

October 23, 2003

2003 OCT 23 11:26

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

Reference File # 2375.01
Rule Certification

Dear Ms. Webb:

Pursuant to Commission Rule 40.6, the Chicago Board of Trade (CBOT[®]) hereby submits the following:

- **Amendments to Regulation 450.02C per the attached text (additions underlined, deletions struck through).**

The referenced amendments are designed to make the qualifications for member/member firm proprietary accounts clearer and more practical, while ensuring that member/member firm treatment is given only to bona fide member/member firm proprietary accounts. The amendments are summarized below.

- 1) Revised Regulation 450.02C(i) redefines the qualifications for delegates and non-members who initiate/enter trades for member firm proprietary accounts. The prohibition on their providing any trading capital for such accounts remains unchanged. They would no longer be required to receive a W-2 from the member firm or be subject to a twelve-month maximum evaluation period in determining their percentage of any trading profits.
- 2) New Regulation 450.02C(ii) establishes proprietary account qualifications for individual member accounts in cases where a non-member is either initiating or executing trades for such accounts.
- 3) New Regulation 450.02C(iii) allows member firm proprietary account treatment in cases where a non-member owner of the firm trades the account, has his/her compensation tied to the account's profitability, and maintains at least \$200,000 in the account to support the trading activity on the Exchange.

The CBOT intends to implement these amendments no sooner than one day following the Commission's receipt of this filing.

October 23, 2003
Ms. Jean A. Webb
Page Two

The CBOT's Board of Directors adopted these amendments by a vote of 6 "Aye", 3 "Nay" and 2 Abstentions. The directors in opposition generally expressed concerns that the amendments would dilute membership privileges.

The CBOT certifies that these amendments comply with the Commodity Exchange Act and the rules thereunder.

Sincerely,

Paul J. Draths
Vice President and Secretary

b102103

Proposed revisions to Regulation 450.02C
(Additions underlined; deletions struck through)

450.02 C.(i) Member Firm's Proprietary Account – For the purpose of implementing Rule 450.00, the term “member firm’s account” shall refer only to those commodity futures or commodity options trading accounts that are wholly owned by and held in the name of the member firm. The term “member firm” shall refer only to a firm registered with the Exchange pursuant to Regulation 230.02. For an account to qualify as a member firm proprietary account, delegates and individuals who are non-members with respect to the contracts being traded, who initiate and/or enter trades on behalf of the proprietary account must meet the following requirements:

- (1) may not provide trading capital for the account; and
- (2) may not have ~~responsibility for downside risk of trading losses or~~ responsibility to provide capital based on trading losses; and
- (3) for individuals other than delegates must be issued that are not issued a W-2 (or comparable documentation in jurisdictions other than the United States) and must be included in the firm's payroll tax records the firm must have a written agreement detailing the full terms of their compensation agreements; and
- (4) may not contribute subordinated debt, unless the individual is a partner or shareholder of the member firm; and
- (5) gross trading profits and losses must be reported in the firm's income statement
- (6) ~~the time period for which a trader is evaluated for the determination of the percentage of trading profits may not exceed a twelve month period and may not carry over the firm's fiscal year end.~~

Any account that does not meet the above criteria will be considered a joint account where the member firm shares ownership with another a non-member entity or individual and therefore, must comply with Regulation 450.02E.

450.02 C. (ii) Individual Member's Trading Account - For the purpose of implementing Rule 450.00, for an account to qualify as an individual member's account or a joint account of individual members, where the trades are executed on e-cbot, delegates or individuals who are non-members with respect to the contracts being traded, who initiate and/or enter trades on behalf of the account must meet the following requirements:

- (1) may not provide trading capital for the account; and
- (2) may not have responsibility to provide capital based on trading losses; and
- (3) the individual member must have a written agreement detailing the full terms of the non-member trader's compensation; and
- (4) the trader may not make a loan to the individual member for the purposes of providing trading capital.

A member that is trading on the floor may designate up to a maximum of two clerks who may execute trades initiated by the member and executed through ecbot. Such trades will eligible for fees at the individual member rate (level1).

Any account that does not meet the above criteria will be considered a joint account with a non-member entity or individual, and therefore must comply with Regulation 450.02E.

450.02 C.(iii) Firm Owner Trading a Proprietary Account – In cases where a non-member owner or partner, including limited liability partners, of a member firm trades a member firm proprietary account, and where the owner/trader's compensation is tied to the profitability of the specific proprietary account(s), in order for the trades in such proprietary account to receive member fee treatment, the owner/trader must maintain at least \$200,000 in the trading account(s) and the \$200,000 must be available to support the trading activity on the Exchange. If the owner/trader does not maintain the requisite \$200,000, the account will be considered a joint account between the member firm and the non-member owner/trader, and thereby the transaction fees will be determined in accordance with Regulation 450.02E.