

B2

CME UPDATE 03-09

September 8, 2003

I. BOARD APPROVES DELISTING ALL CME QUARTERLY BANKRUPTCY INDEX FUTURES AND OPTIONS CONTRACT MONTHS, EFFECTIVE IMMEDIATELY

At its Regular Meeting on Wednesday, September 3, 2003, the Board of Directors approved delisting all contract months in the CME Quarterly Bankruptcy Index (QBI) futures and options contracts, effective immediately. The QBI futures and options were launched on Tuesday, November 3, 1998 and have never traded. CME notified the CFTC of the Exchange's action under the exchange certification procedures.

If you have any questions, please contact Mr. John Labuszewski, Director, Research and Product Development, at (312) 466-7469 or Mr. Steven Youngren, Associate Director, Financial Product Development, at (312) 930-4583.

CME UPDATE 03-09

September 8, 2003

II. AMENDMENTS TO LIVE CATTLE CONTRACT

As previously announced in CME Update 03-07 dated July 7, 2003, the Live Cattle Futures contract has been amended to comply with Country of Origin Labeling (COOL), Public Law 107-171. These amendments are effective with the October 2004 contract month, which will be listed for trading on Tuesday, September 2, 2003. Notice that the new delivery requirements described in these amendments are contingent on the issuance of regulations by the Secretary of Agriculture. The amendments are shown below, with additions underlined.

**CHAPTER 101
LIVE CATTLE FUTURES**

All rules in this chapter shall be read to include the following:

IF THE SECRETARY OF AGRICULTURE HAS ISSUED REGULATIONS, IN ACCORDANCE WITH 7 USC 1638C, REQUIRING COUNTRY OF ORIGIN LABELING FOR BEEF AND THOSE REGULATIONS ARE, OR ARE SCHEDULED TO BECOME, EFFECTIVE AT ANY TIME DURING THE DELIVERY PERIOD, ALL CATTLE IN THE DELIVERY UNIT MUST BE BORN AND RAISED EXCLUSIVELY IN THE UNITED STATES. THE SELLER MUST TENDER DOCUMENTATION THAT CONFORMS TO INDUSTRY STANDARDS AT THE TIME OF DELIVERY VERIFYING COUNTRY OF ORIGIN INFORMATION REQUIRED BY THE REGULATION.

10100. SCOPE OF CHAPTER

This chapter is limited in application to futures trading of live beef cattle. The procedures for trading, clearing, inspection, delivery and settlement, and any other matters not specifically covered herein shall be governed by the rules of the Exchange.

(Remainder of Chapter unchanged)

If you have any questions, please contact Mr. Paul Peterson, Director, Commodity Product Development, at (312) 930-4587.

CME UPDATE 03-09

September 8, 2003

III. BOARD APPROVES “STOP LOGIC” RULES ON GLOBEX® EFFECTIVE SEPTEMBER 28, 2003

At its Regular Meeting on Wednesday, September 3, 2003, the Board of Directors amended rules governing the execution of stop orders on the GLOBEX® electronic trading platform. These rules become effective on Sunday, September 28, 2003. Specifically, the GLOBEX system is programmed to prevent the continuing execution of orders when it detects certain conditions. As amended, Rule 580, GLOBEX TRADE ALGORITHMS, provides for the following:

1. The system checks to determine if the execution of a stop order or series of stop orders would result in an executed price that falls outside a threshold bounded by the last traded price (prior to the execution of the first stop) plus/minus x ticks. (The number x to be determined by the Exchange periodically.) Initially, x shall be established at the current no-bust range in the particular market.
2. If so, the market enters a “reserved state” for y seconds, during which time orders may be entered, cancelled or modified but not executed. (The time period y to be determined by the Exchange periodically.) Initially, y shall be established at five seconds. The system will disseminate an “Indicative Opening Price” (IOP) that represents the price at which the market theoretically will reopen.
3. If, at the conclusion of the initial y -second reserved period, the opening price would fall within a range bounded by the last traded price plus/minus two times (2x) x , then normal trading resumes. If the opening price would fall outside that range, the reserved state continues for a subsequent y -second period.
4. The procedure described in point 3 above continues until either (i) the indicative opening price is within a range bounded by the last traded price plus/minus the number of reserved periods, plus one, times x , e.g., at the conclusion of a second y -second reserved period, the relevant range is the last price plus/minus three times (3x) x , at the conclusion of the third reserved period, the relevant range is the last price plus/minus four times (4x) x , etc., at which point normal trading resumes; or (ii) a total of twelve (12) y -second reserved periods is concluded, at which point normal trading resumes regardless of the opening price.

These procedures shall be applied in the context of stock index futures and currency futures at this time. Note that these measures shall not apply to options to the extent that stop loss orders are not accepted in the context of options traded on GLOBEX. The Exchange shall retain flexibility to alter the relevant range (x) and duration of the reserved time period (y) from time to time as warranted by market conditions in the specific market. However, x shall initially be established at the no-bust range for each

CME UPDATE 03-09

September 8, 2003

market while the duration of the reserved period shall be five (5) seconds. The amendments are shown below, with additions underlined.

580. GLOBEX TRADE ALGORITHMS

1. Market orders that are entered into the GLOBEX System shall be converted into limit orders at a price at or above (in the case of a buy order) or at or below (in the case of a sell order) the last price shown on the GLOBEX system. Any part of such order that is not filled at the limit price or better shall remain as a resting order at such limit price until filled or cancelled.

2. Stop limit orders are activated and placed into the order book when the order's specified stop price is traded, at which time the order may be executed at the best available price at or between the specified limit price and the specified stop price. Any part of such order that is not filled shall remain as a resting order at such limit price until filled or cancelled.

3. If the execution of a stop order would result in an execution price that is above (below) the last traded price plus (minus) X ticks, the market shall be placed in a "reserved state." During the reserved state, orders may be entered, modified or cancelled but orders may not be executed. The GLOBEX System will disseminate an "Indicative Opening Price" (IOP) during the reserved state representing the price at which the market could trade if the reserved state were to conclude immediately. If, at the conclusion of the initial reserved state period, the IOP is within a range bounded by the last traded price plus or minus two times (2x) X ticks, then normal execution of trades shall resume. If the IOP is outside such range, the market shall remain in a reserved state for a subsequent period. A series of reserved state periods shall ensue until either (i) the IOP is within a range bounded by the last traded price plus (minus) the number of reserved state periods, plus one, times X ticks at the conclusion of such reserved state periods, at which point normal trading shall resume; or (ii) a total of twelve (12) reserved state periods are concluded, after which normal trading shall resume regardless of the opening price.

This process shall be applied to such markets as determined by the Exchange. The value X and the duration of a reserved state period shall be determined by the Exchange.

4. Unless otherwise specified by the Exchange, orders entered into the GLOBEX System will be matched in accordance with an algorithm that gives first priority to orders at the best price and that gives priority among orders entered at the same price based on their time of entry into the system, with the first order entered receiving first priority, the second order entered receiving second priority, etc. (First In, First Out or "FIFO" Allocation Algorithm). The Exchange may use a different matching algorithm for particular contracts by giving written notice of such algorithm to members and firms using GLOBEX at least ten days before use of such algorithm is implemented. See Interpretation of Rule 580–GLOBEX TRADE ALGORITHMS at the end of Chapter 5.

If you have any questions, please contact Mr. John W. Labuszewski, Director, Research & Product Development, at (312) 466-7469.

CME UPDATE 03-09

September 8, 2003

**IV. BOARD APPROVES ADDITION OF NINTH QUARTERLY EURODOLLAR
FUTURES CONTRACT TO LIST OF RESTRICTED CONTRACT MONTHS
PURSUANT TO RULE 515**

At its Regular Meeting on Wednesday, September 3, 2003, the Board of Directors ("Board") approved the addition of the ninth position Eurodollar futures ("ED") contract to the list of contract months restricted pursuant to Rule 515 ("Registration and Identification of Broker Associations") as of November 3, 2003, provided that average daily volume in this contract month remains above 10,000 contracts for the 6-month calculation periods ending August 2003 and September 2003. The Board's decision follows a previous decision to add the ninth ED contract to the list of restricted contracts pursuant to Rule 552 ("Dual Trading Restrictions") in the event average daily volume remains above 10,000 for this time period.

Notice will be provided to members and shareholders on Monday, October 13, 2003, if the ninth ED contract is to be added to the list of restricted contract months pursuant to Rules 515 and 552.

If you have any questions, please contact Mr. Robert A. Sniegowski, Associate Director, Market Regulation, at (312) 648-5493, or Mr. Jeffrey P. Nierman, Investigator, Market Regulation, at (312) 930-1319.

CME UPDATE 03-09

September 8, 2003

V. BOARD APPROVES ONE-YEAR EXTENSION OF GLOBEX® SYSTEM FEE REDUCTION FOR EQUITY MEMBERS, LESSEE MEMBERS AND 106 H/J/N FIRMS TRADING CURRENCY FUTURES

At its Regular Meeting on Wednesday, September 3, 2003, the Board of Directors approved a one-year extension of the GLOBEX® system fee reduction of \$0.25 for equity members, lessee members and 106 H/J/N firms for currency futures, excluding E-mini currency futures, which have a separate GLOBEX system fee schedule. Non-member GLOBEX system fees remain unchanged at \$0.50. The current \$0.25 GLOBEX system fee reduction for equity members, lessee members and 106 H/J/N firms (a reduction of \$0.25 from the pre-April 1, 2001 level of \$0.50) would have expired Friday, September 12, 2003, without Board action.

CME has experienced GLOBEX currency futures volume growth since side-by-side trading and the fee reduction was initiated on April 1, 2001. In conjunction with the fee reduction, the Board also approved a one-year extension of the current elimination of the monthly brokerage fees for equity members (\$0.04 per contract) and monthly brokerage fees for lessee members (\$0.05 per contract). The Board approved extending both fee reductions for an additional year through Friday, September 10, 2004. The table below illustrates the approved GLOBEX system fee reduction extension.

APPROVED EXTENSION OF \$0.25 GLOBEX® SYSTEM FEE REDUCTION FOR CURRENCY FUTURES* (Excluding E-Mini Currencies)			
GLOBEX System Fees			
	Pre-April 1, 2001 Fees Futures & Options	Current Fees Approved for 1-Year Extension	
		Futures	Options (Unchanged)
Equity Member	\$0.50	\$0.25	\$0.50
Lessee Member	\$0.50	\$0.25	\$0.50
106 H/J/N Firm	\$0.50	\$0.25	\$0.50
Non-Member	\$0.50	\$0.50	\$0.50

*Includes a one-year extension of the current monthly brokerage fee waiver for equity and lessee members.

If you have any questions, please contact Mr. Scott Brusso, Director, Foreign Exchange Products, at (312) 930-3133, or Mr. Steven Youngren, Associate Director, Financial Product Development, at (312) 930-4583.

CME UPDATE 03-09

September 8, 2003

VI. BOARD APPROVES ADDITIONS AND REVISIONS TO CME'S WEATHER PRODUCT COMPLEX

At its Regular Meeting on Wednesday, September 3, 2003, the Board of Directors approved the following three items pertaining to additions and revisions to CME's weather product complex.

1. Demand from market participants has led to the expansion of eligible cities for CME's U.S.-based weather contracts. **Therefore, Boston, Houston, Kansas City, Minneapolis, and Sacramento will be added to the list of cities for monthly HDD/CDD futures and options effective Friday, September 26, 2003.** These five additional U.S. cities will be added to the current 10, for a total of 15 U.S. cities covered by CME monthly weather products. These additions are shown in CME Degree Days Index Futures Rule 40301, presented below, with additions underlined and deletions bracketed and overstruck.

40301. COMMODITY SPECIFICATIONS

2. The CME Degree Days Indexes and Listing Cities

Each particular CME Degree Days index[,] is the accumulation of like Degree Days over a calendar month. The accumulation period of each CME-HDD or CME-CDD Index Futures contract begins with the first calendar day of the contract month and ends with the last calendar day of the contract month.

The temperature for a particular city is reported from a specific automated weather station. The table below lists the cities and their corresponding weather stations:

Listing Cities and ~~the~~ Corresponding Automated Weather Stations

<u>[City]</u>	<u>Automated Weather Station]</u>
Atlanta [Atlanta]	Hartsfield International Airport (WBAN 13874) [Weather Station]
Boston	Logan International Airport (WBAN 14739)
Chicago [Chicago]	O'Hare International Airport (WBAN 94846) [Weather Station]
Cincinnati [Cincinnati]	Northern Kentucky (Covington) [International] Airport (WBAN 93814)
Dallas [Dallas]	Fort Worth International Airport (WBAN 03927)
Des Moines [Des Moines]	International Airport (WBAN 14933)
Houston	Bush Intercontinental Airport (WBAN 12960)
Kansas City	International Airport (WBAN 03947)
Las Vegas [Las Vegas]	McCarran International Airport (WBAN 23169)
Minneapolis-St. Paul	International Airport (WBAN 14922)
New York [New York]	La Guardia Airport (WBAN 14732)
Philadelphia [Philadelphia]	International Airport (WBAN 13739)
Portland [OR Portland]	International Airport (WBAN 24229)
Sacramento	Executive Airport (WBAN 23232)
Tucson [Tucson]	International Airport (WBAN 23160)

CME UPDATE 03-09

September 8, 2003

Furthermore, Atlanta, Dallas-Ft. Worth, Des Moines, Las Vegas, Philadelphia, Portland, and Tucson will be added to the list of cities for Seasonal HDD/CDD futures and options effective Friday, September 26, 2003. These seven additional U.S. cities will be added to the current 3, for a total of 10 U.S. cities covered by CME seasonal weather products. These additions are shown in CME Seasonal Degree Days Index Futures Rule 40501, presented below, with additions underlined and deletions bracketed and overstruck.

40501. COMMODITY SPECIFICATIONS

2. The CME Seasonal Degree Days Indexes and Listing Cities

Each particular CME Seasonal Degree Days index is the accumulation of like Degree Days over a 5-month period. The accumulation period of each CME SHDD or CME SCDD futures contract begins with the first calendar day of the first month in the 5-month period (November or May, respectively) and ends with the last calendar day of the fifth month in the 5-month period (March or September, respectively).

The temperature for a particular city is reported from a specific automated weather station. The table below lists the cities and their corresponding weather stations:

Listing Cities and ~~the~~ Corresponding Automated Weather Stations

<u>[City]</u>	<u>Automated Weather Station]</u>
Atlanta	Hartsfield International Airport (WBAN 13874)
Chicago [Chicago]	O'Hare International Airport (WBAN 94846) [Weather Station]
Cincinnati [Cincinnati]	Northern Kentucky (Covington) [Int.] Airport (WBAN 93814)
Dallas – Ft. Worth	International Airport (WBAN 03927)
Des Moines	International Airport (WBAN 14933)
Las Vegas	McCarran International Airport (WBAN 23169)
New York [New York]	La Guardia Airport (WBAN 14732)
Philadelphia	International Airport (WBAN 13739)
Portland	International Airport (WBAN 24229)
Tucson	International Airport (WBAN 23160)

2. Revised listing procedure for U.S.-based weather options for monthly HDD and CDD will be as follows:

- **Listed in 50-point intervals in a ± 250 -point range for all months, and**
- **Listed in 10-point intervals in a ± 100 -point range for the 2 front months only.**

These changes will be effective at the start of business on Monday, September 8, 2003. These revisions are shown in Options on CME Degree Days Index Futures Rule 403A01.E. and Options on CME Seasonal Degree Days Index Futures Rule 405A01.E., presented below, with additions underlined and deletions bracketed and overstruck.

403A01.E. Exercise Prices

Exercise prices shall be stated in terms of the respective CME Degree Days Index futures contract that is deliverable upon exercise of the option.

For all contract months, exercise prices shall be at intervals of ~~[40]~~50 CME Degree Days Index points (~~e.g., 700, 750, 800, etc.~~). In addition, for options on the two contract months nearest to expiration, some exercise prices shall also be at intervals of 10 index points (e.g., 710, 720, 730, etc.). [~~For example, if the underlying CME Degree Days Index futures is trading at 700, this would be the at-the-money strike and the next strike higher would be at 710, then 720, etc.~~]

CME UPDATE 03-09

September 8, 2003

At the commencement of option trading in a contract ~~[period]~~month, the Exchange shall list put and call options at intervals of 50 index points in a range of 250 index points above and below ~~[the exercise price that is nearest]~~ the previous day's settlement price of the underlying futures contract. Thereafter, when the settlement price in the underlying futures contract occurs at or passes through any exercise price, the Exchange shall list on the next trading day put and call options at the next higher (or lower) exercise price within a 250-point range above (or below) the settlement price.~~[In addition, for options on the CME HDD, all eligible exercise prices in a range of 250 HDD (350 HDD for October Chicago & October NYC) above and below the exercise price that is nearest that futures price shall be listed for trading. For options on the CME CDD, all eligible exercise prices in a range of 200 CDD above and below the exercise price that is nearest that futures price shall be listed for trading.]~~

Furthermore, for options on the two contract months nearest to expiration, the Exchange shall list put and call options at intervals of 10 index points in a range of 100 index points above and below the previous day's settlement price of the underlying futures contract. Thereafter, when a settlement price in the underlying futures contract occurs at or passes through any exercise price, the Exchange shall list on the next trading day put and call options at the next higher (or lower) exercise price within a 100-point range ~~(the 250 HDD (350 HDD for October Chicago & October NYC) above (or below) the settlement price.)~~~~[exercise price nearest the previous day's settlement price for options on the CME HDD Degree Days Index, or with the 200 CDD above (or below) the exercise price nearest the previous day's settlement price for options on the CME CDD Index.]~~ New options may be listed for trading up to and including the termination of trading.

The Board may modify the provisions governing the establishment of exercise prices as it deems appropriate.

405A01.E. Exercise Prices

Exercise prices shall be stated in terms of the respective CME Seasonal Degree Days Index futures contract that is deliverable upon exercise of the option.

~~For all contract months, [E]xercise prices shall be at intervals of 50 CME Seasonal Degree Days Index points (e.g., 4500, 4550, 4600, etc.). [For example, if the underlying CME Seasonal Degree Days Index futures is trading at 4500, this would be the at the money strike and the next strike higher would be at 4550, then 4600, etc.]~~

At the commencement of options trading in a contract ~~[period]~~month, the Exchange shall list put and call options at intervals of 50 index points ~~[the exercise price that is nearest the previous day's settlement price of the underlying futures contract. In addition, the Exchange shall list put and call options at exercise prices]~~ in a range of 1000 points above and below ~~[the exercise price that is nearest]~~ the previous day's settlement price. Thereafter, when a settlement price in the underlying futures contract occurs at or passes through any exercise price, the Exchange shall list on the next trading day put and call options at the next higher (or lower) exercise price in a ~~[range of]~~ 1000-point[s] range above (or below) the ~~[exercise price that is nearest the previous day's]~~ settlement price. New options may be listed for trading up to and including the termination of trading.

The Board may modify the provisions governing the establishment of exercise prices as it deems appropriate.

3. Technical amendments to U.S.-based weather contracts covering various typographical errors, sections of obsolete, unclear, inconsistent or redundant rule language, formatting issues, and other similar items. These corrections have no substantive impact on the operation, purpose or effect of the contract to holders of existing open interest. **These changes will take effect at the start of business on Monday, September 8, 2003.** These amendments are shown below, with additions underlined and deletions bracketed and overstruck.

**CHAPTER 403
CME DEGREE DAYS INDEX FUTURES**

40302. FUTURES CALL

40302.C. Price Increments

~~[The CME HDD Index futures contract shall be quoted in HDD.]~~ The minimum price fluctuation ~~[of]~~ on the respective CME~~[HDD]~~ Degree Days Index futures shall be 1~~[-0]~~ index point ~~[(one cumulative HDD)]~~ and have a value of \$100.

CME UPDATE 03-09

September 8, 2003

~~[The CME CDD Index futures contract shall be quoted in CDD. The minimum price fluctuation of the CME CDD Index futures shall be 1.0 index point (one cumulative CDD) and have a value of \$100.]~~

40302.H. Contract Modification

Specifications shall be fixed as of the first day of trading of a contract, except that all ~~contracts~~ ~~deliveries~~ must conform to government regulations in force at the time of ~~final settlement~~~~delivery~~. If any U.S. governmental agency or body with jurisdiction over the trading of the contract or with jurisdiction respecting the trading or ~~final settlement~~~~delivery~~ of the CME Degree Days Index futures issues an order, ruling, directive or law that conflicts with the requirements of these rules, such order, ruling, directive or law shall be construed to take precedence and become part of these rules, and all open and new contracts shall be subject to such governmental orders.

40303 SETTLEMENT PROCEDURES

~~[Delivery under the CME Degree Days Index futures shall be by cash settlement.]~~

40303.A. Final Settlement Price

All futures contracts remaining open at the termination of trading shall be settled using the respective CME Degree Days Index reported by ~~the~~ Earth Satellite Corporation for that city for that contract month, using the methodology in effect on that date, on the first Exchange business day that is at least two calendar days after the futures contract month. For example, on January 4, 1999, the December 1998 futures contract on ~~the~~ CME Chicago HDD Index would have been settled at 940.5 Heating Degree Days.

**CHAPTER 403A
OPTIONS ON CME DEGREE DAYS INDEX FUTURES**

403A00. SCOPE OF CHAPTER

This chapter is limited in application to trading in put and call options on CME Degree Days Index futures contracts. The procedures for trading, clearing~~[-inspection, delivery]~~ and settlement, and any other matters not specifically covered herein shall be governed by the rules of the Exchange.

403A01. OPTION CHARACTERISTICS**403A01.A. Contract Months~~[-]~~ and Trading Hours~~[-]~~~~[Trading Halts]~~**

Options contracts shall be listed for such contract ~~[periods]~~~~months~~ and scheduled for trading during such hours~~[-except as indicated below]~~ as may be determined by the Board of Directors.

~~[There shall be no trading in any CME Degree Days Index option contract when the primary futures contract for that Degree Days Index futures contract is limit bid or offered.]~~

~~[For purposes of this rule, the primary futures contract shall be defined as the nearest futures contract.]~~

~~[For purposes of this rule during Electronic Trading Hours (ETH), the GLOBEX Control Center shall have the responsibility of determining whether the primary futures contract is limit bid or offered.]~~

403A01.C. Minimum Fluctuations

The price of an option shall be quoted in terms of the respective CME Degree Days Index. Each ~~[HDD or CDD]~~ index point represents \$100. For example, a quote of 2 index points represents \$200. The minimum fluctuation ~~[should]~~ shall be 1.0 HDD or 1.0 CDD (also known as one tick), equal to \$100~~[-]~~.

403A01.D. ~~[Reserved]~~~~[Underlying Futures Contract]~~

~~[The underlying futures contract is the futures contract for the period in which the option expires. For example, the underlying futures contract for an option that expires in January is the January futures contract.]~~

CME UPDATE 03-09

September 8, 2003

403A01.F. Position Limits

No person shall own or control a combination of options and underlying futures contracts that exceeds 10,000 futures-equivalent contracts net on the same side of the market in all contract ~~[dates]~~months combined.

For the purposes of this rule, the futures equivalent of an option contract is 1 times the previous business day's IOM risk factor for the option series. Also for purposes of this rule, a long call option, a short put option, and a long underlying futures contract are on the same side of the market; similarly, a short call option, a long put option, and a short underlying futures contract are on the same side of the market.

CHAPTER 405

CME SEASONAL DEGREE DAYS INDEX FUTURES

40502. FUTURES CALL

40502.C. Price Increments

~~[The CME SHDD Index futures contract shall be quoted in HDD.]~~ The minimum price fluctuation ~~[of]~~ on the CME ~~[SHDD]~~ Seasonal Degree Days Index futures shall be 1 index point ~~(one cumulative HDD)~~ and have a value of \$100.

~~[The CME SCDD Index futures contract shall be quoted in CDD. The minimum price fluctuation of the CME SCDD Index futures shall be 1 index point (one cumulative CDD) and have a value of \$100.]~~

40502.H. Contract Modification

CME
open

Specifications shall be fixed as of the first day of trading of a contract, except that all ~~contracts~~ deliveries must conform to government regulations in force at the time of final settlement ~~[delivery]~~. If any U.S. governmental agency or body with jurisdiction over the trading of the contract or with jurisdiction respecting the trading or final settlement ~~[delivery]~~ of the Seasonal Degree Days Index futures issues an order, ruling, directive or law that conflicts with the requirements of these rules, such order, ruling, directive or law shall be construed to take precedence and become part of these rules, and all and new contracts shall be subject to such governmental orders.

40503. SETTLEMENT PROCEDURES

~~[Delivery under the CME Seasonal Degree Days Index futures shall be by cash settlement.]~~

40503.A. Final Settlement Price

All futures contracts remaining open at the termination of trading shall be settled using the respective CME Seasonal Degree Days Index reported by Earth Satellite Corporation for that city for that contract period, using the methodology in effect on that date, on the first Exchange business day that is at least two calendar days after the last calendar day of the fifth month in the 5-month period (March, in the case of CME SHDD Index futures, or September, in the case of CME SCDD Index futures). For example, on April 3, 2001, the March 2001 ~~[SHDD]~~ futures contract on the CME Chicago SHDD Index would have been settled at 5660.0 Heating Degree Days.

CHAPTER 405A

OPTIONS ON CME SEASONAL DEGREE DAYS INDEX FUTURES

405A00. SCOPE OF CHAPTER

This chapter is limited in application to trading in put and call options on CME Seasonal Degree Days Index futures contracts. The procedures for trading, clearing~~[, inspection, delivery]~~ and settlement, and any other matters not specifically covered herein shall be governed by the rules of the Exchange.

405A01. OPTION CHARACTERISTICS

405A01.A. Contract Months and Trading Hours

Options contracts shall be listed for such contract ~~[periods]~~months and scheduled for trading during such hours as may be determined by the Board of Directors.

CME UPDATE 03-09

September 8, 2003

405A01.C. Minimum Fluctuations

The price of an option shall be quoted in terms of the respective CME Seasonal Degree Days Index. Each ~~[HDD or CDD]~~ index point represents \$100. For example, a quote of 2 index points represents \$200. The minimum fluctuation shall be 1.0 HDD or 1.0 CDD (~~[1/2]~~ also known as one tick), equal to \$100[1/2].

405A01.D. Reserved~~[Underlying Futures Contract]~~

~~[The underlying futures contract is the futures contract for the period in which the option expires. For example, the underlying futures contract for an option that expires in March is the CME Seasonal Heating Degree Days (CME SHDD) Index futures, and the underlying futures contract for an option that expires in September is the CME Seasonal Cooling Degree Days (CME SCDD) Index futures.]~~

405A01.F. Position Limits

No person shall own or control a combination of options and underlying futures contracts that exceeds 10,000 futures-equivalent contracts net on the same side of the market in all contract ~~[dates]~~months combined.

For the purposes of this rule, the futures equivalent of an option contract is 1 times the previous business day's IOM risk factor for the option series. Also for purposes of this rule, a long call option, a short put option, and a long underlying futures contract are on the same side of the market; similarly, a short call option, a long put option, and a short underlying futures contract are on the same side of the market.

If you have any questions, please contact Mr. Charles Piszczor, Senior Market Analyst, Commodity Product Development Department, at (312) 930-4536, or Mr. Paul Peterson, Director, Commodity Product Development Department, at (312) 930-4587.

B14

CME UPDATE 03-09

September 8, 2003

VII. BOARD APPROVES EXTENSION OF RUSSELL 1000® GLOBEX® AND CLEARING FEE WAIVERS THROUGH END OF DECEMBER

At its Regular Meeting on Wednesday, September 3, 2003, the Board of Directors approved the extension of Russell 1000® GLOBEX® and clearing fee waivers through the end of December 2003.

If you have any questions, please contact Mr. Rick Redding, Managing Director, Equity Products, at (312) 930-3373 or Brett Vietmeier, Associate Director, Equity Products, at (312) 930-3394.

CME UPDATE 03-09

September 8, 2003

VIII. BOARD APPROVES REDUCTION IN THE BRITISH POUND FUTURES AND OPTIONS TICK SIZE, EFFECTIVE FOR ALL EXISTING AND NEWLY LISTED CONTRACT MONTHS FOR THE TRADE DATE OF MONDAY, OCTOBER 6, 2003

At its Regular Meeting on Wednesday, September 3, 2003, the Board of Directors approved reducing the British pound futures and options minimum price increment from \$0.0002 per British pound (= \$12.50 per tick) to \$0.0001 per British pound (= \$6.25 per tick). Also, the Board approved a language clarification to the GLOBEX[®] error trade policy to specify the GLOBEX British pound futures no bust range at 30 ticks rather than 15 ticks. Thirty ticks at \$0.0001 per British pound equals the current 15 ticks at \$0.0002 for a plus or minus no bust range of \$0.0030 per British pound. The proposal was submitted to the CFTC under exchange certification procedures. The new British pound futures and options tick sizes will apply to all existing as well as newly listed contract months, and will become effective starting with GLOBEX trading on Sunday, October 5, 2003, for the trade date of Monday, October 6, 2003.

The Board responded to customer demand and the desire to promote efficiency in the CME British Pound products. The rule changes allow CME to match the trading precision of the interbank over-the-counter (OTC) foreign exchange market.

The approved rule changes follow with additions underlined and deletions bracketed and lined out.

**CHAPTER 251
BRITISH POUND STERLING FUTURES**

Rule 25100 is unchanged.

25101. FUTURES CALL

Rule 25101.A is unchanged.

25101.B. Trading Unit

The unit of trading shall be 62,500 pound sterling.

25101.C. Price Increments

Minimum price fluctuations shall be in multiples of ~~[\$.0002]~~\$0.0001 per pound sterling, equivalent to ~~[\$12.50]~~\$6.25 per contract. ~~[Trades may also occur in multiples of \$.0001 per pound sterling, commonly referred to as one tick, for pound sterling futures intra-currency spreads, executed as simultaneous transactions on the trading floor pursuant to Rule 542.A, and on GLOBEX[®] pursuant to Rule 542.F.; and for pound sterling futures All-Or-None (AON) transactions executed pursuant to section "All-Or-None Transactions" of Rule 521.]~~

Remainder of rules are unchanged.

B16

CME UPDATE 03-09

September 8, 2003

CHAPTER 251A OPTIONS ON BRITISH POUND STERLING FUTURES

Rule 251A00 is unchanged.

251A01. OPTION CHARACTERISTICS

Rule 251A01A is unchanged.

251A01.B. Trading Unit

The trading unit shall be an option to buy, in the case of the call, or to sell, in the case of the put, one pound sterling futures contract as specified in Chapter 251.

251A01.C. Price Increments

The price of an option shall be quoted in U.S. dollars per pound sterling, except as provided in [Rule 584](#) (GLOBEX Volatility Quotes). Each ~~[\$0.0002]~~\$0.0001 per pound sterling (~~[two]~~one point[s]) shall represent ~~[\$12.50]~~\$6.25. For example, a quote of .0070 represents an option price of \$437.50 (70 points x ~~[\$12.50 per 2 points]~~\$6.25 per point). The minimum fluctuation shall be ~~[two points]~~one point (also known as one tick). ~~[A trade may also occur at a price of \$0.0001 (\$6.25, also known as one half tick), \$0.0003 (\$18.75, also known as one and one half ticks), \$0.0005 (\$31.25, also known as two and one half ticks), \$0.0007 (\$43.75, also known as three and one half ticks), and \$0.0009 (\$56.25, also known as four and one half ticks).]~~

If options are quoted in volatility terms, the minimum fluctuation shall be 0.05 percent.

Remainder of rules are unchanged.

INTERPRETATIONS TO CHAPTER 5

CME GLOBEX ERROR TRADE POLICY (p. xviii)

G. Busting Trades After System Freeze

In certain types of GLOBEX system failures, it is possible that the matching engine will freeze with live orders in the queue waiting to be matched. When the system is unfrozen, the pending orders can be matched before the GCC can halt the matching engine. The GCC is authorized to bust trades resulting from matches in these circumstances if, and only if, the price of such trades is outside of the No Bust Range at the time that a confirmation of the trades was sent.

GLOBEX Error Trade Tick Range List

<u>Futures Contract</u>	<u>No Bust Range</u>
Eurodollar	5 basis points or less
Libor	2.5 basis points or less
T-Bills	2.5 basis points or less
Fed Fund "Turn"	50 basis points or less
Agency Notes	16 ticks or less
Currency Futures (except British pound)	20 ticks or less
British Pound Futures	[45] 30 ticks or less

Remainder of Interpretation is unchanged.

End of rule changes.

If you have any questions, please contact Mr. Scott Brusso, Director, Foreign Exchange, at (312) 930-3133 or Mr. Steven Youngren, Associate Director, Financial Product Development, at (312) 930-4583.

CME UPDATE 03-09

September 8, 2003

IX. ADDITION TO CLARIFICATION OF PROCEDURES FOR DETERMINING CANADIAN DOLLAR CROSS-RATE FUTURES SETTLEMENT PRICES AT TERMINATION

As you were previously notified in CME Update 03-08, dated August 11, 2003, the Board of Directors approved modifying the CME\$INDEX™ futures final settlement procedure on August 6, 2003. The modification impacts procedures for determining Canadian dollar cross-rate futures settlement prices at termination. These procedures were first clarified by the Board on August 7, 2002 and published in CME Update 02-08 on August 12, 2002 and CME Special Executive Report S-3853 on September 13, 2002.

This addition to the clarification of procedures will allow exchange staff to use the Canadian dollar rate implied by the final settlement prices of the CME\$INDEX and other currency futures in their consideration along with Canadian dollar futures floor and GLOBEX prices and quote vendor Canadian dollar “spot next” and “tom next” prices at 9:16 a.m. on the Monday cross-rate termination of trading day. The changes to the clarification of procedures for determining Canadian dollar cross-rate futures settlement prices at termination are underlined below.

1. On the termination of trading day for all CME Canadian dollar cross-rate futures (i.e., AD/CD, CD/JY, EC/CD futures), the 9:16 a.m. nearby Canadian dollar futures price will be used in the synthetic calculation of settlement prices for the Canadian dollar cross-rate futures contracts as well as the 9:16 a.m. CME\$INDEX futures settlement price which has a Canadian dollar component.
2. On the termination of trading day for all CME Canadian dollar cross-rate futures, the 9:16 a.m. (final) settlement price for the expiring Australian dollar futures, Japanese yen futures and Euro FX futures will be used in the synthetic calculation of settlement prices for the Canadian dollar cross-rate futures contracts.

In CME Special Executive Report (SER), S-3806, dated Monday, May 13, 2002, CME outlined procedures for determining daily settlement prices for CME cross-rate futures contracts. Daily settlement prices for cross-rate futures contracts are calculated synthetically from the respective 2:00 p.m. pit-determined settlement prices for the respective U.S. dollar-based currency futures contracts associated with the particular cross-rate. For example, to determine the daily settlement price for the Canadian dollar/Japanese yen futures, each day's U.S. dollar/Canadian dollar futures settlement price is divided by the U.S. dollar/Japanese yen futures settlement price.

Additionally, calculation of settlement prices on the termination of trading day, except for the Canadian dollar crosses are the same procedures done at 9:16 a.m. rather than 2:00 p.m. on the second business day preceding the third Wednesday of the contract month. Nearby Canadian dollar futures do not terminate on Monday at 9:16 a.m. like

CME UPDATE 03-09

September 8, 2003

the rest of the component currencies in the CME crosses (Canadian dollar futures terminate Tuesday at 9:16 a.m.). CME staff will take the nearby Canadian dollar futures price at 9:16 a.m. on the Monday termination day of the cross-rate futures contracts and use this price to determine Canadian dollar cross-rate futures settlement prices at termination of trading. The 9:16 a.m. nearby Canadian dollar futures price on the Monday before the Wednesday delivery day is equivalent to a Canadian dollar "spot next rate." CME staff will monitor quote vendor Canadian dollar "spot next rate" and "tom next" prices at 9:16 a.m. on the Monday cross-rate termination of trading day. CME staff and the Canadian Dollar Futures Pit Committee may use this information as additional input to determine the Canadian dollar cross-rate futures prices at termination, in accordance with CME Rule 813.D. (market information known to officials, i.e., the Canadian dollar "spot next rate" at 9:16 a.m.). Please note that the interbank convention for Canadian dollar "cash" is same day settlement, "spot" is next day settlement, "tom next" is 2-day settlement (i.e., equivalent to other currencies' spot value). Further, for Canadian dollars, "spot next" and "tom next" are the same.

If you have any questions, please contact Mr. Scott Brusso, Director, Foreign Exchange, at (312) 930-3133 or Mr. Steven Youngren, Associate Director, Financial Product Development, at (312) 930-4583.

CME UPDATE 03-09

September 8, 2003

X. BOARD APPROVES REVISION OF CME'S MINIMUM CAPITAL REQUIREMENTS FOR CLEARING MEMBER FIRMS

At its Regular Meeting on Wednesday, September 3, 2003, the Board of Directors approved a proposed revision of CME's minimum capital requirements for clearing members.

Clearing members are responsible for monitoring their capital and ensuring continued compliance with CME capital requirements. Currently, all clearing members must maintain adjusted net capital in excess of the greatest of:

1. \$2 million; or
2. 8% of domestic and foreign domiciled customer and 4% of noncustomer (excluding proprietary) risk maintenance performance bond requirements for all domestic and foreign futures and options on futures contracts; or
3. CFTC minimum regulatory capital requirements; or
4. SEC minimum regulatory capital requirements.

With the new common clearing link with the CBOT, CBOT-only FCMs will be grandfathered as CME Special Clearing Members at the current minimum capital requirements set by the Board of Trade Clearing Corporation. Those minimums are \$2.5 million for corporations and \$1.5 million for partnerships. In addition, CME has recommended that any new CBOT-only FCMs be required to maintain the same minimum capital levels.

In order to maintain consistency between the capital requirements for CME and CBOT FCMs, CME is raising its minimum capital requirements to \$2.5 million. The effective date for the revised capital requirements will be September 30, 2003.

The revisions to CME's capital requirements are set forth below with additions underlined and deletions lined out.

Clearing members are responsible for monitoring their capital and ensuring continued compliance with CME capital requirements. All clearing members must maintain adjusted net capital in excess of the greatest of:

5. ~~\$2.0~~ 2.5 million; or
6. 8% of domestic and foreign domiciled customer and 4% of noncustomer (excluding proprietary) risk maintenance performance bond requirements for all domestic and foreign futures and options on futures contracts; or
7. CFTC minimum regulatory capital requirements; or
8. SEC minimum regulatory capital requirements.

B20

CME UPDATE 03-09

September 8, 2003

If you have any questions regarding the revised requirements, please contact Ms. Anne Glass, Director, Audit Department, (312) 930-3140.

CME UPDATE 03-09

September 8, 2003

XI. BOARD APPROVES NEW RULES FOR RISK MANAGEMENT AND DISASTER RECOVERY REQUIREMENTS FOR CLEARING MEMBER FIRMS

At its Regular Meeting on Wednesday, September 3, 2003, the Board of Directors approved two new rules for risk management and disaster recovery purposes for clearing member firms.

Risk management and business continuity procedures have received heightened attention in the regulatory arena for some time. A firm's ability to understand and detect its exposures, whether from customer or proprietary trading, has been a critical focus of the Clearing House. Likewise, after the events of January 1, 2000 and September 11, 2001, a firm's ability to understand its operational risks and to resume operations has become significant. CME addresses these issues through two forums – regulatory audits and risk management reviews.

In reviewing a firm's procedures, CME has maintained that flexibility is important in assessing whether those procedures are reasonable. There is no "one size fits all" standard. During CME's reviews, the goal is to understand the firm's procedures, but not necessarily to dictate what those procedures should be. In certain instances, CME has made recommendations to firms on how to improve their procedures.

The Board has approved the attached rules to emphasize the value it places on these issues.

The new requirements are effective immediately.

RULE 903 RISK MANAGEMENT

All clearing members must have written risk management policies and procedures in place to ensure they are able to perform certain basic risk and operational functions at all times. At a minimum, the following areas must be considered in the firm's policies and procedures, depending on the firm's size and its business and product mix:

- A. Trade Submission and Account Monitoring. Clearing members must have procedures in place to demonstrate compliance in the following areas for trades executed through both electronic platforms and open outcry:
 - 1. Monitoring the credit risks of accepting trades of specific customers.
 - 2. Monitoring the risks associated with proprietary trading.
 - 3. Limiting the impact of significant market moves through the use of tools such as stress testing or position limits.
 - 4. Maintaining the ability to monitor account activity on an intraday basis.
 - 5. Ensuring order entry systems include the ability to set automated credit controls or position limits or requires a firm employee to enter orders.
 - 6. Defining sources of liquidity for increased settlement obligations.
- B. Additional and/or Alternative Requirements. Exchange staff may prescribe additional and/or alternative requirements in order for clearing members to comply with this Rule.

CME UPDATE 03-09

September 8, 2003

RULE 904 DISASTER RECOVERY AND BUSINESS CONTINUITY

All clearing members must have written disaster recovery and business continuity policies and procedures in place to ensure they are able to perform certain basic operational functions in the event of a significant internal or external interruption to their operations. At a minimum, the following areas must be considered in the firm's policies and procedures, depending on the firm's size and its business and product mix:

- A. Clearing members must have procedures in place to allow them to continue to operate during periods of stress or to transfer accounts to another fully operational clearing member with minimal disruption to either the Exchange or their customers. In order to satisfy this requirement, clearing members must perform:
 - 1. Periodic testing of disaster recovery and business continuity plans.
 - 2. Duplication of critical systems at back up sites.
 - 3. Periodic back-up of critical information.
- B. Key Staff Contacts. Clearing members must maintain and, at the request of the Exchange, provide accurate and complete information for their key personnel. Clearing members must inform the Exchange whenever a change to its key personnel is made.
- C. Additional and/or Alternative Requirements. Exchange staff may prescribe additional and/or alternative requirements in order for clearing members to comply with this Rule.

If you have any questions regarding the new rules, please contact Ms. Anne Glass, Director, Audit Department, (312) 930-3140.