

23 11 3 13 04



30 South Wacker Drive
Chicago, IL 60606-7499
www.cme.com

December 29, 2003

Ms. Jean A. Webb
Office of the Secretariat
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street N.W.
Washington, D.C. 20581

RE: Emergency Rule Certification. Modifications to the Expanded Daily Price Limits for December 2003 Live Cattle Futures. CME Submission #03-116.

Dear Ms. Webb:

The Chicago Mercantile Exchange ("CME" or "Exchange") hereby notifies the Commission that it is taking emergency action to further modify the expanded daily price limits for December 2003 Live Cattle futures only. These changes are being made to facilitate the orderly liquidation of the December 2003 contract, for which trading terminates on Wednesday, December 31. No changes are being proposed to the daily price limits for the other Live Cattle contract months, or to any Feeder Cattle contract months.

Pursuant to Regulation Section 40.6(a)2, CME hereby provides the following information.

I. Text of Rule Amendment

The Exchange is not explicitly amending its Rulebook, but is modifying the expanded daily price limits for December 2003 Live Cattle futures only as follows.

On Tuesday, December 30 the initial price limit will be \$0.050 per pound, as previously described in the submission dated December 24, 2003. If the December 2003 Live Cattle contract becomes limit bid or limit offered, then after a one-hour period during which the market shall continue to be open for trading at the \$0.050 limit, the daily price limit for the December 2003 contract only shall be expanded by \$0.025 per pound to a total daily limit of \$0.075 per pound for the remainder of the trading day. For example, if the December 2003 contract is limit offered at \$0.7785 at any time before 12:00 noon on Tuesday, then one hour later the lower price

Ms. Jean A. Webb
December 29, 2003
Page 2 of 4

limit shall expand by \$0.025 per pound to \$0.7535 for the remainder of the trading day. On Wednesday, December 31 the daily price limit for the December 2003 only shall be \$0.050 per pound. On Wednesday, December 31 the daily price limit for the December 2003 futures only shall be \$0.050 per pound.

Note that on Monday, December 29, December 2003 Live Cattle futures opened down the \$0.500 per pound expanded daily limit and remained down the limit for the rest of the trading day.

II. Date of Implementation

This emergency action shall become effective on Tuesday, December 30, 2003.

III. Explanation of Any Substantive Views Not Incorporated in the Rule

This emergency action was adopted pursuant to a meeting of the Exchange's Business Conduct Committee on Monday, December 29, 2003. The minutes of that meeting are attached and provide a description of the basis for the action. There were no opposing views known at the time of the meeting nor have any been subsequently voiced.

IV. Self Certification

The Exchange certifies that this action neither violates nor is inconsistent with any portion of the Commodity Exchange Act or of the rules thereunder.

If you have any questions regarding this submission, please do not hesitate to contact me at 312-466-7469 or via e-mail at jlab@cme.com, or Paul Peterson at 312-930-4587 or via e-mail at ppeterso@cme.com.

Sincerely,



John W. Labuszewski, Director
Research & Product Development

Attachment

**CHICAGO MERCANTILE EXCHANGE INC.
BUSINESS CONDUCT COMMITTEE
PANEL B
MONDAY, DECEMBER 29, 2003
MINUTES**

A meeting of the Chicago Mercantile Exchange Inc. Business Conduct Committee, Panel B, was held at 20 South Wacker Drive, Chicago, Illinois 60606 on Monday, December 29, 2003, at 2:30 p.m.

MEMBERS PRESENT

Howard J. Siegel, Chairman
Jeffrey A. Coburn
Thomas P. Curtis,
John S. Textor

NON-EXCHANGE COMMITTEE MEMBERS

Edward J. Donnellan
Scott M. Eisner

STAFF PRESENT

Maz Chadid
James Krause
Phupinder Gill
Matthew Kelly
Paul Peterson
James Moran
Ken Lovett
Richard McDonald
Thomas Sandy
Eric Wolff

ALSO PRESENT

Terrence A. Duffy, Chairman of the Board
Jerrold E. Salzman, Outside Counsel

The Chairman called the meeting to order at 11:00 a.m.

As agreed at its meeting of Wednesday December 24, 2003, Panel B of the Business Conduct Committee ("Committee") reconvened to discuss the situation in the Live and Feeder Cattle markets following the discovery of Bovine Spongiform Encephalopathy in one cow in the United States, and to determine whether the Committee needed to consider taking any additional emergency action. The panel was reminded of the confidentiality requirements of this matter, and the responsibility to identify any conflicts. No conflicts were identified.

The Committee was briefed on the situation concerning the December 2003 Live Cattle contract which settled at \$.8785 following a \$0.030 per pound limit move on Friday December 26 and was presently locked limit down at the expanded limit of \$0.050 per pound at 11:00 a.m., at the price of \$.8285. Activity in the February options implied a synthetic futures price of \$.7800 to .7900. After today, December Live Cattle will have one full trading day remaining on December 30, and one shortened date on December 31, New Years Eve. The Committee received a general overview of the make-up of the remaining 3,700 contracts of open interest coming into the day. Today's estimated volume at meeting time was 565, which could indicate a new open interest of approximately 3000 to 3200 contracts. There were reports of 5000 head cash trades

on Friday at \$75 and \$78 in Texas and Kansas. However, there were no reported sales today. While more cash bids were expected this week, there was no indication at what price these trades would be, and there is some information that at least one large beef processing plant was shut down for the week. Given the foregoing, there was concern that if the market closed down limit today, and then went down the \$0.050 per pound limit again tomorrow, the price would not be low enough to allow the market to trade, thereby forcing all the remaining open interest into Wednesday's final session, creating a situation where the orderly and efficient liquidation of the December contract would be threatened. The Committee determined that an emergency existed and that an additional emergency action was necessary in the December contract. The Committee and staff discussed a number of alternatives for the timing and adjustment of the limit prices, and the following proposal was made:

On Tuesday, December 30 the initial price limit will be \$0.050 per pound, as previously announced in Special Executive Report S-4045, dated December 26, 2003. If the December 2003 live cattle contract becomes limit bid or limit offered, then after a one-hour period during which the market shall continue to be open for trading at the \$0.050 limit, the daily price limit for the December 2003 contract only shall be expanded by \$0.025 per pound to a total daily limit of \$0.075 per pound for the remainder of the trading day. For example, if the December 2003 contract is limit offered at \$0.7785 at any time before 12:00 noon on Tuesday, then one hour later the lower price limit shall expand by \$0.025 per pound to \$0.7535 for the remainder of the trading day. On Wednesday, December 31 the daily price limit for the December 2003 only shall be \$0.050 per pound.

For all other contract months in live cattle futures and for all contract months in feeder cattle futures, the emergency price limit schedule announced on December 26 will continue to be in place. The daily price limit on Tuesday, December 30 will be \$0.05 per pound. If either of the two nearby contract months is locked limit at the close of trading on Tuesday, December 30, the limit on Wednesday December 31 will continue to be \$0.050 per pound. Otherwise it will revert to \$0.030 per pound.

Pursuant to Committee discussion, a motion was made by Edward Donnellan and seconded by Jeffrey Coburn to accept the above proposal. The motion passed unanimously.

The Committee determined to meet again on Tuesday, December 30, 2003, at 11:00 a.m. if necessary, and Wednesday December 31, 2003 if necessary.

The Chairman adjourned the meeting at 12:21 p.m.

Howard J. Siegel, Chairman