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Special Executive Report

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EXCHANGE APPROVES TECHNICAL AMENDMENTS TO THE INTERPRETATION OF CME RULE 580 – GLOBEX TRADE ALGORITHMS

Technical amendments to the Interpretation of CME Rule 580 – **GLOBEX TRADE ALGORITHMS**, allow the trading of user-defined combinations, consisting of both options and futures contracts, on CME Globex®. The amendments enable the Exchange to offer the listing of covered options instruments for CME foreign exchange products traded on CME Globex beginning Sunday, November 5, 2006, and other products such as CME equity options and futures when implemented. The matching algorithm is identical to the one currently used for CME Eurodollar futures and options combinations traded on CME Globex.

The interpretation amendments appear below with the additions underlined.

INTERPRETATIONS & SPECIAL NOTICES RELATING TO CHAPTER 5

(Prior Interpretations are unchanged.)

INTERPRETATION OF RULE 580 — GLOBEX TRADE ALGORITHMS

(Prior text of Rule 580 Interpretation is unchanged. Additions are underlined.)

User-Defined Futures & Options Spreads on CME Globex

For combination trades of options and futures contracts on GLOBEX, the following additional matching mechanisms apply. For each such combination, the quantity of each option contract shall be an integer, while the quantity of futures position can be a fraction. Hereafter, the quantity of each futures contract per combination shall be referred to as the “delta” with respect to the futures expiration. Each delta shall be no smaller than 0.01 and no larger than (i) 1.00, if there is only one option in the combination, or (ii) 40.00, if there are two or more distinct option contracts in the combination. For each futures contract, the price at which the futures transaction shall be consummated shall be defined within the combination, and is subject to the futures price increment conventions defined by the respective Exchange Rules. Two combinations with identical futures and options quantities and buy/sell, long/short configurations are distinct if the futures prices are not identical, and shall be treated as different combinations.

Order matching shall proceed in accordance with the same trade allocation rule as described previously in this interpretation to Rule 580, with the following provisions for assigning the futures positions. For each futures contract specified in the combination,

1. the total number of futures positions to be assigned shall be the number of combinations traded multiplied by the respective delta. This number of futures position shall be

assigned to the incoming order.

2. each of the resting limit orders, against which the incoming order are matched to, shall be assigned a futures position of the allocated numbers of combinations times the delta, rounding down to the nearest integer; e.g. if an order is allocated 15 combinations, and the delta is 0.45, 6 futures contracts shall be allocated.
3. the total number of futures position assigned to the resting limit orders following the preceding step will be equal to or fewer than the total number of futures positions to be assigned to the incoming order. The difference, if any, shall be assigned one futures contract per resting order in the following priority until the difference is reduced to zero: the resting order with the highest magnitude of rounding down in step 2 shall be first to receive an additional futures position, followed by the order with the second highest magnitude of rounding down in step 2, etc. If two orders have the same magnitude of rounding down, the oldest order shall receive the additional futures position.

For example, a trade of 60 contracts with a delta of 0.45 is matched between an incoming order and 4 resting limit orders with quantities of 20, 15, 15, 10. Total number of futures position to be assigned is $60 \times 0.45 = 27$ contracts. The four resting orders shall receive the following assignment of futures position:

<u>Resting Order</u>	<u>Matched Quantity</u>	<u>Quantity X delta</u>	<u>Initial Futures Allocation</u>	<u>Magnitude of Rounding</u>	<u>Additional Allocation</u>	<u>Total Futures Allocation</u>
1	20	9.00	9	0.00	0	9
2	15	6.75	6	0.75	1	7
3	15	6.75	6	0.75	1	7
4	10	4.50	4	0.50	0	4
<u>Incoming Order</u>	<u>60</u>	<u>27.00</u>				<u>27</u>

(End of Rule 580 Interpretation)

(Remainder of Chapter 5 Interpretations is unchanged.)

If you have any questions, please contact Steve Youngren, Associate Director, Financial Product Development, at 312-930-4583 or Richard Co, Director, Financial Research at 312-930-3227.