



Updated CME Group Regulatory Guidance on Block Trades

Thursday, September 12, 2019



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1. Welcome and Introductions

Welcome, and thank you for joining the webinar.

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Department:

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2. General Overview

What prompted the new guidance?

- General observations of conduct identified by the block trade team in Investigations
- Desire to provide additional guidance for some common pitfalls
- Codification of information provided to the marketplace based on answers we routinely provide to common questions



3. Block Trade Strategies

What is a strategy?

Spread and combination trades which include more than one leg.

Can it involve multiple exchange products?

Yes.

Do the legs all need to be from the same Exchange?

No.

Regulatory guidance for CME Group Exchange/Non-CME
Group exchange strategies

The CME Group Exchange leg is viewed solely as an outright trade for all regulatory purposes.



4. Chief Regulatory Officer Approvals

What's the purpose of the new provision concerning the Chief Regulatory Officer or his designee?

To codify the ability of the CRO/designee to approve, in certain circumstances, an exception to the block trade minimum quantity threshold.

Has this occurred in the past?

Yes, in a handful of circumstances where a market participant's liquidation of portfolio of open positions included one or more legs of the aggregate transaction that were below the block trade minimum quantity threshold for a product(s).

What criteria will be used?

The CRO/designee must be convinced the situation requires the exception and that it is in the best interests of the Exchange.



5. Block Trade Reporting

In addition to parties being able to submit block trades directly to the Exchange via CME Direct/CME ClearPort, the Exchanges also provide the ability for block trades to be reported to the CME ClearPort Facilitation Desk/Global Command Center, **provided** all counterparty accounts are registered with credit limits and product permissions set up in CME Account Manager.

To use this service, an email must be sent to FacDesk@cmegroup.com.

The prior ability to provide the information via phone has been discontinued.



6. Time of Execution

What constitutes a block trade's time of execution, and why is it important?

The execution time is the time the trade is consummated, which is the time the parties agree to the trade in principle.

Accurate submission of execution times is critical, and failure in this regard routinely leads to sanctions. The time is important as block trades are price-reported to the marketplace and the marketplace has a right to see accurate execution times.

For spreads and combinations, the execution time is when the differential or combination price is determined, not the time parties agree to the leg prices.



7. Disclosure of Customer Identity

In circumstances where a customer is using an intermediary to broker a block trade, the customer's identity may be disclosed only with the customer's permission.

Trade-by-trade permission is not required, and negative consent in writing is acceptable, either in customer account agreements or other documents.

Regardless of the manner of obtaining customer permission, such permission must be updated annually and evidence of the annual update must be retained and provided upon request.



8. Principal Pre-Hedging

Pre-hedging by intermediaries remains strictly prohibited.

What is the purpose of the significantly expanded guidance on pre-hedging?

To make it absolutely clear that the burden is on the principal to ensure its counterparty understands the trade is being conducted principal-to-principal, and, as such, the principal owes no agency duties to its counterparty.

Does the principal have to notify its counterparty that it plans to pre-hedge?

No.



8. Principal Pre-Hedging

What prompted the guidance?

Records obtained from market participants that appeared to reflect an agency trade, such as use of the phrase “work an order” or negotiations where the price of the block trade was tied to price of a pre-hedge plus some predefined basis or mark-up.

What can principals do to ensure they are accurately communicating that they are trading principally?

1. Avoid using the phrase “work an order.”
2. Remind a counterparty that they are trading principally prior to engaging in any pre-hedging.
3. Create automated notice, such as in a header or footer of an email or instant message, codifying they are acting principally and owe no agency duties to the counterparty.



9. Questions

10. Contacts

For any regulatory questions on block trades, please contact one of the following individuals in the Market Regulation Department:

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Thank you for your time!

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