



Special Executive Report

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HEADSET POLICY CHANGES APPROVED IN THE EQUITY QUADRANT

The CME[®] Trading Floor Operations Committee ("Committee") has approved several changes to the headset policy in the equity quadrant with respect to the transmission of member and customer orders. While the first change is a pilot program and is applicable to the entire equity quadrant, certain of the other changes vary by pit. All the changes are described below in more detail and will become effective on Monday, May 22, 2006. The Committee will review the policy changes periodically to determine if any modifications are warranted.

Pilot Program for Transmission of Non-Member Customer Orders Directly to Brokers and Clerks

The Committee approved the use of unrestricted headsets by brokers and clerks standing in approved clerk locations in the equity quadrant to receive **non-member** customer orders that are transmitted to them **by authorized staff of CME clearing firms located off the trading floor** (or from the floor of other exchanges) provided that formal approval has been received and the parties comply with the following requirements and restrictions:

1. Clearing firms wishing to operate under the policy must submit a letter of request to Market Regulation (to the attention of Robert A. Sniegowski) that identifies from where the orders will originate and to whom the orders will be communicated. The letter must also state that the firm is aware of and will comply with the mandatory taping requirement described below.
2. **Clearing firms must tape the telephone lines used to transmit the orders and retain the recordings for thirty days.**
3. Up-to-date headset applications must be filed with the CME Telecommunications Department. Such applications must clearly identify the intended use of the headsets. Members and clerks that have existing headsets must file an updated application and obtain CME approval prior to using the headset in a manner different than originally noted on their initial application.
4. In order to comply with Commodity Futures Trading Commission ("CFTC") audit trail requirements, the broker or the clerk receiving the order must make a

contemporaneous written record of the order on a generic order ticket that has been 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 area to allow for the timestamping of the order tickets.

5. After execution of the order (or upon its cancellation) the broker or clerk must return the original copy of the order ticket and any associated fill cards to the firm placing the order. Firms must retain the order for 5 years as required by Exchange rules and CFTC regulations. Brokers are encouraged to maintain a copy of the order ticket for their records.
6. Firms must keypunch the trades using the information from the order tickets and associated fill cards.
7. 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.

No firm may begin to operate and no brokers or clerks may accept orders via headset under this policy until the request has been approved by the Exchange.

CME Standard & Poor's 500 Stock Price Index Futures ("SP") Pit

Brokers & Clerks Receiving Member Orders

Brokers standing at any level of the pit and their clerks standing in approved clerk locations will be permitted to use unrestricted headsets to receive **member orders** (orders for the accounts of individual members and firm proprietary accounts receiving a preferential clearing fee) originating on or off the trading floor providing that all audit trail and recordkeeping requirements are met. Prior to the change, only brokers standing at the bottom of the pit (defined as the bottom plus two steps up) were allowed to accept these orders.

For member orders that originate from off the trading floor, CME Rule 536.A.3. ("Recordkeeping Requirements for Pit, GLOBEX, and Negotiated Trades – Member Open Outcry Pit Trades") requires the broker or his employee receiving the order to make a written record of the order on a trading card including the identification of the member calling in the order. The broker executing the order must record the trade and the time of execution to the nearest minute on the card used to record the fill and deliver

the card to the initiating member's clearing member in sufficient time to comply with the card and order pick-up schedule.

For member orders that originate on the trading floor, CME Rule 536.A.2. requires the broker executing the order to record the time of execution to the nearest minute on the card used to record the fill, in addition to the requirement on the initiating member to make a written record of the order on his pre-sequenced trading cards (which must be in sequence with his other trades) and record the time of placement of the order to the nearest minute, unless the order involves futures-options combination or other spread trades where the initiating member is not required to make such written record.

Brokers & Clerks Receiving Non-Member Orders

Brokers standing at any level of the pit will be permitted to use headsets to receive **non-member** customer orders directly **from clearing firm booths located on the trading floor**. Prior to the change, only brokers standing at the bottom of the pit and clerks standing in approved clerk locations were allowed to wear headsets for this purpose.

Brokers in the SP pit remain prohibited from communicating directly with non-member customers via headsets.

Please note that the change does not allow top-step brokers to use headsets to communicate or place orders for any account they own, control or in which they have a financial interest.

Local Traders

Local traders standing at any level of the pit will be eligible for GALAX-C[®] Electronic Handheld units ("handhelds") to trade CME Globex[®] products. The change eliminates the former prohibition on handheld use by top-step locals. Top-step locals remain prohibited from wearing headsets.

CME NASDAQ-100[®] Index Futures & Options Pit

Top-Step Brokers Receiving Member Orders

Brokers standing on the top-step of the pit will be permitted to use unrestricted headsets to receive **member** orders originating from on or off the trading floor providing that all audit trail and recordkeeping requirements are met. Prior to the change, only brokers standing off the top-step and clerks standing in approved clerks locations were allowed to accept these orders.

Top-Step Brokers Receiving Non-Member Orders

In addition to the pilot program described on pages 1 and 2, brokers standing on the top-step of the pit will be permitted to use headsets to receive **non-member** customer orders directly **from clearing firm booths located on the trading floor**. Prior to the change, only brokers standing off the top-step and clerks standing in approved clerk locations were allowed to wear headsets for this purpose.

Top-step brokers in the ND pit remain prohibited from communicating directly with non-member customers via headsets.

Please note that the change does not allow ND top-step brokers to use headsets to communicate or place orders for any account they own, control or in which they have a financial interest.

Remainder of the Equity Quadrant

Headset usage is currently allowed by brokers and locals standing at any level of the pit and by clerks standing in approved clerk locations provided that all regulatory and audit trail requirements are met.

With respect to customers placing orders directly with brokers and their clerks, CME recordkeeping requirements require that the order be received and timestamped at a clearing firm's booth on the trading floor prior to the broker bidding or offering for the order. This will require a three-way call between the clearing firm representative at the firm's desk on the trading floor, the broker or clerk and the customer.

Firms that wish to place non-member customer orders directly from off-floor locations to brokers or their clerks may do so upon requesting and receiving approval from the Exchange and provided that the parties involved comply with the requirements of the pilot program described on pages 1 and 2.

Please note that the pilot program does not eliminate the two-part prohibition applicable to the equity quadrant in effect since 2002 wherein:

1. equity quadrant pit traders may not connect to top-step clerks via headset and other communication devices, and;
2. any individual connected to an equity quadrant pit trader may not also be connected to a top-step clerk via the same or separate headset or communication device.

Headset applications are available at the Wireless Telecommunications desk located on the 7th floor of the south tower immediately outside the upper trading floor. Handheld applications are available from the Handheld Distribution Center located on the 5th floor of the south tower or by calling the Center at 312/338.2665.

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If you have any questions, please contact Robert A. Sniegowski, Associate Director, Market Regulation, at 312/648.5493 or Eric S. Wolff, Managing Director, Regulatory Affairs, at 312/930.3255.