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Special Executive Report

S-4487

August 25, 2006

REMINDER REGARDING SEPTEMBER 1, 2006, IMPLEMENTATION OF DUAL TRADING RESTRICTIONS IN LIVE CATTLE FUTURES, S&P 500 OPTIONS AND MIDCURVE OPTIONS AND REISSUE OF UPDATED FREQUENTLY ASKED QUESTIONS AND ANSWERS CONCERNING CME RULE 552 ("DUAL TRADING RESTRICTIONS")

Please be reminded that pursuant to CME Rule 552 ("Dual Trading Restrictions") the dual trading restrictions will begin to apply to 1st position Live Cattle futures ("LC"), 1st March quarterly position Standard & Poor's 500 Stock Price Index options ("OS") and 3rd March quarterly position One-Year Eurodollar MidCurve options on Friday, September 1, 2006.

As this is the first time the restrictions will apply to LC and OS, this Special Executive Report is being reissued to provide guidance concerning the most commonly asked questions regarding the rule.

If you have any questions concerning the dual trading restrictions or the information in this document, please contact Robert A. Sniegowski, Associate Director, Market Regulation, at 312/648.5493, Eric S. Wolff, Managing Director, Regulatory Affairs, at 312/930.3255 or Shantell Stansberry, Data Quality Analyst, Market Regulation, at 312/454.8333.

Q1. What is the effect of CME Rule 552?

A1. CME Rule 552 prohibits, with certain exceptions identified in question 6 below, dual trading during Regular Trading Hours in any contract months deemed mature liquid contracts.

Q2. What is meant by the term "dual trading"?

A2. CME Rule 552 defines dual trading as trading or placing an order for one's own account, an account in which one has a direct or indirect financial interest or an account which one controls, in any contract month in which such person previously executed, received or processed a customer order on the Exchange floor during the same Regular Trading Hours session.

Please note that the restriction also applies to members who act as "order processors" and receive or process customer orders. Such members remain restricted from dual trading even though they may not have executed an order.

Q3. When is a member considered to be an “order processor”?

A3. Members on the floor engaged in any way in the process of receiving customer orders, transmitting those orders to the pit (either via hand signal, verbal communication or by physically delivering the order to the pit), or acting as a clerk in or around the pit are considered to be order processors. Such member order processors must be registered with the Market Regulation Department via the Member Employee Order Processor Registration Form by the CME clearing member firm or registered broker association employing the order processor. The form is available from the Market Regulation Department.

Q4. Which markets are considered mature liquid contracts and, as such, subject to the dual trading restrictions?

A4. The term mature liquid contract means a contract month by position in relation to the front month contract at any given point in time that has had, during the prior six calendar months, average daily pit-traded volume of 10,000 or more contracts; provided, however, that the Exchange may exempt from or include in this definition specific contracts and hours of trading during which such contracts would be deemed not to be mature liquid contracts, taking into account any market conditions which the Exchange believes would justify such action.

Special Executive Report S-4455 contains a list of the contracts that are currently subject to the dual trading restrictions.

Q5. For purposes of Rule 552, who is defined as a customer?

A5. Customer refers to the ultimate party owning the account, not the CME clearing member firm representing the customer.

Q6. Under what exceptions may a member engage in dual trading in a restricted contract?

A6. There are four exceptions to the dual trading restrictions:

1. Customer permission to dual trade
2. Member customers
3. Errors and the liquidation of errors
4. Exempt spread brokers

Q7. How does the customer permission exception operate?

A7. A member may engage in dual trading in any restricted market if each and every non-member customer for whom such member receives, processes or executes orders in a restricted contract month gives prior written permission to such member.

Permission must be granted prior to the member engaging in dual trading. Permission must be given in writing using the CME Customer Consent to Dual Trade Form which is available from the Market Regulation Department. The customer consent will remain in effect until cancelled by the customer. The form must be filed with the Market Regulation

Department immediately upon execution. Prior to filing the form, an authorized representative of the customer's CME clearing member firm must ensure that the form is completed accurately and must initial the form. The form requires the following information to be provided:

1. The identification of all owners of the account and the title of the account;
2. The specific account number(s) for which the broker has been granted permission in a form consistent with the trade data submissions;
3. The broker's name and acronym to whom the customer has granted consent to dual trade;
4. The CME clearing firm name and number that clears trades for the account(s) listed; and,
5. The signature of all account owner(s) and the date the form is signed by the account owners.

A copy of the form should be provided to the customer, and the CME clearing member firm and the broker should retain a copy for their records prior to filing the form with the Market Regulation Department.

Q8. In the case of a managed account or commodity pool account, who must sign the Customer Consent to Dual Trade Form?

A8. In the case of accounts managed by registered Commodity Trading Advisors ("CTA"), the CTA may sign the form. In the case of a commodity pool, the Commodity Pool Operator may sign the form.

Q9. Under what circumstances does the member customers' exception apply?

A9. A member may engage in dual trading in any restricted contract if the only customers for whom the member receives, processes or executes orders (other than customers from whom the member has received customer permission to dual trade) are members of the Exchange. In other words, permission is not necessary for member customers.

Q10. Are errors and/or the liquidation of errors restricted or prohibited by the dual trading restrictions?

A10. No, a broker in a restricted contract will not be considered in violation of the dual trading restriction if the error and its liquidation are taken into the broker's error account. However, the broker's error account must have been previously registered with the Market Regulation Department on an Error Account Registration Form. The broker must also create an accurate record evidencing that the position was the result of an error (which should contain an indication of what the error was – e.g., overbuy, oversell, wrong month, wrong strike, etc.) and must specifically identify the liquidation of the error, either on a trading card or other error document.

Q11. Under what circumstances are spread brokers exempt from the dual trading restrictions?

A11. A broker whose primary business is the execution of spread orders may engage in dual trading. Members must apply for and be granted a spread broker exemption prior to engaging in dual trading.

Q12. How does a broker obtain a spread broker exemption?

A12. Members must submit a Spread Broker Exemption Application to the Market Regulation Department. In order to qualify for a spread broker exemption, 50% or more of a member's total volume (trading and order filling) in a restricted contract must be the result of the execution of non-member customer orders and, additionally, 50% or more of the non-customer order executions must be identified as spreads.

Members wishing to know whether they qualify for a spread broker exemption should contact Shantell Stansberry in the Market Regulation Department at 312/454.8333.

Q13. May a CME clearing member firm routinely send a Customer Consent to Dual Trade Form to their customers along with account opening forms?

A13. No. The customer permission exception to the dual trading restriction is intended for those brokers who have direct relationships with their customers; it is not intended to become standard account documentation.

Q14. If a member executes, receives or processes a customer order in a restricted contract month, may such member trade an EFP in that restricted contract month for the member's own account during Regular Trading Hours?

A14. No.

The complete text of CME Rule 552 appears below.

552. DUAL TRADING RESTRICTIONS

552.A. Definitions

1. Dual Trading: The term "dual trading" shall mean trading or placing an order for one's own account, an account in which one has a direct or indirect financial interest or an account which one controls, in any contract month in which such person previously executed, received or processed a customer order on the Exchange floor during the same Regular Trading Hours session.
2. Customer: The term "customer" means the ultimate (end) customer or originator of the order, not the clearing member.
3. Mature Liquid Contract: The term "mature liquid contract" means a contract month by position in relation to the front month contract at any given point in time that has had during the prior six calendar months an average daily pit-traded volume of 10,000 or more contracts; provided, however, that the Board of Directors may exempt from or include in this definition specific contracts and hours of trading during which such contracts will be deemed not to be mature liquid contracts, taking into account any market conditions which, in the Board's opinion, would justify such action.

552.B. Prohibition

Dual trading shall be prohibited in any contract month which is deemed a mature liquid contract by management subject to the exceptions in Section C. below.

Violation of this rule may be a major offense.

552.C. Exceptions

1. Customer Permission. A member may engage in dual trading in any contract month if each customer for whom such member executes or processes orders in that contract month grants prior written permission to such member.
2. Member Customers. A member may engage in dual trading in any contract month if the customer for whom such member executes or processes orders in that contract month is a member of the Exchange.
3. Errors.
 - a. A member taking a position into his error account as a result of the erroneous execution of an order shall not be considered to be dual trading provided that such member creates an accurate record evidencing that the position was the result of an error.
 - b. A member may engage in dual trading to offset a position resulting from the erroneous execution of a customer order provided that such member (1) creates an accurate, contemporaneous record evidencing that the transactions for such member's account were the result of the correction of the error and (2) records the time of each trade to the nearest minute on his or her trading card.
 - c. A member may engage in dual trading to spread a position resulting from an order execution error against a contract in which the member is dual trading restricted. The member must create an accurate contemporaneous record evidencing that the original position was the result of an error and create a record to clearly identify any trades made for the purpose of spreading against the original position. When spreading an error position, any trading in a dual trading restricted component of the spread may only be for offset purposes. The member may not add to the position or reestablish a position in a dual trading restricted component once the position has been offset. The member must create an accurate, contemporaneous record identifying the offsetting transaction and must record the time of execution to the nearest minute for each such transaction.
4. Spread Brokers. A member whose primary business is the execution of spread orders may engage in dual trading. Members executing options/futures spread or combination orders (in which the futures side is a dual trading restricted contract) at a differential or combination value, while in the options pit, will not be considered in violation of the dual trading restrictions if such members subsequently trade for their personal accounts in that dual trading restricted futures contract. This exemption only applies to members executing the aforementioned options/futures spreads or combinations. Members are still prohibited from trading for their personal accounts in dual trading restricted futures contracts after executing outright customer orders in such contracts.

552.D. Side-by-Side Trading in Eurodollar Futures Contracts

During Regular Trading Hours, the dual trading restrictions applicable to open outcry trading of Eurodollar futures contracts apply to the on-floor trading of the same contract months on GLOBEX pursuant to the following provisions:

1. On-floor GLOBEX brokers and terminal operators who handle, process, or fill a customer order in a restricted Eurodollar futures contract month (either on GLOBEX or in the pit) may not trade or place an order for their own account, an account in which they have a direct or indirect financial interest, or an account they control for the remainder of that session in that contract month either on GLOBEX or in the pit.

2. Pit brokers who handle, process, or fill a customer order in a restricted Eurodollar futures contract month (either in the pit or on GLOBEX) may not trade or place an order for their own account, an account in which they have a direct or indirect financial interest, or an account they control for the remainder of that session in that contract month either in the pit or on GLOBEX.