

## MARKET REGULATION ADVISORY NOTICE

---

Exchange	CME & CBOT
Subject	Computerized Trade Reconstruction (“CTR”) Clearing Member Back Office Audit Enforcement Program Programs
Rule References	Rule 536
Advisory Date	March 26, 2008
Advisory Number	CME & CBOT – RA0806-3
Effective Date	April 1, 2008

**Effective April 1, 2008**, the CTR rules and enforcement program of CME and CBOT related to CTR Clearing Member Back Office Audits will be fully harmonized. The Section of Rule 536.F. concerning this program is presented below and is followed by an FAQ that addresses questions about the program.

### **536.F. CTR Clearing Member Back Office Audit Enforcement Program**

The Market Regulation Department will conduct audits of clearing members to verify that required audit trail information has been accurately recorded and submitted. The CTR audit threshold level for firms failing to pick up and timestamp sequenced cards, verbal order cards and floor orders is 20%. The threshold for all other firm audit trail or recordkeeping deficiencies is 10%.

Percentage calculations will be made based on an examination of a combination of sequenced cards, verbal orders and floor orders totaling 150 documents. The number of documents containing a deficiency(ies) will be divided by the total number of documents examined in determining the deficiency percentage.

Violations of each threshold within 24 months shall be subject to automatic fines in accordance with the following schedule:

First occurrence	\$2,500
Second occurrence	\$5,000
Subsequent occurrence(s)	\$10,000

A firm will have 15 days after receipt of a fine to present evidence to the Market Regulation Department in support of having the fine dismissed. If the firm does not submit such evidence, or if the Market Regulation Department determines that the evidence submitted is insufficient to reduce the percentage below the threshold level, the fine shall be final and may not be appealed.

Notwithstanding the provisions of this Section, the Market Regulation Department may, at any time, refer matters that it deems egregious to the Probable Cause Committee.

Questions regarding this Advisory should be directed to the following individuals in Market Regulation:

Lou Abarcar, Associate Director	312.648.3623
Terry Quinn, Manager	312.435.3753
Dave Peloquin, Experienced Data Quality Analyst	312.648.5415
Mike Forde, Experienced Data Quality Analyst	312.341.700

**FAQ Related to CME and CBOT 536.F.  
CTR Clearing Member Back Office Audit Enforcement Program**

**Q1: How often will clearing firms be audited?**

A1: Each firm will be audited at least once every 12 months. A firm that is fined as a result of deficiencies identified in a back office audit will be audited a second time within the same 12 month period.

**Q2: How will the back office audit be conducted?**

A2: Staff of the Market Regulation Department will conduct the audit. If the firm is both a CME and CBOT clearing firm, both back office audits will be conducted at the same time, and if a clearing firm has multiple divisions, all divisions will also be audited at the same time. A minimum of 150 documents covering at least a two-day period will be reviewed for each Exchange's audit. Upon completion of a joint CME and CBOT audit, the clearing firm will receive separate reports detailing the results of the CME audit and the CBOT audit.

**Q3: How will the error percentage be calculated for the "Data Entry Errors" portion of the audit?**

A3: The percentage will be based on the total number of identified keypunch errors divided by the total number of documents examined. A document which contains multiple keypunch errors will be counted as one error for purposes of calculating the data entry error percentage.

**Q4: How will the error percentage be calculated for the "Collection Deadline" portion of the audit?**

A4: The percentage will be based on the total number of documents which are determined to have been collected late divided by the total number of documents examined.

**Q5: Who issues the fines pursuant to the CTR back office audit fine schedule?**

A5: The fines are issued by the Market Regulation Department.

**Q6: May a CTR fine be appealed?**

A6: A firm will have 15 days after receiving notice of an automatic fine to present evidence to the Market Regulation Department to have the fine rescinded and the violation dismissed. The Market Regulation Department will determine if such evidence is sufficient to reduce the error percentage below the threshold level. The decisions of the Market Regulation Department are final.

**Q7: If a clearing firm violates exception thresholds at both CME and CBOT, will the clearing firm be sanctioned by each exchange?**

A7: Yes. CME and CBOT are separate self-regulatory organizations and activity on each exchange will be evaluated separately. Accordingly, a firm that violates the thresholds on both exchanges will be separately sanctioned pursuant to the fine schedule by each exchange.