

# CME Group EFRP Webcast

CME Group Market Regulation Department

July 22, 2014

# Agenda

- 1 Speaker Introductions  
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- 2 EFRP Overview  
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- 3 Significant Changes to EFRP  
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- 4 Tools To Help Adapt  
.....
- 5 Question and Answer Session  
.....

# CME Presenters

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# EFRP Overview and Changes

Ryne Toscano and Bill Lange

# Exchange for Related Positions Overview

## General Information

- CME, CBOT, NYMEX and COMEX Rule 538 governs Exchange for Related Positions (EFRP) transactions.
- All futures and options on futures contracts are eligible for execution via EFRP.
- EFRPs do not have minimum quantity thresholds.
- EFRPs do not have price reporting requirements to the marketplace
- The futures or options on futures portion of an EFRP must be submitted to CME Clearing within a prescribed period of time after execution.
- The Exchange futures or options on futures contract portion of an EFRP may be executed at any commercially reasonable price which conforms to the standard minimum tick increment for the product.

### Three types of Permitted EFRPs

Exchange of  
Futures for  
Physical  
(EFP)

Exchange of  
Futures for Risk  
(EFR)

Exchange of  
Options for  
Options  
(EEO)

# Significant Changes in EFRP Rules



Revisions to Rule 538 become effective Aug 4, 2014

## Market Regulation Advisory Notice Link

<http://www.cmegroup.com/rulebook/files/ra1311-5rr-rule538.pdf>

## Areas of Focus

- 1 Banning of transitory EFRPs in Energy, Metals and FX products
- 2 Allowance for Immediately Offsetting FX EFPs
- 3 Enhanced recordkeeping requirements
- 4 Enhanced focus on submission requirements to CME Clearing
- 5 Other key EFRP topics

# 1 Prohibition on Transitory EFRPs

- Beginning August 4, 2014, **transitory EFRPs** in NYMEX and COMEX energy and metals products and CME FX products will be **prohibited**.
- Prior to August 4, 2014, such transactions were expressly permitted under the rules.

## *Definition:*

EFRPs in which the execution of an EFRP is **contingent** upon the execution of another EFRP or related position transaction between the parties and where the transactions result in the **offset** of the related positions **without material market risk**.

*For ClearPort transactions, historically known as:*

- Contingent EFS; Transitory EFS, ClearPort EFS

While time between transactions is a factor in determining whether the EFRP was transitory, transactions will be evaluated based on whether they have **integrity as independent transactions exposed to material market risk**.

## 2 Immediately Offsetting EFPs in FX Futures Permitted

**Beginning August 4, 2014, CME will permit Immediately Offsetting EFPs in FX Futures.**

### *Definition*

EFPs in FX futures in which the parties immediately offset a cash transaction\*

### *Key Requirements*

- Standard confirmation statements issued by the bank/foreign exchange dealer party must be created
  - Should indicate, by name, the identity of the counter party
  - When counterparty is a CTA or other person acting on behalf of third party, confirmation must identify third party's Carrying Clearing Member and account number (third party name not required)
- If the futures leg fails to clear, the EFP transaction is void and counterparties are left with the stand-alone offsetting physical transaction on the same side of the market as the futures leg of the failed EFP. Parties must then demonstrate the booking of the cash transaction
- Non-deliverable forwards in FX are swaps under CFTC regulations and therefore ineligible as the related position component of an immediately offsetting EFP in FX futures.
- Non-member CTAs should contact CME FX Team for a Compliant Workflow.

*\*These transactions are permissible only as EFPs in FX futures and not in any other asset class, or as EFRs or EOOs in FX futures.*



### 3 Enhanced Recordkeeping is Required

- Parties must maintain all records relevant to
  - The Exchange contract
  - The corresponding related position component
- Records must be produced upon request by the Market Regulation Department, and clearing members are responsible for obtaining EFRP records from clients.
- FCMs must accurately identify EFRP transactions as such on all customer statements.

Records requested by CME Market Regulation may include:

Order tickets,  
trade blotters,  
emails, IMs,  
telephone  
records

Cash  
confirmations  
and signed  
contracts for  
cash or  
derivative leg

For EFPs, 3<sup>rd</sup>  
party proof of  
payment for  
physical  
commodity

Futures account  
statements  
showing  
confirmation of  
EFRP

Internal firm  
records showing  
booking of cash  
or derivative  
transaction

## 4 Enhanced Focus on Timing of Submissions

- **Relevant terms** of EFRPs are considered to have been determined at the time **the price and quantity of the Exchange contract and the corresponding related position component** of the transaction are agreed upon by the parties to the EFRP.
  - Where the actual delivery quantity may not be precisely determined by the parties until the time of delivery, the parties may contractually agree to submit following the time at which actual delivery quantities are determined
- **Time of execution must be submitted** for all EFRPs, regardless of the method of submitting the EFRP to CME Clearing.
- When a broker/FCM acts as agent on behalf of the principals to an EFRP transaction, the **time of execution is when the broker(s)/FCM(s) confirm relevant terms**.
- Exchange futures **positions executed as part of an EFRP are subject to position limits from the time of execution**, regardless of the time the transaction is submitted.

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EFRPs must be submitted within 1 hour of relevant terms being decided during hours defined by each exchange:

CME/CBOT: 6AM – 6PM Central

NYMEX/COMEX: 7AM – 5:45PM  
Eastern

All exchanges, outside of above hours:  
no later than 7AM Central/8AM Eastern

## 5 Other Key Topics: Multi-Legged EFRPs

- EFRPs may incorporate multiple Exchange components provided that all the components have the same market bias (long or short).
  - EFRPs with multiple Exchange components with different biases are permitted ONLY where the Exchange components are legs of a recognized intercommodity spread involving a product and its by-products.

Crack Spread vs Crack Spread Swap  
Soybean Crush Spread vs Soybean Crush Swap

- EFRPs with multiple related position components are permissible provided that the net exposure of the related position components is approximately equivalent to the quantity of futures exchange, or, for EOOs, the net delta-adjusted quantity of the OTC option components is approximately equivalent to the delta-adjusted quantity of the Exchange-listed option.
- It is **impermissible** to structure two EFRPs for purposes of rolling futures contracts from one month to another month. Such transactions constitute multi-bias EFRPs which are impermissible under Rule 538.

## 5 Other Key Topics: Account Requirements

The opposing accounts in an EFRP must be:

- a) Independently controlled accounts with different beneficial ownership; or
- b) Independently controlled accounts of separate legal entities with common beneficial ownership; or
- c) Independently controlled accounts of the same legal entity provided that the account controllers operate in separate business units.

Where the EFRP is between affiliates meeting b) or c) above, the movement of the related position component must be bona fide and documented appropriately.

- *In certain instances, transferring open positions pursuant to Rule 853 may be an alternative to affiliated accounts transacting EFRPs opposite one another provided that the transfer complies with the requirements of Rule 853.*

## 5 Other Key Topics: Additional Information

### Futures for Futures

- The related position component of an EFRP may not be a futures contract or an options on futures contract.
  - For example, contracts currently identified by LME as futures are not permissible as the related position component of an EFRP.

### EFRP Types

- If the related position component is a physical transaction, a forward contract not otherwise defined as a swap under federal regulations, an Exchange Traded Fund (ETF) or an Exchange Traded Note (ETN), the transaction should be identified as an EFP.
- Any swap traded on or subject to the rules of a DCM or SEF is ineligible to serve as the related position to an EFR or EOO. This exclusion does not apply to swaps which are bilaterally negotiated and submitted for clearing-only to a DCO.

### EFPs for Inventory Financing

- EFPs for purposes of inventory financing in agricultural, metals and energy commodities are permitted. The party providing financing may, through the execution of an EFP, purchase the commodity and sell the equivalent quantity of futures to the counterparty, while simultaneously granting to the counterparty the non-transferable right, **but not the obligation**, to execute a second EFP that reverses the original EFP during a specified time in the future.

# Tools to Help Adapt

Nader Shwayhat

Executive Director, CME Direct Business Development

# ClearPort UI Selections Changing

## Three types of Permitted EFRPs


Exchange of  
Futures for  
Physical

Exchange of  
Futures for Risk

Exchange of  
Options for  
Options

EFS are a subcategory of EFR.  
Effective August 4<sup>th</sup>, all EFS  
should be submitted using EFR  
designation. It is market  
participants' responsibility to  
ensure any EFS comply with the  
rules of the applicable market.

### Current State

Trade Entry 

Trade Type


- BLOCK ▾
- BLOCK
- EFP
- EFR
- ~~EFS/EEO~~
- LGNOT
- OPNT
- SUB
- SWBLK

Leg 1 Side

Buy ▾


Search for Product


### Future State, effective August 4th

Trade Entry 

Trade Type

- BLOCK ▾
- BLOCK
- EFP
- EFR/EEO
- LGNOT
- OPNT
- SWBLK

Set Preference 

Leg 1 

Side

Buy ▾

Search for Product

# Single-Sided Trade Entry Facilitates Compliance with Timing Requirements

**Trade Entry** Trade Type  
EFP

Set Preference show current

Leg 1

Side  
Buy

Market  
--- Any ---

Search for Product

CRUDE OIL (CL.NYMEX)

Term  
Aug-2014

Strip/Pack/Bundle  
--- Select One ---

End Term  
--- Select One ---

Quantity

Barrels/month

Price - USD per Barrel

**Account Information**

Company Name  
Kr Trading LLC

**Opposite Information**

Firm Name  
llc

- BLUEFAME ASSET MANAGEMENT **LLLC**
- CDS Asset Management **LLC**
- CREDIT SUISSE SECURITIES (USA) **LLC**
- Giunta Brokerage **LLC**
- JP Morgan Securities **LLC**
- Kr Trading **LLC**
- PHIBRO **LLC**
- PRUDENTIAL FINANCIAL DERIVATIVES, **LLC**
- Red Rock Trading **LLC**
- Torchwood Trading **LLC**
- UBS SECURITIES, **LLC**
- Wolverine Trading **LLC**

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## Easy to Use

- All firms are auto-registered to use single-sided
- Enter trade details
- Allege Counterparty
- Click Submit

## Benefits

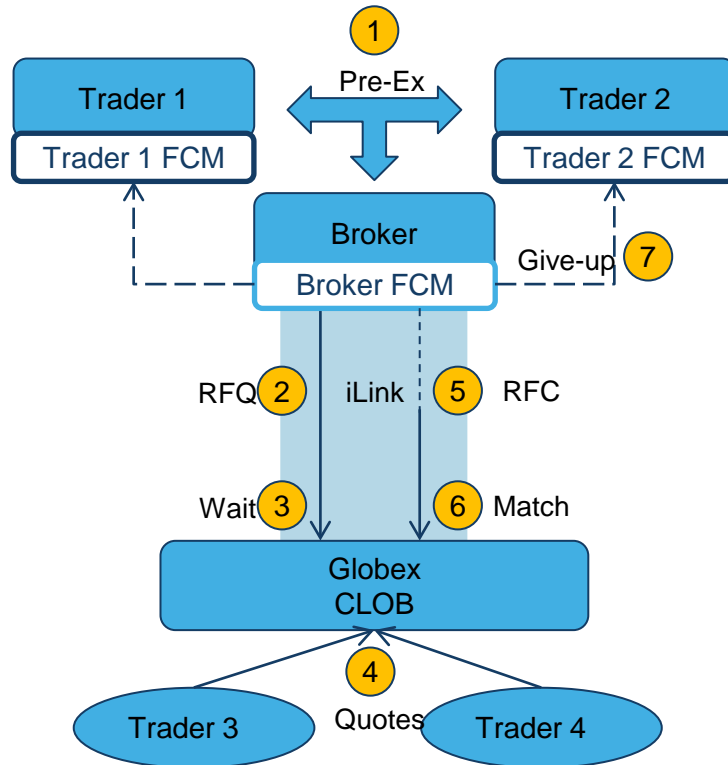
- Complies with submission requirements
- Only firm must be alleged, not trader



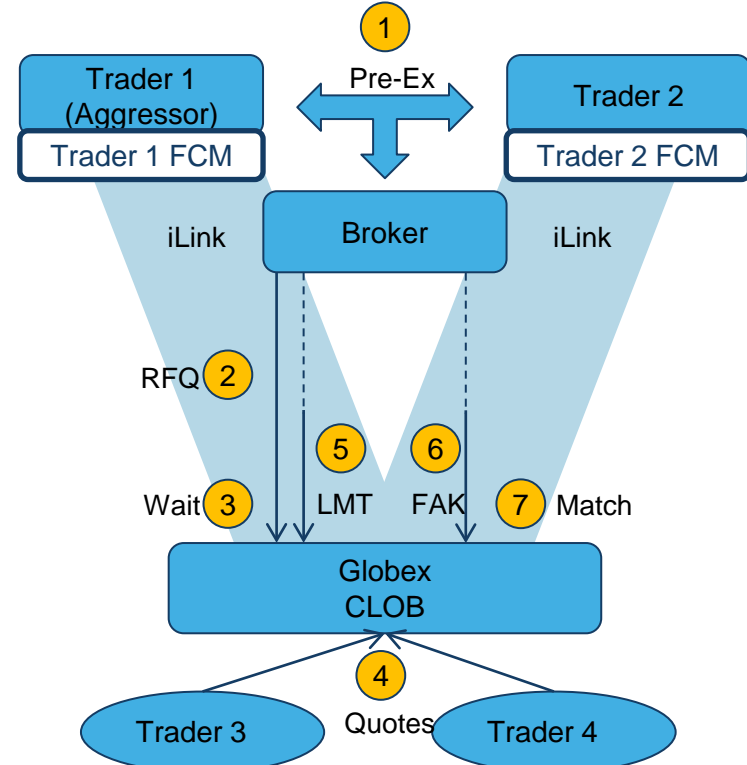
# CME Group Crossing Solutions

CME offers two solutions today for executing a privately negotiated trade on Globex via a “Cross”

## “Globex” Cross



## “Agency” Cross



- Transactions executed this way are not EFRPs; they are central order book 'futures' executions
- All Cross Trades are governed by CME Rule 539, Pre-Execution Communications
- Globex Cross available for all asset classes except Ag Futures. Agency Cross is available for select Energy and Metals contracts at this time.

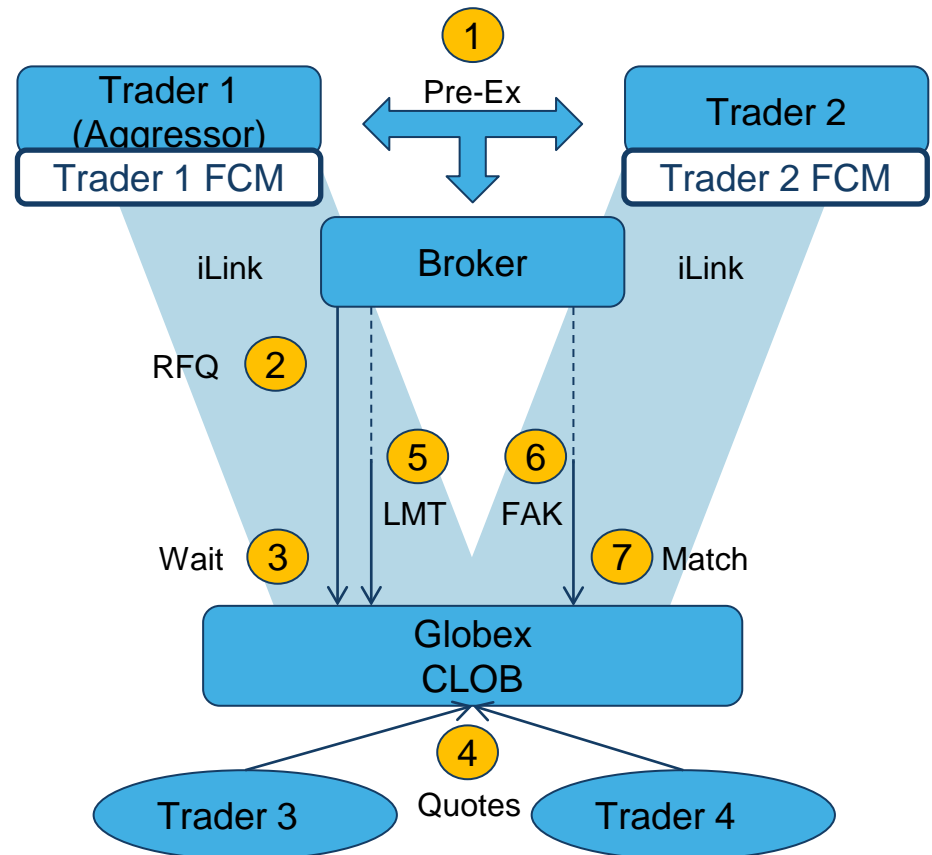
# CME Group Agency Cross

Use Case: Traditional ClearPort, brokered workflow, sub-block, previously conducted as an EFS

Pre-requisites: Broker leverages CME Direct. Broker does NOT need to have a Give-up account. Trader FCM's must enable Agency Cross per existing ClearPort workflow and credit lines.

## Workflow:

1. Pre-ex negotiation and agreement on Product, Price, Qty, Accounts
2. Initial RFQ to sent by Broker ObO Trader1
3. Market has opportunity to submit quotes
4. A wait time of at least 5 secs is required
5. LMT order sent by Broker ObO Trader1
6. "Instantly" (1mm sec), FAK order submitted by Broker ObO Trader2
7. Match occurs within CLOB based on best price. No Give ups required



*\*If the product being crossed has not been quoted in past few weeks, an "initiating RFQ is sent first upon submission of User Defined Spread*

# Standard CME Direct Block Ticket

- WTI American
- Sept 14
- 105 / 107 CS
- Price = .50
- Qty = 25 Lots
- Note: Minimum Block Qty for WTI American is 100 Lots

Add Deal - WTI Am Option Sep14 105.00/107.00 CS

Product: WTI Am Option (LO) Exec. Time: 29 May 07:57:00 CME Direct

Strategy: CS Clearing: CME  Bypass Permissions

Trade Type: Block Live/Voice: Voice  Suppress Alerts

**Light Sweet Crude Oil (WTI) Option**  P & C

Term: Sep14 Strikes: 105.00/107.00 Ratio: 1x1 Ref: \$/Bbl Delta: Over: 1 Price: 0.50 Quantity: 25 Unit: Contracts/Month

Side	Ratio	Product	Term	Strike	C/P	Price	Quantity
BUY	- 1 +	WTI Am Option (LO)	Sep14	105.00	Call	1.00	25 Contracts/Month
SELL	- 1 +	WTI Am Option (LO)	Sep14	107.00	Call	0.50	25 Contracts/Month

Price Legged: 0.5 Diff: 0.0

Hedges

Side	Underlier Product	Term	Delta	Price	Quantity
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Add Hedge

Buyer: Lauren Doig/666\_demo\_clearing  
Company: Demo Clearing LLC  
Account: DEMOACT2  
Broker: CMED Broker 1/cmed\_test\_broker\_1  
 Aggressor

Seller: CMED Trader 47/CMEDT3  
Company: CMED Test Trader Firm 3  
Account: DEMOACT5  
Broker: CMED Broker 1/cmed\_test\_broker\_1  
 Aggressor

Notes:   Requires Affirmation  Add Another

# Block Minimum Alert Provided on Pre-Confirm

- User is Alerted
- Qty of 25 does not meet block minimum
- Can “Submit as Cross”

The screenshot shows a window titled "Pre-Confirm Deal - WTI Am Option Sep14 105.00/107.00 CS". The window displays trade details for Deal ID 151494, which has been rejected. A red box highlights the rejection message: "25 Contracts/Month Rejected: Failed to validate min quantity: Minimum quantity rules not met. Rule is - CRUDE OIL OPTIONS Traded as Spread [ Times - 19:00:01 to 19:00:00 , Each leg Quantity - 100 ] OR [ Times - 19:00:01 to 19:00:00 , Sum of legs Quantity - 100 ]". The trade is a "Block" trade executed on "29 May 2014 07:57:00". The trade details table shows two legs: a buy leg for 1.00 contracts at 105.00 and a sell leg for 0.50 contracts at 107.00. The buyer is "Demo Clearing LLC" and the seller is "CMED Test Trader Firm 3".

Pre-Confirm						
Deal ID	151494					Reject
Clearing Code	LO					
Product	WTI Am Option					
Description	Sep14 105.00/107.00 CS					
Price	0.50 \$/Bbl					
Quantity	25 Contracts/Month					
Rejected: Failed to validate min quantity: Minimum quantity rules not met. Rule is - CRUDE OIL OPTIONS Traded as Spread [ Times - 19:00:01 to 19:00:00 , Each leg Quantity - 100 ] OR [ Times - 19:00:01 to 19:00:00 , Sum of legs Quantity - 100 ]						
Trade Type	Block					
Exec. Date/Time	29 May 2014 07:57:00					
Buy	LO	WTI Am Option	Sep14 105.00 Call	1.00	25 Contracts/Month 25 Cleared Contracts, 25,000 Bbl	Sell
Sell	LO	WTI Am Option	Sep14 107.00 Call	0.50	25 Contracts/Month 25 Cleared Contracts, 25,000 Bbl	Buy
Buyer			Seller			
Demo Clearing LLC			CMED Test Trader Firm 3			
Lauren Doig			CMED Trader 47			
DEMOACCT2			DEMOACCT5			
Demo Clearing LLC			Demo Clearing LLC			
CMED Broker 1/cmed_test_broker_1			CMED Broker 1/cmed_test_broker_1			
Notes						
Print						
Go Back Submit as Cross Submit to Clearing (F12) Close						

# Cross Ticket is Auto-Opened & Pre-Populated

- Market re-entered as a cross on electronic market (Globex)
- Terms, Participants, Legs, filled in
- Broker can see live market quotes in real time
- If screen is “dark”, can easily submit the cross for execution

WTI Am Option Sep14 105.00/107.00 CS

Description	Qty	Bid	Ofr	Qty	Last	Volume	Settle
WTI Am Option Sep14 105.00/107.00 CS					0.50	25	
WTI Am Option Sep14 105.00 Call						25	1.29
WTI Am Option Sep14 107.00 Call						25	0.85

Price: 0.50 Quantity: 25 Contracts

**Buyer**

Trader: Lauren Doig/666\_demo\_clearing  
Company: Demo Clearing LLC  
Account: DEMOACCT2  
Broker: CMED Broker 1/cmed\_test\_broker\_1  
 Aggressor

**Seller**

Trader: CMED Trader 47/CMEDT3  
Company: CMED Test Trader Firm 3  
Account: DEMOACCT5  
Broker: CMED Broker 1/cmed\_test\_broker\_1  
 Aggressor

Notes: \_\_\_\_\_

**New Cross**

Hit the 'Submit Cross' button to start the automated crossing process.

Auto Submit

# Upon Submission RFQ Sent to Market

- Upon “Submit Cross”
- RFQ is sent to the market
- Countdown begins to allow market to develop and reply
- 5 Sec (fut) to 15 Sec (opt) wait as defined by rules
- At any point during the 5 – 15 sec wait OR up until 30 seconds after, broker can decide what to do: “Cancel Cross” or “Submit Cross”

Description	Qty	Bid	Ofr	Qty	Last	Volume	Settle
WTI Am Option Sep14 105.00/107.00 CS					0.50	25	
WTI Am Option Sep14 105.00 Call						25	1.29
WTI Am Option Sep14 107.00 Call						25	0.85

Price: 0.50 Quantity: 25 Contracts

**Buyer**

Trader: Lauren Doig/666\_demo\_clearing  
Company: Demo Clearing LLC  
Account: DEMOACCT2  
Broker: CMED Broker 1/cmed\_test\_broker\_1  
 Aggressor

**Seller**

Trader: CMED Trader 47/CMEDT3  
Company: CMED Test Trader Firm 3  
Account: DEMOACCT5  
Broker: CMED Broker 1/cmed\_test\_broker\_1  
 Aggressor

**RFQ sent - Waiting 3 seconds to submit cross orders**  
Following successful Rav checks and RFQ submission, the cross orders will automatically be placed in the market.

Auto Submit

# Execution Reports Provided Upon Completion

- Broker will see exactly how much is executed for each side of the transaction
- Fills are displayed in CME Direct Fills window as well

Fill Time	B/S	CC	Product	Description	Price	Qty	Account	Order	Order Time	Trade Date	Trader	HON	TON	Fills
(Today)								(M...)						
1 29 May 2014 08:02:17	B	LO	WTI Am Option	Sep14 105.00/107.00 CS	0.50	25	DEMOACCT2	1792707	29 May 2014 08:02:17	29 May 2014	Lauren Doig	56198422434	13035	1
2 29 May 2014 08:02:17	S	LO	WTI Am Option	Sep14 105.00/107.00 CS	0.50	25	DEMOACCT5	1792706	29 May 2014 08:02:17	29 May 2014	CMED Trader 47	56198422433	13034	1

# Agency Cross Next Steps

## Broker

1. Install CME Direct, if not already on.
2. Speak with customers and let them know you can support Agency Cross.
3. Coordinate an in-depth training of Agency Cross ahead of your “go live” date.

## Trader

1. Speak with your brokers and confirm they are able to support Agency Cross
2. Request your FCM to permission your broker(s) to support your accounts, similar to existing ClearPort process

## FCM

1. Create Agency Cross session specifically to handle these trades
2. Confirm existing RAV credit & broker permissions still apply to each Trader / Broker
3. Confirm support with Trader / Broker and schedule a “go live” date.

Questions / Training? Contact [CMEDirectSales@cmegroup.com](mailto:CMEDirectSales@cmegroup.com)



# Questions?

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