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Chicago Mercantile Exchange

March 3, 2005

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

RE: Section 5c(c) and Regulation §40.6(a) Submission, Exchange Certification for a Proposed Rounding Rule for the CME European-Style FX Options "CME Currency Fixing Price" CME Submission 05-23.

Dear Ms. Webb:

Chicago Mercantile Exchange Inc. ("CME" or "Exchange") hereby notifies the Commission under the exchange certification procedure, that the CME Board of Directors, on Wednesday, March 2, 2005, approved technical "rounding rule" amendments to the CME European style foreign exchange (FX) options on futures contracts' descriptions of the "CME currency fixing price." The CME currency fixing price is used to exercise in-the-money CME European-style FX options on futures contracts at expiration. Prior to the amendments, the existing rules and procedures only implied that the daily calculated "CME currency fixing price" was rounded to one tick – the rules did not explicitly define the CME's rounding convention for the "CME currency fixing price." The rule amendments set forth in attached Appendix 1, with additions underlined, clarify that the daily "fixing price" is rounded to a tick. Appendix 2 provides a clean copy of the new rules.

As you were notified previously in CME Submission 05-13, dated Monday, January 31, 2005, and emailed to the Commission on Tuesday, February 1, 2005, that starting on Sunday, April 3, 2005 for CME Globex® trading and Monday, April 4, 2005, for the trading floor, CME will list initially CME Euro FX and CME Japanese yen European-style options on futures contracts for trading. Amendments are requested for all five CME European-style foreign exchange contracts (existing CME Rules 251A03.A.2, 252A03.A.2, 253A03.A.2, 254A03.A.2, 261A03.A.2). However, since CME will list initially only CME Euro FX and CME Japanese Yen European-style foreign exchange options, only CME Rules 261A03.A.2 and 253A03.A.2 will be published with these amendments. The amendments for the other three European-style foreign exchange options (BP, CD & SF) will be published at such time as they are listed for trading.

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

If you require any additional information regarding this action, please do not hesitate to contact Mr. Steven Youngren at 312-930-4583 or via e-mail at syoungre@cme.com. Please reference our CME Submission 05-23 on all future correspondence regarding this notification.

Sincerely,

John W. Labuszewski
Director, Research & Product Development

Attachments

Appendix 1: Amended Rules

(Additions are underlined.)

AMENDMENTS FOR A CME CURRENCY FIXING PRICE ROUNDING RULE FOR THE EUROPEAN-STYLE EXERCISE OPTIONS ON FOREIGN EXCHANGE FUTURES[1]

Please note amendments are requested for all five CME European-style foreign exchange contracts (existing CME Rules 251A, 252A, 253A, 254A, 261A.). However, since CME will list initially only CME Euro FX and CME Japanese Yen European-style foreign exchange options, only CME Rules 261.A. and 253.A. will be published with these amendments. The amendments for the other three European-style foreign exchange options (BP, CD & SF) will be published at such time as they are listed for trading.

CME will insert the appropriate Chapter numbers 251, 252, 253, 254 and 261 into the blank spaces upon publication of the rules.

[Rules __A00. through __A02. are unchanged.]

____A03. EXERCISE

In addition to the applicable procedures and requirements of Chapter 7, the following shall apply to the exercise of option contracts on [enter name of currency, e.g., Euro] futures. Both American-style and European-style exercise options on currency futures are available for trading.

[Rule __A03A.1. is unchanged.]

____A03.A.2. Exercise of European-Style Exercise Options

All in-the-money options are automatically exercised by the Clearing House on the business day following the termination of trading day for the option. All out-of-the-money options are abandoned by the Clearing House on the business day following the termination of trading day for the option. To determine whether an option is in or out of the money on this day, the Exchange shall calculate the relevant "CME currency fixing price" from pit-traded and GLOBEX-traded underlying futures contracts as follows:

Tier 1 Take the two-minute average of sale (trade) prices, weighted by volume where available, from 8:58 to 9:00 a.m. Central time on the day of determination of the CME currency fixing price.

Tier 2 If no sales (trades) during the two-minute interval noted above, take the midpoint of each bid & ask spread where available and average the resulting midpoints over the two-minute interval. However, when looking at each bid / ask spread, if it is wider than a specified number of points (inputted variable, e.g., 3 points for Euro, 6 points for British pound, etc.), then ignore that average bid & ask pair in the calculation.

Tier 3 If no sales (trades) and no bid and ask prices during the two-minute interval, then take the five-minute average of sale (trade) prices, weighted by volume where available, from 8:55 to 9:00 a.m. Central time.

Tier 4 If no sales (trades) during the five-minute interval noted above, take the midpoint of each bid & ask spread where available and average the resulting midpoints over the five-minute interval. However, when looking at each bid / ask spread, if it is wider than a specified number of points

[1] Selection includes Options on British Pound Sterling Futures, Options on Canadian Dollar Futures, Options on Japanese Yen Futures, Options on Swiss Franc Futures, and Options on Euro Futures.

(inputted variable, e.g., 3 points for Euro, 6 points for British pound), then ignore that average bid & ask pair in the calculation.

Tier 5 If no sales (trades) and no bid and ask prices occurred during the five-minute interval, then Exchange staff shall take into consideration any other information it deems appropriate to determine the CME currency fixing price for that day. This information may include but is not limited to the following, and the procedures to determine the information may be performed in any order by Exchange staff: (1) repeat the steps described in Tiers 3 or 4 at ever increasing five-minute increments (e.g., intervals of 10, 15, 20, etc. minutes) until data is obtained; (2) derive synthetic futures prices from quote vendor spot rates and appropriate maturity forward points; and (3) set the CME currency fixing price using any other information or method deemed appropriate.

<u>The calculation of the CME currency fixing price at Tiers 1 to 5 shall be rounded to each contract's Price Increment's definition. For example, for Euro with a Price Increment of $0.0001 per Euro, the CME currency fixing price shall be rounded to the nearest $0.0001 per Euro (with $0.00005 and above rounded up to $0.0001, and $0.00004 and below rounded down to $0.0000).</u>

An option is in the money if the CME currency fixing price of the underlying futures contract lies above the exercise price in the case of a call, or lies below the exercise price in the case of a put. <u>For example, if the CME currency fixing price were 1.3051 or higher, then 1.3050 Calls shall be exercised. If the CME currency fixing price for Euro were 1.3050 or lower, then 1.3050 calls shall be abandoned. Similarly, if the CME currency fixing price were 1.3049 or lower, then 1.3050 Puts shall be exercised. If the CME currency fixing price for Euro were 1.3050 or higher, then 1.3050 Puts shall be abandoned.</u>

[Rule __A03.B. is unchanged.]

Appendix 2: Clean Copy of Amended Rules

AMENDMENTS FOR A CME CURRENCY FIXING PRICE ROUNDING RULE FOR THE EUROPEAN-STYLE EXERCISE OPTIONS ON FOREIGN EXCHANGE FUTURES[2]

Amendments are requested for all five CME European-style foreign exchange contracts (existing CME Rules 251A, 252A, 253A, 254A, 261A.). However, since CME will list initially only CME Euro FX and CME Japanese Yen European-style foreign exchange options, only CME Rules 261.A. and 253.A. will be published with these amendments. The amendments for the other three European-style foreign exchange options (BP, CD & SF) will be published at such time as they are listed for trading.

CME will insert the appropriate Chapter numbers 251, 252, 253, 254 and 261 into the blank spaces upon publication of the rules.

[Rules __A00. through __A02. are unchanged.]

____A03. EXERCISE

In addition to the applicable procedures and requirements of Chapter 7, the following shall apply to the exercise of option contracts on [enter name of currency, e.g., Euro] futures. Both American-style and European-style exercise options on currency futures are available for trading.

[Rule __A03A.1. is unchanged.]

____A03.A.2. Exercise of European-Style Exercise Options

All in-the-money options are automatically exercised by the Clearing House on the business day following the termination of trading day for the option. All out-of-the-money options are abandoned by the Clearing House on the business day following the termination of trading day for the option. To determine whether an option is in or out of the money on this day, the Exchange shall calculate the relevant "CME currency fixing price" from pit-traded and GLOBEX-traded underlying futures contracts as follows:

Tier 1 Take the two-minute average of sale (trade) prices, weighted by volume where available, from 8:58 to 9:00 a.m. Central time on the day of determination of the CME currency fixing price.

Tier 2 If no sales (trades) during the two-minute interval noted above, take the midpoint of each bid & ask spread where available and average the resulting midpoints over the two-minute interval. However, when looking at each bid / ask spread, if it is wider than a specified number of points (inputted variable, e.g., 3 points for Euro, 6 points for British pound, etc.), then ignore that average bid & ask pair in the calculation.

Tier 3 If no sales (trades) and no bid and ask prices during the two-minute interval, then take the five-minute average of sale (trade) prices, weighted by volume where available, from 8:55 to 9:00 a.m. Central time.

Tier 4 If no sales (trades) during the five-minute interval noted above, take the midpoint of each bid & ask spread where available and average the resulting midpoints over the five-minute interval. However, when looking at each bid / ask spread, if it is wider than a specified number of points (inputted variable, e.g., 3 points for Euro, 6 points for British pound), then ignore that average bid & ask pair in the calculation.

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[2] Selection includes Options on British Pound Sterling Futures, Options on Canadian Dollar Futures, Options on Japanese Yen Futures, Options on Swiss Franc Futures, and Options on Euro Futures.

Tier 5 If no sales (trades) and no bid and ask prices occurred during the five-minute interval, then Exchange staff shall take into consideration any other information it deems appropriate to determine the CME currency fixing price for that day. This information may include but is not limited to the following, and the procedures to determine the information may be performed in any order by Exchange staff: (1) repeat the steps described in Tiers 3 or 4 at ever increasing five-minute increments (e.g., intervals of 10, 15, 20, etc. minutes) until data is obtained; (2) derive synthetic futures prices from quote vendor spot rates and appropriate maturity forward points; and (3) set the CME currency fixing price using any other information or method deemed appropriate.

The calculation of the CME currency fixing price at Tiers 1 to 5 shall be rounded to each contract's Price Increment's definition. For example, for Euro with a Price Increment of $0.0001 per Euro, the CME currency fixing price shall be rounded to the nearest $0.0001 per Euro (with $0.00005 and above rounded up to $0.0001, and $0.00004 and below rounded down to $0.0000).

An option is in the money if the CME currency fixing price of the underlying futures contract lies above the exercise price in the case of a call, or lies below the exercise price in the case of a put. For example, if the CME currency fixing price were 1.3051 or higher, then 1.3050 Calls shall be exercised. If the CME currency fixing price for Euro were 1.3050 or lower, then 1.3050 calls shall be abandoned. Similarly, if the CME currency fixing price were 1.3049 or lower, then 1.3050 Puts shall be exercised. If the CME currency fixing price for Euro were 1.3050 or higher, then 1.3050 Puts shall be abandoned.

[Rule __A03.B. is unchanged.]

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