



Block Trades on CME Group Exchanges during the COVID-19 Pandemic



Friday, May 15, 2020



Agenda

1. Welcome and Introductions
2. Block Trade Rules & Guidance Overview
3. Market Regulation Block Team Process
4. Best Practices
5. Questions
6. Contacts



Welcome and Introductions



Allison Lurton
MODERATOR
*Chief Legal Officer & General
Counsel, FIA*



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Block Trade Overview

Definition

- **Privately negotiated** trades, either directly between eligible market participants or through a broker
- Must meet certain **minimum quantity thresholds***
 - Orders for multiple parties may not be bunched to meet the block trade minimum threshold
 - Intra- and inter-commodity spreads may be executed as a block trade provided each product is block trade-eligible

Participation

- Each party to a block trade must be an **Eligible Contract Participant (ECP)**
- The definition of an ECP is in Section 1a of the Commodity Exchange Act
- ECPs generally include exchange members and member firms, broker/dealers, government entities, pension funds, commodity pools, corporations, investment companies, insurance companies, depository institutions and high net-worth individuals
- Market participants must ensure they meet the definition of an ECP prior to engaging in a block trade, either bilaterally or through the services of a broker
- Commodity Trading Advisors (CTAs), Investment Advisors (IAs) and foreign persons performing a similar role may engage in block trades on behalf of accounts under management, provided;
 - They have total assets under management exceeding 25 million USD
 - The block trade is suitable for the customers
- A customer order may be executed by means of a block trade only if the customer has specified that the order be executed as a block trade



Block Trade Overview

Time

- Block trades may be executed at any time, including times during which the public auction market is closed.
- May not be executed after the expiration of the underlying futures or options on futures contract month.

*For purposes of offsetting an open option position, a block trade in a block-eligible option may be executed up to the expiry date provided the offsetting block trade is submitted via CME Direct or CME ClearPort no later than 4:00 p.m. CT, the beginning of the CME ClearPort maintenance window

Pricing

- Block trade prices must be **fair and reasonable** in light of
 - The size of transaction
 - The prices and sizes of other transactions in the same contract at the relevant time
 - The prices and sizes of transactions in other relevant markets at the relevant time (including cash markets and related futures markets)
 - The circumstances of the markets or the parties to the block trade
- The price does **not** need to be within the existing bid/ask on Globex
- The price must be **consistent with the minimum tick increment** for the product
- The block trade must be executed **at a single price**



Block Trade Overview

Reporting

- The execution time of a block trade is **the time that the trade is consummated**, which is the time that the parties agree to the trade in principle (not the time the leg prices are agreed upon)
- The execution time must be recorded for all block trades and accurately submitted into CME Direct or CME ClearPort
- Must be submitted to the Exchange/CME Clearing via CME Direct or CME ClearPort within 5 or 15 minutes of execution, depending on the product and the trading hour
- Reporting obligations are the responsibility of the seller (unless otherwise agreed) or of the broker for brokered trades
- The date, execution time, contract month, price and quantity of each block trade are automatically reported to the marketplace once it successfully entered into CME Direct or CME ClearPort

Reporting error remediation

Single-Sided Entry

- Within 3 business days – Either party may request the Exchange to correct the error within three business with evidence that counterparties agree to the correction by contacting CME ClearPort Facilitation Desk/Global Command Center
- After 3 business days - Subject to the express approval of CME Clearing

Dual-Sided Entry

- On the same trade date (5:00 p.m. to 4:00 p.m. Central Time each business day) - Broker or other representative may void the erroneous submission and resubmit the block trade with the correct information
- After the trade date: Broker or other representative may request the Exchange to correct the error within three business days



Block Trade Overview

Use of Non-Public Information Regarding Block Trades

Parties involved in the solicitation or negotiation of a block trade may not disclose the details of those communications to any other party for any purpose other than to facilitate the execution of the block trade

Broker Disclosure of Customer Identity

- A broker negotiating a block trade on behalf of a customer may disclose the identity of the customer to the potential/actual counterparties only with the express consent of the customer. Express consent should be obtained in writing (letter, email, instant message, etc.) or on a recorded phone line. Express consent is not required on a trade-by-trade basis. The compliance date for this amended requirement is Monday, June 1, 2020
- Consent to disclose should be reconfirmed on no less than an annual basis. Negative consent is allowed for reconfirmation
- Evidence of the initial express permission and its annual reconfirmation must be provided to Market Regulation upon request

Parties to disclose

- With a customer's express consent, the broker may disclose the customer's identity solely to parties involved in the block trade negotiation, including the party with whom the block trade is consummated
- Disclosure to anyone else is strictly prohibited



Block Trade Overview

Pre-Hedging/Anticipatory Hedging

Party acting as Principal

- A party acting principally in a block trade negotiation that plans on engaging in pre-hedging activity must ensure it is clear to its counterparty that the party is trading principally, and, as such, owes no agency duties to the counterparty
- Initial disclosures in account opening agreements or other similar communications may be deemed insufficient. Disclosures in the header/footer of a party's instant message communications, on recorded phone lines or on emails would suffice in lieu of direct communications during the negotiation

Party acting as Broker

- When a party works an order on behalf of a counterparty, or block trade negotiations where the price of the block trade is tied to the price of the party's pre-hedging activity plus a markup or basis, it is viewed by Market Regulation to imply that such party owes the agency duties
- In this situation, **pre-hedging is prohibited**



Block Trade Team

- Contact Information

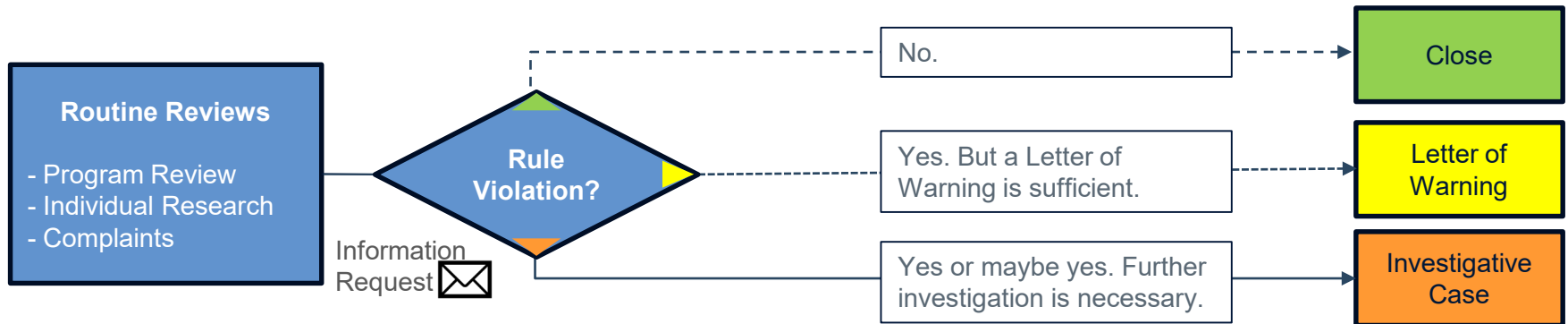


Block Trade Team group email:
MarketRegBlock@cmegroup.com

- Program reviews, research, and complaints
 - Reporting infractions
 - Late reporting
 - Misreporting
 - Time
 - Structure
 - Fair and reasonable pricing
 - Pre-hedging / Acting on non-public information
 - Wash
 - Money pass
 - Other

Block Trade Team

- Process Overview:
 - Analysis
 - Information gathering
 - Review of responses in conjunction with analysis
 - Determination of next steps
 - Rule 512 Committee





Block Trade Team

Rule 512 Summary Fines for Reporting Infractions

- Rule 512 requires all data, records and other information required to be reported to the Exchange or Clearing House to be submitted in an accurate, complete, and timely manner
- Market Regulation deploys an internal staff Committee (the 512 Committee) to levy sanctions for noncompliance
- The Market Regulation staff review team is authorized to issue summary fines, which may not be less than \$1,000 or in excess of \$5,000 per offense for individuals or \$10,000 per offense for firms or facilities
- Factors affecting the amount of the sanction will include
 - the magnitude
 - frequency
 - impact of the reporting infraction
 - the party's prior disciplinary history for similar infractions
 - remedial actions taken to correct the identified reporting issues
- The staff review team may, in its discretion, refer matters that it deems egregious to the Chief Regulatory Officer for the issuance of charges, which would, if issued, require disposition by the Business Conduct Committee
- Additionally, the staff review team may instruct staff to inquire further into the matter, and direct staff to conduct a full investigation in lieu of the Committee handling the matter via the summary process outlined in the Rule



Block Team during COVID-19

- Block Team is currently working remotely
- Added a new self-reporting reason to Firm Regulatory Portal
- Considerations during COVID-19, including requests for extensions for responding to inquiries
 - [SER-8559 Regulatory Relief Concerning Covid-19 Pandemic](#)

Best Practices

Information Requests

- Information Requests are typically sent through Clearing Member Firms with the formal letter with the reference starting with “RSRH” or “COMP”
- Case Initiation Notices are issued to participants in the event a case is opened with the formal letter with the reference starting with “CASE”
- A formal, recorded statement may also be requested, usually during the investigative phase
- The status of an open matter or case can be found through the [Firm Regulatory Portal](#)

¹ The status of this inquiry is available through the CME Group Firm Regulatory Portal located at <https://ftr.cmegroup.com/firmlargetrader/logon.jsp>. The Reference Number and PIN required for the case status inquiry search are located in the subject line of this letter. Note, a Research (RSRH) or Complaint (COMP) inquiry may lead to the initiation of an Investigative Case (CASE), which will be assigned a separate Reference Number and PIN. If an Investigative Case is initiated, you will be notified via separate communication from Market Regulation with the corresponding CASE number and PIN. Instructions for how to use the case status portal are available electronically here: https://ftr.cmegroup.com/firmregulatoryportal/help/Content/A_Getting%20Started/RegMatter-StatusInq.html

Information Request Best Practices



- Provide Complete Responses
- Communicate
- Be Timely- request extensions when know they will be needed.

CME Group

February 10, 2019
 VIA EMAIL: johnsmith@clearingfirm.com

John Smith
 Chief Compliance Officer
 Clearing Firm, Inc.
 789 Main Street
 Chicago, IL 60606

Re: RSRH-19-1234¹ FCM: 123 PIN: 123456

Dear Mr. Smith:

Market Regulation identified activity in December 2020 Gold where the same account was on both sides of a single trade.

Activity in Account 123 on January 31, 2019															
General		Buy Side				Trade				Sell Side				Timing	
Trade Date	Globex Inst.	Order Price	Order Qty	Account	Tag 50	Trade Qty	Trade Price	Tag 50	Account	Order Qty	Order Price	Buy In Time	Sell In Time	Trade Time	
01/31/2019	GC20	10	1	123	ABC	1	10	DEF	123	1	10	08:00:00.000	06:00:00.000	06:00:00.000	

Market Regulation requires additional information in connection with its review of the circumstances surrounding the cited activity:

- 1) Identify the owner(s), controller(s), and/or financial interest holder(s) of account(s) 123. Your response should include, but not be limited to:
 - a) Identification of persons or legal entities with any ownership and/or financial interest of the account(s) in question.

¹ The status of this inquiry is available through the CME Group Firm Regulatory Portal located at <https://ftr.cmegroup.com/firmlargetrader/logon.jsp>. The Reference Number and PIN required for the case status inquiry search are located in the subject line of this letter. Note, a Research (RSRH) or Complaint (COMP) inquiry may lead to the initiation of an Investigative Case (CASE), which will be assigned a separate Reference Number and PIN. If an Investigative Case is initiated, you will be notified via separate communication from Market Regulation with the corresponding CASE number and PIN.

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Best Practices

Self-Reporting Tool

- Optional; market participants can choose to provide more information for the delayed submission
- Self-report may reduce the likelihood that a firm receives a request letter from Market Regulation
- Accessible on [Firm Regulatory Portal](https://fltr.cmegroup.com/firmlargetrader/logon.jsp) at <https://fltr.cmegroup.com/firmlargetrader/logon.jsp>

Privately Negotiated Transaction Changes or Delays

Clearing Ref#./Trade ID:*

Explanation:*

Additional Emails To C

Additional Details:

*Required

Select Reason

- Awaiting Client Details
- Business Continuity/Disaster Recovery Staffing Issue
- Change of Clearer/Exchanger
- Complex Trade
- Executed during a Maintenance Window
- Internal Communication Issues/Delays/Errors
- Internal Systems Issues/Delays
- Permissioning/Enabling Issues
- Void and Reentry
- Trade Rejected (Limits Reached)
- Other

Best Practices

Rules & Regulatory Outreach

Providing participants with information and resources necessary to meet compliance needs

The outreach program aims to:

- Effectively communicate rule modifications, rule advisories and other rules-based information to market participants
- Promote a uniform understanding of Exchange rules and regulations
- Serve as a resource for trade practice and surveillance based questions
- Build constructive, ongoing relationships with industry participants

The Rules and Regulatory Outreach Team is



Bob Sniegowski

• Chicago



Erin Middleton

• Chicago



Minju Kang

• Hong Kong



Jessica Leung

• Hong Kong



Rules & Regulatory Outreach group email:
MarketReg.Outreach@cmegroup.com

Best Practices

- Be sure to review the currently effective Market Regulation Advisory Notice on block trades (and not an archived version)
 - <https://www.cmegroup.com/rulebook/files/cme-group-Rule-526.pdf>
- Subscribe to receive updated versions of the Market Regulation Advisory Notice on block trades via email
 - <https://www.cmegroup.com/subscribe>
- Watch the CME Institute module on block trades
 - <https://www.cmegroup.com/education/courses/market-regulation/block-trades/block-trades-what-is-a-block-trade.html>



The screenshot shows a course completion interface. At the top left, a green circular progress indicator displays '0%' and the word 'COMPLETE'. Below this is a navigation menu with a blue header '← Course Overview'. The menu items are: Overview, Wash Trades, EFRP, Block Trades, Block Trades - What is a Block Trade? (highlighted in green), Block Trades - Participant Eligibility, Block Trades - Eligible Products, Times and Prices, Block Trades - Reporting and Recordkeeping, Block Trades - Pre-Hedging, and Block Trades - TAS, TAM and BTIC. To the right of the menu, the text 'MARKET REGULATION' is displayed above the title 'Block Trades - What is a Block Trade?'. Below the title is a video player with a large 'BLOCK TRADES' logo and a play button. Below the video player, there is a paragraph of text: 'Block trades are privately negotiated futures, options or combination transactions that meet certain quantity thresholds and are permitted to be executed apart from the public auction market. Block trades are governed by Rule 526.' Below this paragraph is another paragraph: 'In the context for block trades, private negotiation includes trades consummated directly between the counterparties or via a broker. However, a block trade would not be considered to be privately negotiated if it was transacted on a system or facility that functioned like a trading venue or central limit order book.'



Contacts

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

Jennifer Dendrinis, Director, Investigations, 312.341.7812

Urmi Graft, Director, Investigations, 312.341.7639

Cash Kinghorn, Senior Investigator, Investigations, 312.930.1873

Erin Middleton, Manager, Rules & Regulatory Outreach, 312.341.3286

Robert Sniegowski, Executive Director, Rules & Regulatory Outreach, 312.341.5991



Thank you for your time!



The image features a stylized logo for 'FIA' centered on a white background. The background is composed of several overlapping, semi-transparent geometric shapes: a light green triangle in the top-left, a light blue triangle in the top-right, a light green triangle in the bottom-right, and a light blue triangle in the bottom-left. The 'F' is a solid dark grey block letter. The 'I' is a solid dark grey block letter. The 'A' is a stylized letter formed by two overlapping triangles: a light green one on the left and a light blue one on the right. The text 'FIA' is positioned in the center of the composition.

FIA