



20 South Wacker Drive
Chicago, IL 60606-7499
www.cme.com

312/930.1000 tel/
312/466.4410 fax

Special Executive Report

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Exchange Modifies GLOBEX[®] Pre-Execution Discussion Rules, Error Trade Policy for Eurodollar Options and Block Trade Policy for Eurodollar Futures and Options

The following amendments to the Exchange Rules and policies will become effective on Sunday, August 1, 2004, in conjunction with the launch of the Enhanced Options System on GLOBEX[®].

(I) **Pre-Execution Discussion Rule for trades to be executed on the Enhanced Options System**

Pre-Execution Discussion of trades to be executed on the Enhanced Options System shall adhere to the following procedure. The initiator of the pre-execution discussion is required to issue a Request For Quote ("RFQ"), indicating the contract or combination of contracts and the anticipated order size. Within three (3) minutes of issuing the RFQ, the initiator of the pre-execution discussion shall enter its order. The entry of the opposing order shall not be allowed until the requisite period of time, as stipulated in Rule 539, has elapsed. Currently, this requisite period of time for Eurodollar Options is fifteen (15) seconds.

The text of the amendment to the Exchange Rules is as follows, with additions underlined and deletions bracketed and overstruck.

CHAPTER 5 FLOOR PRIVILEGES—TRADING QUALIFICATIONS AND PRACTICES

539. PRE-ARRANGED TRADES PROHIBITED

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

The foregoing restriction shall not apply to transactions enumerated as follows:

1. A transfer of spot for futures as provided in Rule 538,

2. It shall not be considered a pre-arranged trade for a member to request a currency rate from an IMM arbitrageur for the purpose of executing an arbitrage transaction or to execute a transaction pursuant to Rule 556. Any transaction resulting from such rate request must, however, be executed in an open and competitive manner in accordance with Rules 521 and 522; and
3. Transactions executed per the provisions of Rule 539.C., Pre-Execution Discussions Regarding GLOBEX Trades.

539.C. Pre-Execution Discussions Regarding GLOBEX Trades

Firms may engage in pre-execution discussions with regard to transactions executed on the GLOBEX system where the firm wishes to be assured that a contra party will take the opposite side of the order. One party may agree in advance with another party that the first party will take the opposite side of the first party's order, under the following circumstances:

1. Customers must consent to allow pre-execution discussions with other market participants.
2. GLOBEX terminal operators, who are solicited to participate in a GLOBEX transaction through pre-execution discussions shall not (i) disclose to another terminal operator the details of such discussions; or (ii) enter an order through GLOBEX to take advantage of information conveyed during such discussions unless the terminal operator has agreed during the pre-execution discussions to participate in the transaction in accordance with this Rule and the order is entered to implement that agreement.
3. A period of 5 seconds shall elapse between entry of the two orders in the case of futures orders; or, a period of 15 seconds shall elapse between entry of the two orders in the case of option orders. The order initially entered may be filled by a third party during the 5 or 15 seconds, as the case may be, that must elapse between the entry of the two orders.
4. GLOBEX terminal operators shall not knowingly enter into a transaction on behalf of a customer in which the member or GLOBEX terminal operator, an entity of which the member or GLOBEX terminal operator is a partner or officer, or any officer or partner of an entity of which the member or GLOBEX terminal operator is an officer or partner, assumes the opposite side unless the member or GLOBEX terminal operator first enters the customer order into the GLOBEX system and then waits for the requisite reasonable period of time before entering an opposite order for any of the above persons or entities.

~~[Except that orders on behalf of customers or any other entities may be entered either first or second in the context of orders for Eurodollar option combination trades including combinations of Eurodollar futures and Eurodollar options.]~~

Pre-execution discussion of a trade intended for execution pursuant to Rule 585, GLOBEX Call Market Trading Algorithm shall be initiated with a Request For Quote ("RFQ") for the specific contract or combination of contracts, with explicit reference to the anticipated order quantity. The order from the initiator of the RFQ for the contract or combination of contracts must be entered within three (3) minutes of the entry of the RFQ. The opposing order may not be entered until the requisite period of time as stipulated in Rule 539.C.3. has elapsed. Failure to enter the initiating order following the RFQ within the requisite time shall be considered an abandonment of the pre-execution discussion. A new RFQ entry is required to reconvene.

- (II) GLOBEX Error Trade Policy concerning Eurodollar Options shall be revised as follows. The additions to the Exchange Rules are double underlined and deletions bracketed and overstruck.

**CME GLOBEX ERROR TRADE POLICY
GLOBEX Error Trade Tick Range List**

<u>Option Contract Prices</u>	<u>No Bust Range</u>
<u>Interest Rate Options Only</u>	
<u>Below 6 ticks</u>	<u>1 tick</u>
<u>6 through 15 ticks</u>	<u>2 ticks or less</u>
<u>16 through 30 ticks</u>	<u>3 ticks or less</u>
<u>31 through 50 ticks</u>	<u>4 ticks or less</u>
<u>51 ticks and above</u>	<u>5 ticks or less</u>
<u>All other Options</u>	
Below 6	eligible for busting
6 through 10	3 ticks or less
11 through 20	4 ticks or less
21 through 50	5 ticks or less
51 through 100	7 ticks or less
101 and above	10 ticks or less
<u>Combination Trades</u>	
All Eurodollar Combinations	5 basis points or less
Intra-Commodity (non-ED) Futures Spreads	5 ticks or less
Inter-Commodity (non-ED) Futures Spreads	the wider of the no bust ranges of the two

[The remainder of Chapter 5 remains unchanged.]

(III) Block Trade Policy for Eurodollar Futures and Options

Effective Sunday, August 1, 2004, the block trade minimum threshold for Options on Eurodollar futures during the hours of 7:00 am – 4:00 pm on Exchange business days shall be 4,000 contracts for the any outright trade, or 4,000 contracts for at least one instrument in a combination trade. For the hours outside of 7:00 am – 4:00 pm on Exchange business days, the minimum threshold shall be 500 contracts in total. The current minimum thresholds are 4,000 contracts in total during the hours of 6:00 am – 4:00 pm on Exchange business days and 500 contracts otherwise.

The foregoing modification to the block trade minimum threshold does not apply to Eurodollar futures. However, for the purpose of consistency, the hours for which different thresholds apply are modified. During 7:00 am – 4:00 pm, the minimum threshold for block trades in Eurodollar futures is 4,000 contracts in total. The minimum threshold shall be 500 contracts in total outside of the hours 7:00 am – 4:00 pm on Exchange business days. This amendment to the Eurodollar Futures block trade policy will also become effective on Sunday, August 2, 2004.

If you have any questions, please contact Peter Barker, Interest Rate Marketing, at (312) 930-8554, or Richard Co, Product Development, at (312) 930-3227.