

August 31, 2000

Ms. Jean A. Webb
Secretary
Commodity Futures Trading Commission
Three Lafayette Center
1155 21st Street, N.W.
Washington, DC 20581

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Chicago Board of Trade

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RECORDS SECTION

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Reference File #2038.01

Dear Ms. Webb:

- 1.41(c)(A) The following is submitted pursuant to Section 5a(a)(12) of the Act and Commission Regulation 1.41(c).
- 1.41(c)(B) Amend Rules 310.00, 332.00 and 450.00, adopt new Regulation 331.05 and amend Regulations 332.01 and 350.05 per the attached texts (additions underlined).
- 1.41(c)(C) The Chicago Board of Trade (CBOT®) intends to implement these amendments ten days after the Commission's receipt of this submission.

The referenced rule amendments were approved by membership vote pursuant to the CBOT Charter, Exhibit A, Section 5. The vote total was 424 3/6 "For" to 158 3/6 "Against". The Board of Directors adopted the referenced regulation changes pursuant to Rule 132.00.

- 1.41(c)(D) At present, the Exchange's rules do not allow the practice of block trading. Under the proposed revisions, Rules 310.00 "Time and Place for Trading" and 332.00 "Orders Must be Executed in the Public Market" would include general enabling provisions for block trading. In addition, Rule 450.00 would be amended to establish a new "Block Trading Surcharge" of 30 cents per contract/per side for all block trade transactions. Specific provisions governing permissible block trading would be established in new Regulation 331.05. The regulation's provisions would include the following:

- Eligibility for block trading would be limited to "new" products (i.e. - those which the Exchange initially launches for trading on or after December 31, 1999.)
- The Board of Directors would be authorized to designate the particular product(s) eligible for block trading (subject to the limitation noted above).
- The Board of Directors would establish minimum size requirements for block trades in any contracts designated as eligible for such transactions.
- Permissible block trades would be subject to specific requirements concerning fair and reasonable pricing, non-member customer eligibility, clearance through CBOT clearing members, trade recordation and publication/dissemination by the Exchange.

Regulations 332.01 and 350.05 would be amended to include conforming cross-references.

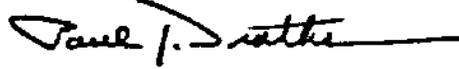
The current proposal does not include the implementation of block trading or minimum size requirements for any particular contracts. Such decisions are yet to be determined by the Board and would be submitted separately to the Commission as applicable.

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The enabling provisions for block trading will provide the Exchange with another competitive tool which may be used to encourage the development of contracts and to service the needs of market participants. The block trading surcharge represents a potential additional revenue source to help maintain the Exchange's financial strength.

- 1.41(c)(E) As noted above, the rule change proposal was the subject of a membership ballot in which some negative votes were cast. Substantive opposing views were not otherwise expressed.
- 1.41(c)(F) The Exchange has not identified any section of the Act or of CFTC regulations which would require amendment or interpretation in connection with this proposal.

Sincerely,



Paul J. Draths
Vice President and Secretary

ATTACHMENT

Proposed amendments to Rules 310.00, 332.00 and 450.00,
new Regulation 331.05 and revised Regulations 332.01 and 350.05
(additions underlined)

310.00 Time and Place for Trading - Dealings upon the Exchange shall be limited to the hours during which the Exchange is open for the transaction of business, and no member shall make any transaction in securities with another member except at the post designated for the particular security in which the transaction is made and no member shall make any transaction for future delivery of a commodity except in the pit assigned to trading in such commodity, except as provided in Regulations 331.05, 444.01, 444.03, and Chapter 9B. No member shall make, in the rooms of the Association, a transaction with a non-member, in any commodity or in any security admitted to dealing on the Exchange; but this Regulation shall not apply to transactions with an employee of the Association or of the Clearing House engaged in carrying out arrangements approved by the Regulatory Compliance Committee to facilitate the borrowing and lending of money.

332.00 Orders Must Be Executed in The Public Market - All orders received by any member of this Association, firm or corporation, doing business on Change, to buy or sell for future delivery any of the commodities dealt in upon the Floor of the Exchange (except when in exchange for cash property or when executed pursuant to Regulation 331.05) must be executed competitively by open outcry in the open market in the Exchange Hall during the hours of regular trading and, except as specifically provided in Regulations 350.10, 331.03, 331.04 and 331.05, under no circumstances shall any member, firm or corporation assume to have executed any of such orders or any portion thereof by acting as agent for both buyer and seller either directly or indirectly, in their own name or that of an employee, broker or other member of the Association; provided, that on transactions where brokers as agents for other members meet in the execution of orders in the open market and without prearrangement unintentionally consummate a contract for the one and same clearing member principal, such transactions shall not be considered in violation of this Rule.

450.00 Exchange Service Fees -

(xx) Block Trading Surcharge -

In addition to the fees specified in Rule 450.00(a) or 450.00(b), as applicable, a surcharge of 30 cents per contract shall apply to block trade transactions.

Members, Membership Interest Holders and member firms shall be obligated to pay these surcharges to the Association in the same manner as is specified in Rule 450.00(a). Surcharges applicable to non-member transactions shall be collected and remitted in the same manner as is specified in Rule 450.00(b).

Regulation 331.05 – Block Trade Transactions - The Board of Directors may designate any contract initially listed for trading on or after December 31, 1999 as eligible for Block Trade transactions under this Regulation 331.05 and shall determine the minimum size thresholds for the contracts in which Block Trade transactions are permitted. In determining the minimum size threshold, the Board of Directors shall take into consideration (to the extent available) the size distribution of transactions in the contract, the size distribution of transactions in the related cash or over-the-counter markets, and all other information relevant to transaction size in the relevant contract. The hours of operation of the Block Trade facility shall be determined by the Board of Directors.

Members may enter into transactions outside of the Exchange's central markets, at prices mutually agreed with respect to contracts that have been designated by the Exchange for such purpose, provided that the following conditions are satisfied:

- (a) Each buy or sell order underlying a Block Trade must (i) state explicitly that it is to be, or may be, executed by means of a Block Trade and (ii) be at least for the minimum transaction size as determined by the Board of Directors. Orders may not be aggregated in order to achieve the minimum transaction size.
- (b) The price at which a Block Trade is executed must be fair and reasonable in light of (i) the size of such Block Trade; (ii) the price and size of other trades in the same contract at the relevant time; and (iii) the price and size of trades in other relevant markets, including without limitation the underlying cash market or other related futures markets, at the relevant time. The price at which a Block Trade is executed shall not affect conditional orders such as limit orders or stop orders. The price at which a Block Trade is executed shall not be used in establishing settlement prices.
- (c) Each nonmember customer to a Block Trade transaction must qualify as an "eligible participant", as that term is defined in Commodity Futures Trading Commission Regulation section 36.1, provided that, if any Block Trade is entered into on behalf of customers by a commodity trading advisor registered under the Act, including without limitation any investment advisor registered as such with the Securities and Exchange Commission that is exempt from regulation under the Act or Commodity Futures Trading Commission Regulations thereunder, with total assets under management exceeding \$50 million, the individual customers need not so qualify.
- (d) Each Block Trade executed pursuant to this Regulation must be cleared through the clearing members. Information identifying the relevant contract, contract month, price, quantity, time of execution, and counterparty clearing member for each Block Trade must be reported to the Exchange within five minutes immediately following execution of such Block Trade. The Exchange will publicize information identifying the trade as a Block Trade and identifying the relevant contract, contract month, price, and quantity for each Block Trade immediately after such information has been reported to the Exchange.
- (e) Each clearing member and member that is party to a Block Trade shall record the following details on its order ticket: the contract (including the delivery or expiry month) to which such Block Trade relates; that the trade is a Block Trade; the number of contracts traded; the price of execution; the time of execution; the identity of the counterparty; and, if applicable, details regarding the customer for which the Block Trade was executed. Upon request by the Exchange, such clearing member or member shall produce satisfactory evidence, including without limitation the order ticket referred to in the preceding sentence, that the Block Trade meets the requirements set forth in this Regulation.

332.01 **Open Market Execution Requirement** - All futures transactions resulting in change of ownership (except those involving the exchange of futures in cash transactions or those executed pursuant to Regulation 331.05) must be made in the open market in the manner prescribed by Rules 332.00 and 310.00.

350.05 **Floor Practices** - The following acts are detrimental to the welfare of the Association (except as permitted under Regulation 331.05):

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