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CHICAGO MERCANTILE EXCHANGE

30 South Wacker Drive, Chicago IL 60606-7499, Tel. 312-930-1000

September 4, 2003

Ms. Jean A. Webb
Office of the Secretariat
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

RE: Rule Certification of Amendments to "Stop Logic" applied to
GLOBEX® Transactions. Submitted per Sec. 5c(c)(1) of the CEA and
Regulation Sec. 40.6(a) Thereunder. CME Submission # 03-73.

Dear Ms. Webb:

The Chicago Mercantile Exchange ("CME" or "Exchange") hereby notifies the Commission of amendments to its Rules governing the execution of stop loss orders on the GLOBEX electronic trading platform. The Board of Directors, acting pursuant to Rule 230.j., approved these amendments at its regular meeting of September 4, 2003. The Exchange plans to implement these amendments on September 28, 2003.

The Exchange certifies that these actions neither violate nor are inconsistent with any portion of the Commodity Exchange Act or of the rules thereunder.

The Exchange proposes to adopt “stop logic” rules designed to mitigate the possibility that “cascading stops” – or the execution of a series of stop orders - may result in aberrant price movements. Specifically, the GLOBEX system is programmed to prevent the continuing execution of orders when it detects such cascading stops. Per Rule 580, GLOBEX TRADE ALGORITHMS ...

1. The system checks to determine if the execution of a stop order or series of stop orders would result in an executed price that falls outside a threshold bounded by the last traded price (prior to the execution of the first stop) plus/minus X ticks. The number X to be determined by the Exchange from time to time. Initially, X shall be established at the current no-bust range in the particular market.
2. If so, the market enters a “reserved state” for Y seconds, during which time orders may be entered, cancelled or modified but not executed. The time period Y to be determined by the Exchange from time to time. Initially, Y shall be established at five seconds. The system will disseminate an “Indicative Opening Price” (IOP) that represents the price at which the market theoretically will reopen.
3. If, at the conclusion of the initial Y-second reserved period, the opening price would fall within a range bounded by the last traded price plus/minus two times (2x) X, then normal trading resumes. If the opening price would fall outside that range, the reserved state continues for a subsequent Y-second period.
4. The procedure described in point 3 above continues until either ... (i) the indicative opening price is within a range bounded by the last traded price plus/minus the number of reserved periods, plus one, times X, *e.g.*, at the conclusion of a second Y-second reserved period, the relevant range is the last price plus/minus three times (3x) X, at the conclusion of the third reserved period, the relevant range is the last price plus/minus four times (4x) X, etc., etc., at which point normal trading resumes; or (ii) a total of twelve (12) Y-second reserved periods is concluded, at which point normal trading resumes regardless of the opening price.

We propose to apply these procedures only in the context of stock index futures and currency futures at this time. Note that these measures shall not apply to options to the extent that stop loss orders are not accepted in the context of options traded on GLOBEX.

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Note that the Rule contemplates that Exchange shall retain flexibility to alter the relevant range (X) and duration of the reserved time period (Y) from time to time as warranted by market conditions in the specific market. We propose, however, to establish X equal to the no-bust range for each market; and, to establish the duration of the reserved period at five (5) seconds.

The text of the amendments are provided in Appendix 1 to this document below - with additions underlined and deletions bracketed and overstruck. A clean copy of these Rules as amended is provided in Appendix 2 to this document.

Please do not hesitate to contact me at 312-466-7469 or jlab@cme.com if any questions arise during the processing of this submission. Please reference our CME Submission #03-73 on all future correspondence for this submission.

Sincerely,

/S/ John W. Labuszewski, Director
Research & Product Development

CC: Mr. David Van Wagner
CFTC Division of Trading and Markets

Appendix 1: Amended Rules

(Additions are underlined while deletions are bracketed and overstruck.)

580. GLOBEX TRADE ALGORITHMS

1. Market orders that are entered into the GLOBEX System shall be converted into limit orders at a price at or above (in the case of a buy order) or at or below (in the case of a sell order) the last price shown on the GLOBEX system. Any part of such order that is not filled at the limit price or better shall remain as a resting order at such limit price until filled or cancelled.
2. Stop limit orders are activated and placed into the order book when the order's specified stop price is traded, at which time the order may be executed at the best available price at or between the specified limit price and the specified stop price. Any part of such order that is not filled shall remain as a resting order at such limit price until filled or cancelled.
3. If the execution of a stop order would result in an execution price that is above (below) the last traded price plus (minus) X ticks, the market shall be placed in a "reserved state." During the reserved state, orders may be entered, modified or cancelled but orders may not be executed. The GLOBEX System will disseminate an "Indicative Opening Price" (IOP) during the reserved state representing the price at which the market could trade if the reserved state were to conclude immediately. If, at the conclusion of the initial reserved state period, the IOP is within a range bounded by the last traded price plus or minus two times (2x) X ticks, then normal execution of trades shall resume. If the IOP is outside such range, the market shall remain in a reserved state for a subsequent period. A series of reserved state periods shall ensue until either (i) the IOP is within a range bounded by the last traded price plus (minus) the number of reserved state periods, plus one, times X ticks at the conclusion of such reserved state periods, at which point normal trading shall resume; or (ii) a total of twelve (12) reserved state periods are concluded, after which normal trading shall resume regardless of the opening price.

This process shall be applied to such markets as determined by the Exchange. The value X and the duration of a reserved state period shall be determined by the Exchange.

4. Unless otherwise specified by the Exchange, orders entered into the GLOBEX System will be matched in accordance with an algorithm that gives first priority to orders at the best price and that gives priority among orders entered at the same price based on their time of entry into the system, with the first order entered receiving first priority, the second order entered receiving second priority, etc. (First In, First Out or "FIFO" Allocation Algorithm). The Exchange may use a different matching algorithm for particular contracts by giving written notice of such algorithm to members and firms using GLOBEX at least ten days before use of such algorithm is implemented. See Interpretation of Rule 580-GLOBEX TRADE ALGORITHMS at the end of Chapter 5.

Appendix 2: Clean Copy of Amended Rules

580. GLOBEX TRADE ALGORITHMS

1. Market orders that are entered into the GLOBEX System shall be converted into limit orders at a price at or above (in the case of a buy order) or at or below (in the case of a sell order) the last price shown on the GLOBEX system. Any part of such order that is not filled at the limit price or better shall remain as a resting order at such limit price until filled or cancelled.
2. Stop limit orders are activated and placed into the order book when the order's specified stop price is traded, at which time the order may be executed at the best available price at or between the specified limit price and the specified stop price. Any part of such order that is not filled shall remain as a resting order at such limit price until filled or cancelled.
3. If the execution of a stop order would result in an execution price that is above (below) the last traded price plus (minus) X ticks, the market shall be placed in a "reserved state." During the reserved state, orders may be entered, modified or cancelled but orders may not be executed. The GLOBEX System will disseminate an "Indicative Opening Price" (IOP) during the reserved state representing the price at which the market could trade if the reserved state were to conclude immediately. If, at the conclusion of the initial reserved state period, the IOP is within a range bounded by the last traded price plus or minus two times (2x) X ticks, then normal execution of trades shall resume. If the IOP is outside such range, the market shall remain in a reserved state for a subsequent period. A series of reserved state periods shall ensue until either (i) the IOP is within a range bounded by the last traded price plus (minus) the number of reserved state periods, plus one, times X ticks at the conclusion of such reserved state periods, at which point normal trading shall resume; or (ii) a total of twelve (12) reserved state periods are concluded, after which normal trading shall resume regardless of the opening price.

This process shall be applied to such markets as determined by the Exchange. The value X and the duration of a reserved state period shall be determined by the Exchange.

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