CME Group

Christopher Bowen
Managing Director and Chief Regulatory Counsel
Legal Department

February 28, 2014

<u>VIA E-MAIL</u>

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 40.6(a) Certification. Revisions to Daily and Final Settlement
>   Procedures Documents.
>   CME/CBOT Submission No. 14-075

Dear Ms. Jurgens:

Chicago Mercantile Exchange Inc. ("CME") and The Board of Trade of the City of Chicago, Inc. ("CBOT") (collectively, the "Exchanges") are notifying the Commodity Futures Trading Commission ("CFTC" or "Commission") that they are self-certifying revisions to the following settlement price documents available on the CME Group website:

- CBOT Treasury Futures Daily Settlement Procedure – the change corrects an error with respect to which contract month's net change is used to derive settlements for the back months;
- CBOT Treasury Futures Final Settlement Procedure – the change replaces the term "second month" with "expiry month" and a footnote has been added to clarify to which contract months the terms "lead month" and "expiry month" refer; and
- CME 1-Month Eurodollar Futures Final Settlement Procedure and CME Eurodollar Futures Final Settlement Procedure – the changes modify a reference to the British Bankers' Association LIBOR fixing to the ICE Benchmark Administration Ltd. LIBOR fixing and add updated contact phone numbers for questions.

The revisions to the CBOT Treasury Futures Daily Settlement Procedure document are set forth in Exhibit A, the revisions to the CBOT Treasury Futures Final Settlement Procedure document are set forth in Exhibit B and the revisions to the CME 1-Month Eurodollar Futures Final Settlement Procedure document and the CME Eurodollar Futures Final Settlement Procedure document are set forth in Exhibit C, each with additions <u>underscored</u> and deletions ~~overstruck~~. The revisions will become effective on March 17, 2014.

The Market Regulation Department and the Legal Department collectively reviewed the designated contract market core principles ("Core Principles") as set forth in the Commodity Exchange Act ("Act"). During the review, we have identified that the revisions to the settlement procedures documents may have some bearing on the following Core Principles:

> <u>Compliance with Rules</u>: The procedures for the establishment of daily settlement prices for contracts traded on a designated contract market constitute a term and condition as that term is defined in CFTC Regulation 40.1(j). CBOT is not adopting any changes to the manner in which

daily settlement prices are being determined as a result of this Submission, however the Submission does correct inaccurate references to the daily settlement document.

<u>Availability of General Information</u>: The changes being made to the daily and final settlement procedures documents will ensure that the marketplace has accurate information concerning the manner in which those settlement prices are determined. The revised documents will be publicly posted on the CME Group website as of the effective date of March 17, 2014.

CME and CBOT certify that the revisions to the four settlement procedures documents comply with the Act and regulations thereunder. There were no opposing views to the revisions.

The Exchanges certify that this submission has been concurrently posted on the CME Group website at http://www.cmegroup.com/market-regulation/rule-filings.html.

If you have any questions regarding this submission, please contact Robert Sniegowski, Market Regulation, at 312-341-5991 or via e-mail at Robert.Sniegowski@cmegroup.com. Alternatively, you may contact me at 212-299-2200 or via e-mail at Christopher.Bowen@cmegroup.com. Please reference CME/CBOT Submission No. 14-075 in any related correspondence.

Sincerely,

/s/ Christopher Bowen
Managing Director and Chief Regulatory Counsel

Attachments: Exhibit A – Revisions to CBOT Treasury Futures Daily Settlement Procedures Document
Exhibit B – Revisions to CBOT Treasury Futures Final Settlement Procedures Document
Exhibit C – Revisions to CME 1-Month Eurodollar Futures Final Settlement Procedure and CME Eurodollar Futures Final Settlement Procedure Documents

Treasury Futures Daily Settlement Procedure

Normal daily settlement procedure

Daily settlement of 2-Year U.S. Treasury Note futures (ZT), 3-Year U.S. Treasury Note futures (Z3N), 5-Year U.S. Treasury Note futures (ZF), 10-Year U.S. Treasury Note futures (ZN), U.S. Treasury Bond futures (ZB), and Ultra T-Bond futures (UB) is determined by CME Group staff based on trading activity on CME Globex.

Lead month

The lead month is the anchor leg for settlements and is the contract expected to be the most active.

Tier 1: If the lead month contract trades on Globex between 13:59:30 and 14:00:00 Central Time (CT), then the lead month settles to the volume-weighted average price (VWAP) of the trade(s) during this period.

Tier 2: If no trades in the lead month occur on Globex between 13:59:30 and 14:00:00 CT, then the most recent trade (or prior settle in the absence of a last trade price) is used.

The lead month settles to the last trade/prior settle assuming that it does not violate the low bid or the high ask in the closing range. If the low bid in the closing range is higher than the last trade/prior settlement price, then the lead month settles to that bid. If the high ask in the closing range is lower than the last trade/prior settle, then the lead month settles to that ask.

Second month

When the lead month is the expiry month, then the second month is defined as the calendar month immediately following the lead month. When the lead month is not the expiry month, then the second month is defined as the first expiring non-lead month.

Tier 1: If the lead month-second month spread trades on Globex between 13:59:30 and 14:00:00 CT, then the spread VWAP is calculated and rounded to the spread's nearest tradable tick. The spread differential is then applied to the lead month settlement price to derive the second month settlement, which is rounded to the outright's nearest tradable tick.

Tier 2: If a VWAP is not available due to an absence of trades, then the most recent spread trade is applied to the lead month settlement price to derive the second month settlement, which is rounded to the outright's nearest tradable tick.

If there are no trades in the lead month-second month calendar spread, then the prior-day spread relationship is used to derive the second month settlement.

In either of the above scenarios, if the derived spread differential in the lead month-second month spread is below the low bid in the closing range in that spread, then the spread settles to that bid. If the calculated spread differential in the lead month-second month spread is higher than the

high ask in the closing range in that spread, then the spread settles to that ask. Additionally, if the derived second month settlement violates the low bid or the high ask in the outright market for the second month during the closing range, then, the settlement will be adjusted to the nearest low bid or the high ask accordingly.

Back months

To derive settlements for all remaining months, the ~~lead~~ second chronological month's net change from its prior-day settlement is applied to the back month contracts' prior-day settlements, provided that this value does not violate the low bid or high ask between 13:59:30 and 14:00:00 CT for either the respective outrights or the consecutive-month calendar spreads.

If you have any questions, please call the CME Global Command Center at 800.438.8616, in Europe at 44.800.898.013, or in Asia at 65.6532.5010.

Note: In the event the aforementioned calculations described in this advisory cannot be made or if staff, in its sole discretion, determines that anomalous activity yields results that are not representative of the fair value of the contract, the staff may determine an alternative settlement price.

Treasury Futures Final Settlement Procedure

Final settlement price of expiring 2-Year U.S. Treasury Note futures (ZT), 3-Year U.S. Treasury Note futures (Z3N), 5-Year U.S. Treasury Note futures (ZF), 10-Year U.S. Treasury Note futures (ZN), U.S. Treasury Bond futures (ZB), and Ultra T-Bond futures (UB) is determined by CME Group staff based on market activity on CME Globex.

Final settlement procedure

Tier 1: VWAP calculation

On the expiring contract's last day of trading, it settles to a volume-weighted average price (VWAP) of trades on Globex between 12:00:00 and 12:01:00 p.m. Central Time (CT). This value is derived by adding the weighted VWAP of outright trades in the expiring contract to the weighted VWAP of trades in the companion reduced-tick spreads.

Final settlement VWAP calculation

p_x = VWAP of the expiring contract

p_s = VWAP of the reduced-tick spread and the trade price of the deferred contract nearest to the time of the trade in the reduced-tick spread (but not later than 12:01:00 CT)

w_x = cumulative traded volume in the expiring contract

w_s = cumulative traded volume in the reduced-tick spread

$w = w_x + w_s$

$$\left(\frac{w_x}{w}\right) * p_x + \left(\frac{w_s}{w}\right) * p_s$$

The calculated final settlement price is rounded to the nearest tradable tick. If this calculated value is the midpoint between two ticks, it is rounded to the tick closer to the last trade price in the expiring contract.

The final settlement price may penetrate unfilled bids or asks and, under certain circumstances, may settle outside of the closing range for outright trades in the expiring contract.

Tier 2: Outright bid/ask

If a VWAP is not available due to an absence of trades, then the most recent spread trade is applied to the lead month settlement price to derive the ~~second month~~expiry month settlement*, which is rounded to the outright's nearest tradable tick.

If there are no trades in the lead month-~~second month~~expiry month calendar spread*, then the prior-day spread relationship is used to derive the ~~second month~~expiry month settlement.

In either of the above scenarios, if the derived spread differential in the lead month-~~second month~~expiry month spread is below the low bid in the closing range in that spread, then the spread settles to that bid. If the calculated spread differential in the lead month-~~second month~~expiry month spread is higher than the high ask in the closing range in that spread, then the spread settles to that ask. Additionally, if the derived ~~second month~~expiry month settlement violates the low bid or the high ask in the outright market for the ~~second month~~expiry month during the closing range, then, the settlement will be adjusted to the nearest low bid or the high ask accordingly.

*The lead month is the anchor leg for the tier 2 calculation (outlined above) and is the contract expected to be the most active. The expiry month is the expiring contract.

If you have any questions, please call the CME Global Command Center at 800.438.8616, in Europe at 44.800.898.013, or in Asia at 65.6532.5010.

Note: Notwithstanding the foregoing, if the aforementioned calculations cannot be made or are otherwise determined, in the CME Group staff's sole discretion, not to be representative of the fair value of the contract, CME Group staff will determine the final settlement price using any data they deem relevant.

EXHIBIT C

1-Month Eurodollar Futures Final Settlement Procedure

Final Settlement Calculation for Expiring Contract

The final settlement price of an expiring contract shall be 100 minus the one-month Eurodollar interbank time deposit rate determined by the ICE Benchmark Administration Ltd. (IBA) LIBOR fixing on the second London bank Business Day immediately preceding the third Wednesday of the contract's named month of delivery. The value of such one-month Eurodollar interbank time deposit rate shall be rounded to the nearest 1/10,000th of a percentage point per annum. Tie values, i.e., any such values ending in a .00005, shall be rounded up. For example, a One-Month IBA LIBOR fixing value of 8.65625 percent would be rounded to 8.6563 percent and then subtracted from 100 to determine a contract final settlement price of 91.3437.

Additional Details

1-Month Eurodollar (GLB) futures are cash settled upon expiration. For additional details, please see the CME Rulebook **(Chapter 453)**:

http://www.cmegroup.com/rulebook/CME/V/450/453/453.pdf

If you have any questions, please call the CME Global Command Center at 800.438.8618, in Europe at 44.800.898.013, or in Asia at 65.6532.5010.

> **Note:** Notwithstanding the foregoing, if the aforementioned calculations cannot be made or are otherwise determined, in the CME Group staff's sole discretion, not to be representative of the fair value of the contract, CME Group staff will determine the final settlement price using any data they deem relevant.

Eurodollar Futures Final Settlement Procedure

Normal Final Settlement Procedure

The final settlement price of an expiring three-month Eurodollar futures (GE) contract is equal to 100 minus the three-month Eurodollar interbank time deposit rate.

The Eurodollar interbank time deposit rate is determined ~~at~~ by the ~~British Bankers' Association~~ ICE~~ee~~ Benchmark Administration Ltd. (~~BI~~BA) LIBOR fixing on the second London bank business day immediately preceding the third Wednesday of the contract's month of delivery. This value is then rounded to the nearest 1/10,000th of a percentage point per annum.

Additional Details

Eurodollar (GE) futures are cash-settled upon expiration. For additional details, please see the CME Rulebook **(Chapter 452)**:

http://www.cmegroup.com/rulebook/CME/V/450/452/452.pdf

If you have any questions, please call the CME Global Command Center at 800.438.8618, in Europe at 44.800.898.013, or in Asia at 65.6532.5010.

~~If you have any questions, please call the CME Global Command Center at 312.456.2391, in Europe at 44.207.623.4708, or in Asia at 65-6223-1357.~~

> **Note:** Notwithstanding the foregoing, if the aforementioned calculations cannot be made or are otherwise determined, in the CME Group staff's sole discretion, not to be representative of the fair value of the contract, CME Group staff will determine the final settlement price using any data they deem relevant.