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## Special Executive Report

S-4322

September 8, 2005

### **IMPOSITION OF RULE 515.E. INTRA-ASSOCIATION CUSTOMER PERCENTAGE TRADING RESTRICTIONS TO CME EURODOLLAR OPTIONS**

**EFFECTIVE OCTOBER 1, 2005**

At its Regular Meeting on September 7, 2005, the Board of Directors ("Board") approved a recommendation from the Market Regulation Oversight Committee forwarded from the Management Team, the Market Regulation Department and the Interest Rate Products and Services Department to implement a 15% intra-association customer trading percentage restriction under Rule 515.E. ("Registration and Identification of Broker Associations – Intra-Association Trading") in those CME Eurodollar options and CME One-Year Eurodollar MidCurve options contract months subject to the dual trading restrictions pursuant to Rule 552 ("Dual Trading Restrictions"), currently the first five quarterly Eurodollar options contracts, the first and second serial Eurodollar options contracts, and the first and second quarterly and serial One-Year Eurodollar MidCurve options contracts. The restriction becomes effective October 1, 2005.

In making the recommendation, Market Regulation and the Interest Rate Products & Services noted that there has been an increase in the percentage of Eurodollar options orders filled by members of broker associations opposite other members of the same association which has resulted in less access to orders by locals and other brokers in the pit. Historically, the intra-association percentage restrictions have been imposed on liquid markets as one method of encouraging equitable distribution of order flow to other market participants. The joint recommendation to impose the 15% restriction was based on the increase in intra-association trading and the depth of liquidity in pit traded Eurodollar options. Compliance with the 15% restriction will be calculated monthly and the restriction will apply to the same contract months (and during the same range of dates) to which the dual trading restrictions apply in Eurodollar options.

In order to provide members of broker associations active in Eurodollar options the ability to monitor and adjust their percentages for the remainder of September prior to the imposition of the restriction on October 1, members may obtain a copy of their broker association trading analysis report from the 3<sup>rd</sup> Floor Reception Desk which is located directly across from the escalators on the third floor of the south tower. The report is available daily and will display cumulative monthly intra-association and total volume (in restricted contracts only) through two days prior to the report date – for example, the report for September 8 will display volume information through and including September 6.

Beginning in October, violations of the 15% customer percentage restriction will be subject to the sanctions in Rule 515.F. ("Fine Schedules & Violations"). A copy of the pertinent sections of Rule 515.F. is included on the opposite side of this document.

If you have any questions concerning the restriction or the trading analysis report, please contact Robert A. Sniegowski, Associate Director, Market Regulation, at 312/648.5493, James P. Moran, Director, Market Regulation, at 312/930.8520 or Eric S. Wolff, Managing Director, Market Regulation, at 312/930.3255.

**515.F. Fine Schedules & Violations** (in pertinent part)

Violations of the percentage restrictions on personal trading and the execution of orders in contracts subject to the trading restrictions in Section E. shall be subject to automatic sanctions in accordance with the following schedule:

First offense	warning letter
Second offense within 24 months	\$1,000
Third offense within 24 months	\$5,000
Any subsequent offense within 24 months	\$10,000

Sanctions issued pursuant this section are final and may not be appealed, however members will have 15 days after receipt of a notice of violation to present evidence to the Market Regulation Department that administrative, clerical or other errors caused the apparent rule violation.

Notwithstanding the fine schedules, the Market Regulation Department may, at any time, refer matters that it deems egregious to the Probable Cause Committee for review.

Violation of this rule may be a major offense.