



Special Executive Report

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Rule 432.D. – Interpretation – Fictitious Trades

Questions have arisen regarding certain types of pre-arranged and negotiated transactions that involve equal and opposite transactions in one or more closely related markets. CME Rule 432.D. makes it a major offense "...to create or report a false or fictitious trade." At CME there are four types of transactions wherein pre-arrangement is permitted: block trades, EFP and EBF, and GLOBEX pre-execution negotiation trades. When engaging in these types of transactions, members and clearing members are advised that any agreement between parties to reverse the trades at CME or on another exchange will render the transaction a fictitious trade. In order to further clarify this matter, the Market Regulation Oversight Committee has approved the following rule interpretation:

RULE 432.D. – INTERPRETATION

CME Rule 432.D. prohibits fictitious trades. A fictitious trade includes a prearranged transaction or series of transactions by means of which one or more parties engages in a transaction at CME and reverses that transaction at CME or at another board of trade. CME facilities that permit prearrangement of trades (Rule 526 – Block Transactions; Rule 538 – Transfer Of Spot For Futures; and Rule 539.C. – Pre-Execution Discussions Regarding GLOBEX Trades) may not be used to facilitate a fictitious trade as defined above.