



Special Executive Report

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MODIFICATIONS TO HEADSET POLICY IN INTEREST RATE QUADRANT

At its meeting on February 2, 2005, the CME® Trading Floor Operations Committee ("Committee") approved changes to the headset policy in the Interest Rate quadrant based on requests from several clearing firms. The first change removes differences in allowable headset uses by product within the Interest Rate quadrant such that a single policy is now applicable to the entire quadrant. The second change allows for the use of unrestricted headsets for the communication of non-member customer orders directly to brokers standing at any level of the pit or their clerks standing in approved clerk locations **from clearing firm offices off the trading floors** (or from the floor of other exchanges) subject to the requirements and restrictions detailed in the customer order section below.

Member Orders

Member orders (orders which receive preferential clearing fees) for all CME interest rate futures and options may now be communicated from on or off-floor locations via headsets directly to brokers standing at any level of the pit or to a clerk standing in an approved clerk location in the interest rate quadrant provided that all audit trail and recordkeeping requirements are met. This was allowed under the prior policy, but only with respect to CME Eurodollar futures and options orders. As is currently required, member orders communicated from an off-floor location directly to a broker or clerk will require that the broker or clerk make a written record of the order on a trading card including the identification of the member calling in the order. The member executing the order must record the trade and time of execution to the nearest minute on the card and must then deliver the card to the initiating member's clearing member in sufficient time to comply with the card and order pick-up schedule published by CME. Clearing firms must ensure that the time of execution is entered into the trade timing system.

Non-Member Customer Orders

The policy change will now allow non-member customer orders for pit execution to be communicated by **authorized staff of CME clearing firms located off the trading floor** via unrestricted wireless headsets directly to brokers standing at any level of the pit or to a clerk standing in an approved clerk location in the interest rate quadrant provided that all audit trail and recordkeeping requirements are met, subject to the following requirements and restrictions:

(over)

1. Non-member customers remain prohibited from communicating directly with brokers or their clerks via the unrestricted headsets.
2. **Clearing firms must tape the telephone lines used to transmit the orders and retain the recordings for thirty days.**
3. In order to comply with CFTC audit trail requirements, the broker or his clerk receiving the order must make a contemporaneous written record of the order on a generic order ticket. Order tickets must be pre-printed with sequential order numbers and the broker's acronym (or the name of a registered CME broker association). In order to ensure that all audit trail requirements are met, the terms of the order, the customer account number, and the name or firm number of the firm transmitting the order must be included on the order ticket. Additionally, the order ticket must be timestamped in on its front when received and whenever modified and timestamped out on its back when the order has been filled (including separate timestamps for receipt of partial fills) or cancelled. As physical conditions allow, CME staff will work with firms and brokers in locating additional timestamp machines in the Interest Rate quadrant to allow for the timestamping of the order tickets.
4. After execution of the order (or upon its cancellation) the broker or his clerk must return the original copy of the order ticket and any associated fill cards to the firm placing the order. Brokers are encouraged to maintain a copy of the order ticket for their records.
5. Firms must keypunch the trade using the information from the order ticket and associated fill cards.
6. The firm placing the order remains financially responsible to its customers for orders placed with brokers or clerks under the terms of this policy. Brokers remain financially responsible for, and must exercise due diligence in, the handling and execution of these orders.

Firms wishing to transmit customer orders pursuant to this policy will be required to submit a letter of request to Market Regulation (via post or via facsimile 312.648.8665 and post) and must ensure that up-to-date headset applications have been filed with the CME Telecommunications Department that identify the intended use of the headset(s). Further, any changes in the use of an existing headset must be updated with the CME Telecommunications Department. No firm may begin to operate under the terms of this policy until CME staff in conjunction with a co-chairman of the Committee reviews and approves the request.

If you have any questions, please contact Eric S. Wolff, Managing Director, Regulatory Affairs, at 312.930.3255, Robert A. Sniegowski, Associate Director, Market Regulation, at 312.648.5493, or James P. Moran, Director, Market Regulation, at 312.930.8520.