

Chicago Mercantile Exchange – Floor Rules - Excerpts

CHAPTER 5 FLOOR PRIVILEGES— TRADING QUALIFICATIONS AND PRACTICES

FLOOR PRIVILEGES

514. TRADING INFRACTIONS ¹

514.A. Definition ²

The following shall constitute trading infractions:

1. a bid or offer out of line with the market;
2. a bid or offer which tends to confuse the other traders;
3. a price infraction;
4. failure to confirm a transaction;
5. failure of buyer and seller to announce a change in the last sale price and failure to ascertain that it is properly recorded;
6. use of profane, obscene or unbusinesslike language on the floor;
7. use of undue force while in, entering or leaving the pit;
8. conduct which tends to confuse, distract, abuse or intimidate any Exchange employee; or
9. conduct of an unbusinesslike nature. ³

10. failure to defer to a member who has clearly turned the market;
11. failure to indicate a quantity on a bid or offer; or
12. disseminating false, misleading or inaccurate quotes.

A trading infraction is of an egregious nature if it is flagrant or particularly offensive, objectionable or improper.

TRADING PRACTICES

520. TRADING CONFINED TO EXCHANGE FACILITIES ⁴

All trading for future delivery in commodities traded on the Exchange must be confined to transactions made on the Exchange; and those transactions on the floor must be confined to the designated trading area during Regular Trading Hours; provided, however, that no member shall be prohibited from trading on other duly organized exchanges. Any member violating this rule shall be guilty of a major offense.

521. PIT TRADING ⁵

All transactions, including spread and combination transactions, shall be by open outcry in the

established pit for that transaction.

A bid shall be made only when it is the best bid available in the pit. A bid is made by stating the price first and quantity next (such as "38.50 on 2," etc.) and by holding a hand outstretched with the palm towards the bidder indicating the quantity by the number of fingers shown.

An offer shall be made only when it is the best available offer in the pit. An offer is made by stating quantity first and price next (such as "2 at 38.50") and by holding a hand outstretched with palm away from offeror indicating quantity by the number of fingers shown. When offering or bidding on a quantity of more than five, it shall be sufficient to use one hand. It shall be improper to make a bid or an offer without indicating a quantity.

When a trader desires to buy the going offer in the pit, he shall by outcry state "buy it" or "buy them" or "buy" followed by the quantity desired, as the case may be. When selling, the trader shall similarly, by outcry, state "sell it" or "sell them" or "sell" followed by the quantity desired.

All-Or-None Transactions: The Board, a Committee, or Exchange staff appointed by the Board shall, from time to time, determine the minimum thresholds for and the commodities in which All-Or-None transactions shall be permitted. The following shall govern All-Or-None trading:

- A. A member may request an All-Or-None bid and/or offer for a specified quantity at or in excess of the applicable minimum threshold designated by the Board. Such request shall be made in the appropriate trading area.
- B. A member may respond by quoting an All-Or-None bid or offer price. A bid or offer in response to an All-Or-None request shall be made only when it is the best bid or offer in response to such request, but such price need not be in line with the bids and offers currently being quoted in the regular market.
- C. A member shall not execute any order by means of an All-Or-None transaction unless the order includes specific instructions to execute an All-Or-None transaction or the All-Or-None bid or offer is the best price available to satisfy the terms of the order.
- D. An All-Or-None bid or offer may only be accepted for the total amount offered or bid.
- E. All-Or-None transactions shall not set off conditional orders (e.g., Stop Orders, MIT Orders, etc.) or otherwise affect orders in the regular market.
- F. All-Or-None transactions must be reported to a designated Exchange official who shall record and publish the quantity and prices separately from reports of transactions in the regular market. The brokers executing All-Or-None transactions must maintain a record of said transaction, in accordance with [Rule 536](#).

522. BOARD TRADING

When commodities are board traded, all offerings and bids shall be posted numerically as to price and on a priority basis as determined by the designated Exchange official.

It shall be the duty of members who have posted bids or offers on the blackboards to verify the accuracy of the recorded bid or offer and to check the sales panel after the close of the market.

In addition to the pit trading and board trading as herein defined, the Board of Directors may prescribe such other methods as it deems appropriate.

523. ACCEPTANCE OF OFFERS AND BIDS DURING REGULAR TRADING HOURS ⁶

Any offer or bid may be withdrawn at any time before acceptance, but while outstanding, all or any part of any offer or bid is subject to immediate acceptance by any trader. In board transactions, the designated Exchange official shall determine the amount and the opposite trader if more than one acceptance is called. No offer or bid shall be specified for acceptance by a particular trader. The price at which an order is executed shall be binding. Withdrawal of a posted bid or offer shall be complete when the request for withdrawal is acknowledged by the designated Exchange official.

When offers or bids are made in more than one unit, any buyer may purchase, or seller accept, one or more of such units.

524. RESPONSIBILITY FOR TRADES

When a floor broker makes a trade on the futures call as agent for a member of the Clearing House other than the member for whom he is qualified to trade, he shall advise the opposite broker of the name of the clearing member for whom he was acting as floor broker and upon whose clearing memoranda the transaction is to be cleared. The clearing member for whom he is qualified to trade shall be liable as principal upon such trade until it has been accepted by the Clearing House for the account of the clearing member for whom the floor broker acted.

525. CONFIRMATION OF TRADES ⁷

- A. It shall be the duty of both traders of a pit transaction to confirm their trades as to the price, quantity, commodity, contract month, respective clearing members, and, for options, strike price, put or call and expiration month. Confirmation shall take place as soon as possible in order to enable both parties to comply with trading card and order pick-up requirements and within the area where the trade was consummated.
- B. It shall be the duty of the trader who executes a trade on the blackboard, within a reasonable time, to notify the opposite trader of the trade and to identify the respective clearing members. (During the trading session, more than 20 minutes shall be deemed unreasonable.)
- C. Exchange staff may direct a trader not to exceed a specified percentage of out-trades in relation to the total number of trades executed by such trader. Failure to comply with any such directive may constitute a violation of this rule.

(Next Rule 527)

526. BLOCK TRANSACTIONS ⁸

Notwithstanding [Rule 520](#) - TRADING CONFINED TO EXCHANGE FACILITIES -, the Board or a Committee appointed by the Board shall, from time to time, determine the minimum thresholds for and the commodities in which Block Transactions (privately negotiated transactions) shall be permitted. The following shall govern Block Transactions:

- A. A member may execute a Block Transaction for a specified quantity at or in excess of the applicable minimum threshold designated by the Board.
- B. Each party to a Block Transaction must be an Eligible Contract Participant as that term is defined in Section 1a(12) of the Commodity Exchange Act.
- C. A member shall not execute any order by means of a Block Transaction unless that order meets the applicable minimum threshold and includes specific instructions to execute a Block Transaction.
- D. The price at which a Block Transaction is executed must be "fair and reasonable" in light of (i) the size of such Block Transaction, (ii) the prices and sizes of other transactions in the same contract at the relevant time, (iii) and the prices and sizes of transactions in other relevant markets, including without limitation the underlying cash and futures markets, at the relevant time, and (iv) the circumstances of the parties to such Block Transaction.
- E. Block Transactions shall not set off conditional orders (e.g., Stop Orders, MIT Orders, etc.) or otherwise affect orders in the regular market.
- F. Block Transactions must be reported to a designated Exchange official within five minutes of the time of execution; except that Block transactions in Eurodollar futures and options must be reported within fifteen minutes of the time of execution. The report must include the contract, contract month, price, and quantity of the transaction. The Exchange shall immediately publish such information separately from the reports of transactions in the regular market.
- G. Clearing firms must report Block Transactions to the Exchange Clearing House, including the time of execution, in accordance with the Clearing House Manual of Operations.

- H. Brokers executing Block Transactions must maintain a record of said transaction, in accordance with [Rule 536](#), - RECORDS FOR ORDERS AND PERSONAL TRANSACTIONS DURING REGULAR TRADING HOURS.
- I. In the application of paragraphs A., B., and C. of this Rule to a commodity trading advisor ("CTA") registered under the Commodity Exchange Act, including without limitation any investment advisor registered as such with the Securities and Exchange Commission that is exempt from regulation under the Commodity Exchange Act or Commission Regulations thereunder, with total assets under management exceeding \$25 million, the CTA, and not the CTA's customers, shall be the applicable entity for purposes of said paragraphs A., B., and C.
- J. In the application of paragraphs A., B., and C. of this Rule to a foreign Person performing a similar role or function to a CTA or investment advisor as described in paragraph I, and subject as such to foreign regulation, with total assets under management exceeding \$50 million, the CTA, and not the CTA's customers, shall be the applicable entity for purposes of said paragraphs A., B., and C.

527. OUT-TRADE RESOLUTION POLICY ⁹

528. CHANGE IN LAST SALE PRICE ¹⁰

The buyer and seller in a pit transaction must report immediately to the pit observer any change in the last sales price or last quotation and it shall be their duty to make certain that such change in quotation is properly posted. In order to effectuate such a price change, at least three qualified traders shall be present in the pit. Whenever a member makes a trade with another member which constitutes a price infraction, he or she shall 1) immediately break the trade; or 2) satisfy all bids or offers which were adversely affected; or 3) adjust the price of the trade to the price which existed when the price infraction occurred. For this third alternative, both sides must agree to the adjusted price, which must satisfy the terms of any order(s) involved in the trade. Enforcement of this rule shall be the responsibility of the Pit Committee. Frequent participation in trades that involve price infractions may constitute a major offense.

529. WITHHOLDING ORDERS PROHIBITED ¹¹

A member or GLOBEX terminal operator shall not withhold or withdraw from the market any order or any part of an order for his benefit or for the convenience of another member or person. Violation of this rule shall constitute a major offense.

530. PRIORITY OF CUSTOMERS' ORDERS ¹²

530.A. During Regular Trading Hours

A member shall not buy a futures contract, buy a call option or sell a put option for his own account or for an account in which he has a proprietary interest, when he has in hand orders to buy a futures contract, buy a call option or sell a put option for others at the market or at the same price.

A member shall not sell a futures contract, sell a call option or buy a put option for his own account or for an account in which he has a proprietary interest, when he has in hand orders to sell a futures contract, sell a call option or buy a put option for others at the market or at the same price.

A member shall not knowingly execute a discretionary order, including, without limitation, an order allowing the member discretion as to time and price, for an immediate family member, another member or a proprietary account of a member firm, when he has in hand customer market orders open as to time and price. A member may trade for his own account, without violating this rule, while holding customer orders open as to time and price provided the customer has previously consented in writing and evidence of such general consent is indicated on the order. (See "DRT" in Definition of Orders.) In the case of a floor broker

holding orders open as to time and price for the account of another member, an immediate family member of the floor broker or a proprietary account of a member firm, the "WP" designation on such orders shall constitute sufficient prior written consent. ¹³

Violation of this Rule 530 shall constitute a major offense.

531. TRADING AGAINST CUSTOMERS' ORDERS PROHIBITED ¹⁴

531.A. General Prohibition

A member having in hand a customer order shall not knowingly enter into a transaction on behalf of that customer in which: (i) the member; (ii) an entity of which the member is a partner or officer; (iii) or any officer or partner of an entity of which the member is an officer or partner; or (iv) any person trading for an account in which the member has a financial interest, assumes the opposite side.

531.B. Exceptions

Violation of this Rule 531 shall constitute a major offense.

532. DISCLOSING ORDERS PROHIBITED ¹⁵

A member or GLOBEX terminal operator shall not disclose another person's order to buy or sell, except that he may disclose it to an officer of the contract market or of the CFTC without violating this rule. Violation of this rule shall be a major offense.

533. SIMULTANEOUS BUYING AND SELLING ORDERS FOR DIFFERENT PRINCIPALS EXECUTED BY ONE TRADER ¹⁶

A member of the Exchange, who shall have in hand at the same time both buying and selling orders from different customers for the same commodity and delivery month or for a put option with the same strike price and expiration month or call option with the same strike price and expiration month, may execute such orders for and directly between such principals pursuant to [Rule 556](#) or provided:

1. In pit trading, a member executing such orders shall first bid and offer openly and competitively by open outcry at the same price, stating number of contracts, and if neither the bid nor the offer is accepted within a reasonable time, the orders may then be matched, in the presence of, and with approval of, an Exchange official.
2. In blackboard trading, a member, pursuant to such buying order, shall post a bid on the board and incident to the execution of such selling order, shall accept such bid and all other bids posted at prices equal to or higher than the bids posted by him; or pursuant to such selling order, shall post such offer on the board and incident to the execution of such buying order, shall accept such offer and all other offers posted at prices equal to or lower than the offer posted by him in the presence of, and with the approval of, an Exchange official.

The member making such transactions shall, by appropriate descriptive words or symbols, clearly identify all such transactions on his trading card or other similar record made at the time of the execution, shall note thereon the exact time of execution and shall present such record to the Exchange official for verification and initialing. Each such transaction shall be entered by the Exchange official on a cross-trade form which shall show the commodity, date, price, quantity, delivery month, broker and, for options, strike price, put or call and expiration month. These transactions shall be made a matter of permanent record by the Exchange.

534. SIMULTANEOUS BUYING AND SELLING ORDERS FOR THE SAME PRINCIPALS PROHIBITED ¹⁷

No member or GLOBEX terminal operator shall accept a "simultaneous buying and selling" order from a customer for the same contract delivery month of the same commodity or for a put option with the same strike price and expiration month or call option with the same strike

price and expiration month. Violation of this rule shall constitute a major offense.

535. RESPONSIBILITY OF TRADERS AND BROKERS ¹⁸

536. RECORDS FOR ORDERS AND PERSONAL TRANSACTIONS DURING REGULAR TRADING HOURS ¹⁹

537. CONFIRMATIONS TO CUSTOMERS

A clearing member shall confirm to the customer every transaction made for the customer no later than the following business day. Such confirmation shall be in writing and shall show the commodity bought or sold, the quantity, the price, the delivery month and, for options, strike price, put or call and expiration month.

538. TRANSFER OF SPOT FOR FUTURES²⁰

539. PRE-ARRANGED TRADES PROHIBITED ²¹

539.A. General Prohibition

A member shall not make any purchase or sale and a GLOBEX terminal operator shall not enter an order through GLOBEX which has been pre-arranged. Violation of this Rule 539 may be a major offense.

539.B. Exceptions

540. RESPONSIBILITY FOR CUSTOMER ORDERS ²²

540.A. Standard of Responsibility

A floor broker or clearing member shall exercise due diligence in the handling and execution of customer orders. Failure to act with due diligence shall constitute negligence. In the case of a dispute as to whether a broker or clearing member has exercised due diligence, the appropriate arbitration or disciplinary committee is authorized to determine whether the broker or clearing member was negligent and, if so, whether an adjustment is due to the customer. The Committee may take into consideration the nature of the order and existing market conditions, including the existence of a "fast market", at the time the broker or clearing member acted or failed to act. However, no market situation nullifies a floor broker's or clearing member's responsibility.

A member or clearing member is prohibited from directly or indirectly guaranteeing the execution of an order or any of its terms such as the quantity or price. This rule shall not be construed to prevent a member or clearing member from assuming or sharing in the losses resulting from an error or the mishandling of an order.

540.B. Liability for Negligence

A floor broker or clearing member shall not be allowed to adjust the price at which an order was executed or be held responsible for executing or failing to execute an order unless such floor broker or clearing member was negligent or is settling a bona-fide dispute regarding negligence.

A clearing member may not compel an adjustment from a floor broker in the absence of a bona-fide dispute regarding negligence.

Clearing members shall document all adjustments received from floor brokers. Clearing members shall make and retain a record which contains at a minimum the date the adjustment was received, the name of the floor broker making the adjustment, the account to whom the adjustment was credited, the amount of the adjustment, a copy of the order for which the adjustment was made and the reason justifying the adjustment. Such records must be

produced upon request by Exchange staff.

540.C. Duty to Report Unable

Regardless of any negligence in connection with the failure to execute an order, a floor broker or clearing member may be deemed guilty of negligence if the floor broker or clearing member fails to report an unable on: (1) a limit order within a reasonable time after such limit price has been violated or (2) any other order within a reasonable time after such order has been elected. A reasonable time shall be determined on a case-by-case basis by the appropriate arbitration or disciplinary committee.

540.D. Fast Markets

A "fast market" designation is invoked to reflect actual conditions in the pit and does not nullify the obligations of a floor broker or clearing member. The appropriate arbitration or disciplinary committee may take a "fast market" situation in to account in determining whether a floor broker or clearing member acted with due diligence.

541. TRADING RESTRICTIONS RESPECTING THE S&P 500 STOCK PRICE INDEX™ FUTURES CONTRACT AND THE EURODOLLAR FUTURES BACK 36 CONTRACT MONTHS ²³

542. SIMULTANEOUS SPREAD AND COMBINATION TRANSACTIONS ²⁴

543. SPECULATIVE POSITION LIMITS AND EXEMPTIONS ²⁵

544. CLOSING DAY ORDERS

Only market orders to buy or sell, closing orders to buy or sell, spread orders, straight limit orders to buy or sell and straight stop orders to buy or sell shall be permitted during the last day of trading in an expiring future. Time orders and other contingent orders of all kinds shall be specifically banned during the last day of trading in an expiring future. Brokers shall not be responsible for cancellations unless the cancellations reach the broker 15 minutes prior to the close on the last day of trading in an expiring future.

545. CLOSING BIDS AND OFFERS IN BLACKBOARD TRADING

If, at the close of the futures call, there is posted a higher bid or lower offer than the last sale, such bid or offer shall be subject to acceptance for one minute after the close.

546. OPENING AND CLOSING RANGES DURING REGULAR TRADING HOURS ²⁶

The opening and closing ranges shall be established by Exchange staff. In the event of a disputed range or trade conspicuously "out of line" with the market, the final determination of the range shall be made by the Pit Committee. A change in the opening range will be allowed only if determined within 15 minutes of the opening. A change in the closing range will be allowed only if determined within 5 minutes of the close.

547. DISCRETIONARY ORDERS ²⁷

No orders shall be accepted for execution on the floor of the Exchange that give the broker more latitude than price and time in execution of the order.

The above restriction shall not apply to those orders:

1. placed by another member;
2. placed by members of the floor broker's immediate family which include: husband, wife, brothers, sisters, parents, grandparents, great-grandparents, children, grandchildren, great-grandchildren and in-laws; and
3. placed through proprietary accounts of clearing member firms.

548. PRIORITY OF EXECUTION ²⁸

Non-discretionary customer orders shall be filled in the order received by the filling broker. Open orders from previous sessions shall have precedence over new orders and shall be filled in order of their original time stamps.

Non-discretionary customer orders received by a GLOBEX terminal operator shall be entered into GLOBEX in the order received. Non-discretionary orders that cannot be immediately entered into GLOBEX must be entered when the orders become executable in the sequence in which the orders were received.

(Next Rule 550)

549. [RESERVED] ²⁹

550. ³⁰ POST SETTLEMENT SESSION ³¹

551. SPREAD OR COMBINATION TRANSACTIONS TO RECTIFY ERRORS ³²

552. DUAL TRADING RESTRICTIONS ^{33 34}

552.A. Definitions

1. Dual Trading: The term "dual trading" shall mean trading or placing an order for one's own account, an account in which one has a direct or indirect financial interest or an account which one controls, in any contract month in which such person previously executed, received or processed a customer order on the Exchange floor during the same Regular Trading Hours session.
2. Customer: The term "customer" means the ultimate (end) customer or originator of the order, not the clearing member.
3. Mature Liquid Contract: The term "mature liquid contract" means a contract month by position in relation to the front month contract at any given point in time that has had during the prior six calendar months an average daily pit-traded volume of 10,000 or more contracts; provided, however, that the Board of Directors may exempt from or include in this definition specific contracts and hours of trading during which such contracts will be deemed not to be mature liquid contracts, taking into account any market conditions which, in the Board's opinion, would justify such action. ³⁵

552.B. Prohibition

Subject to the following exceptions, dual trading shall be prohibited in any contract month which is mature and liquid:

1. Customer Permission. A member may engage in dual trading in any contract month if each customer for whom such member executes or processes orders in that contract month grants prior written permission to such member.
2. Member Customers. A member may engage in dual trading in any contract month if the customer for whom such member executes or processes orders in that contract month is a member of the Exchange. ³⁶
3. Errors.
 - a. A member taking a position into his or her error account as a result of the erroneous execution of an order shall not be considered to be dual trading provided that such member creates an accurate record evidencing that the position was the result of an

error.

- b. A member may engage in dual trading to offset errors resulting from the execution of customer orders provided that (1) such member creates an accurate, contemporaneous record evidencing that transactions for such member's account were the result of the correction of the error and (2) that such member records the time of each trade to the nearest minute on his or her trading card.
4. Spread Brokers. A member whose primary business is the execution of spread orders may engage in dual trading. Members executing options/futures spread or combination orders (in which the futures side is a dual trading restricted contract) at a differential or combination value, while in the options pit, will not be considered in violation of the dual trading restrictions if such members subsequently trade for their personal accounts in that dual trading restricted futures contract. This exemption only applies to members executing the aforementioned options/futures spreads or combinations. Members are still prohibited from trading for their personal accounts in dual trading restricted futures contracts after executing outright customer orders in such contracts.³⁷
5. Foreign Currency Futures. Each trading day between 7:45 AM and 1:59 PM and during the post settlement session, a member may engage in dual trading in any foreign currency futures contract month that is otherwise restricted for dual trading.³⁸

Violation of this rule may be a major offense.

561.

REPORTS OF LARGE POSITIONS³⁹

Clearing members shall submit to the Exchange a daily report of all individuals or other entities which own, control, or carry large positions in a single contract month for one futures contracts or a single expiration month for a put or call option, regardless of strike price. The Exchange may require that more than one report be submitted daily. Such report shall be in a form acceptable to the Division of Market Regulation and shall contain the account numbers and the number of open contracts in each month for a futures contract or in each expiration month for a put or call option in which any individual or other entity owns, controls, or carries open positions in a single contract month that equals or exceeds the reporting level for such contract established from time to time by Exchange staff. Furthermore, with respect to any individual or other entity owning, controlling, or carrying a position that meets or exceeds the reportable level in any month of a futures or options contract, the clearing member must submit a report for that individual or other entity in all months of that futures and options contract, regardless of position size. The Business Conduct Committee or Exchange staff may, at its discretion, require reports from one or more clearing members on a lesser number of positions owned, controlled, or carried.

Clearing members shall also furnish the Division of Market Regulation with reports identifying the owner and any controlling parties for accounts required to be disclosed in accordance with the preceding paragraph.⁴⁰

It shall be the responsibility of the clearing member to obtain the information required above relative to ownership and control of positions within any account carried on an omnibus basis, unless such omnibus account has been specifically exempted by the Division of Market Regulation.⁴¹

562.

SPECULATIVE LONG AND SHORT POSITIONS SAME DELIVERY MONTH⁴²

A clearing member shall not be permitted to carry a speculative long position and a speculative short position for any customer or for itself in the same commodity for the same delivery month.

563.— 569. [RESERVED]