Time Not During Bracket") divided by the total number of process type "E" trades (CTI 3 trades).

**Q8:** **When is a trade considered out of sequence for the purposes of the "Sequence Errors Program"?**

**A8:** The program analyzes time brackets, card sequence numbers, and CME/CBOT derived execution times to detect sequence errors. For example, if Card 1 is B bracket, Card 2 is C bracket with trades timed at 7:35:30 a.m., and Card 3 is B bracket with a trade timed at 7:25:00 a.m., the system will flag the trade on Card 3 as being out of sequence.

**Q9:** **What does the edit for "Quote not found in Time and Sales" measure?**

**A9:** This edit identifies transactions in which the execution price of the trade was not reported in Time and Sales during the relevant trading session.

**Q10:** **Can the same transaction be counted in both the "Quote not found in Time and Sales" and the "Bracket Exceptions" edit categories?**

**A10:** Yes. If a trade's price was not reported in Time and Sales during the session, the member will receive an exception for "Quote not found in Time and Sales" and "Trade Price Not Found during Bracket."

**Q11:** **How does the CTR Edit Program apply to firms?**

**A11:** The "Timestamp Exception Program" applies to firms, and violations of the 8% threshold will result in sanctions in accordance with the enforcement schedule set forth in Rule 536.F.

**Q12:** **How many categories of edits are measured in the "Timestamp Exception Program"?**

**A12:** Nine. These edits include: "Time In = Time Out," "Invalid Timestamps" (times are blank or 999999), "Time In > Time Out," "Timestamps > Clearing Receipt Time," "Timestamp In > Commodity End Time," "Time Out < Commodity Start Time," "Time In > Keypunch Bracket," "Time Out < Keypunch Bracket" and "No Execution Timestamp for EFRP."

**Q13:** **How is the error percentage calculated for the "Timestamp Exception Program"?**

**A13:** The percentage represents the total number of combined edits (See Question 12) divided by the total number of process type "T" trades. (CTI 2, 3 & 4 orders).

**Q14: Who issues CTR warnings and fines?**

A14: All warnings and fines are issued automatically based on the results of the CTR programs and are issued by Market Regulation staff.

**Q15: Can a CTR warning or fine be appealed?**

A15: Individuals have 15 days after receipt of a notice of violation to present evidence to the Market Regulation Department showing that errors beyond the member's control (for example, data entry errors by firm personnel) caused the threshold to be exceeded. If Market Regulation staff determines that the evidence is sufficient to reduce the error percentage below the threshold level, the violation will be dismissed.

Firms also have 15 days after receipt of a notice of violation to present evidence to the Market Regulation Department to have the violation dismissed. The Market Regulation Department will determine if such evidence is sufficient to reduce the error percentage below the threshold level.

The decisions of Market Regulation regarding CTR actions are final and may not be appealed. Additionally, fines will be issued in accordance with the reported sanction schedule and will not be reduced.

**Q16: How does the 12-month period referenced in the enforcement schedule work?**

A16: The 12-month period in the enforcement schedule is a rolling 12-month period. For example, if a member were above the error threshold level for the "Bracket Exception Program" in April 2008, a warning letter would be sent. A second violation *of that program* through March 2009 would result in a $500 fine. If this member were to also violate the "Sequence Program" one time during that 12-month period, a warning letter rather than a fine would be issued for that violation because the violation occurred in a different exception program.

**Q17: Do the exception programs apply across both exchanges if an individual or firm is a member of both exchanges?**

A17: Because CME and CBOT are separate self-regulatory organizations, activity on each exchange is evaluated separately. As such, an individual or firm active on both exchanges could be sanctioned by each exchange in the same month if the thresholds were violated on both exchanges.

**Q18: Are members and member firms able to view statistical reports during the month to monitor their exception rates?**

A18: Yes. CME and CBOT members can view and, if desired, print their reports by logging onto the Member Reporting System ("MRS"). The address is http://connect.cme.com. Login information can be obtained by contacting the Customer Support Group at 312.930.3444. The current distribution of hardcopy edit reports to CME members will be discontinued. Member firms can continue to access their edit reports through Infopac.

**Q19:** **Who are the Market Regulation contacts for the various exception programs?**

A19: Bracket Exception – **David Peloquin**, 312.648.5415
Time of Execution – **Donna Bryan-Johnson**, 312.435.3657
Quote not Found in Time and Sales – **Mike Forde**, 312.341.7003
Sequence Errors – **Anthony Smith**, 312.930.4528
Timestamp Exception – **Betsy Beers**, 312.648.3783