cme
Chicago Mercantile Exchange

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April 21, 2005

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

RE: RA-05-03 and SER-4214
Submission No. 05-35

Dear Ms. Webb:

Chicago Mercantile Exchange Inc. ("CME" or "Exchange") hereby notifies the Commission that the Exchange has issued a regulatory advisory to CME market users regarding CME Rule 530 ("Priority of Customers' Orders"). This rule prohibits members from buying or selling for accounts they own or in which they have a financial interest when they are in possession of an executable buy or sell order for pit execution for another person. A copy of this regulatory advisory is attached.

The Exchange has also modified its headset policy in the Interest Rate quadrant. The revised policy no longer has differences in allowable headset uses by product and allows for the use of unrestricted headsets for the communication of non-member customer orders to brokers in the pit from clearing firm offices off the trading floors. A copy of the revised policy is attached.

The Exchange certifies that the regulatory advisory and revisions to its headset policy for the Interest Rate quadrant neither violates nor is inconsistent with any provision of the Commodity Exchange Act or of the rules and regulations thereunder.

If you have any questions regarding this matter, please call me at (312) 648-5422.

Sincerely,

/S/ Stephen M. Szarmack
Director and Associate General Counsel

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Regulatory Advisory

TO: CME Market Users RA-05-03

FROM: CME Market Regulation Department

DATE: April 11, 2005

SUBJECT: Reminder Regarding Rule 530 ("Priority of Customers' Orders")

Chicago Mercantile Exchange Inc. ("CME®") Rule 530 ("Priority of Customers' Orders") prohibits members from buying (selling) for accounts they own or in which they have a financial interest when they are in possession of an executable buy (sell) order for pit execution for another person and prohibits any person from trading for an account such person owns or controls (on either side of the market) when they are in possession of an order specified for entry on the CME® Globex® electronic trading platform which the platform is capable of accepting. **Please be reminded that the prohibition in Rule 530 applies to all fungible or related products and applies regardless of the venue of execution.** A copy of CME Rule 530 is printed on the back of this advisory.

For example, it would be impermissible for a floor broker who receives an executable order (a market order or other contingent order that is able to be executed such as a limit order where the market has reached the limit price) to buy NASDAQ-100 Index® futures ("ND") to trade or place an order to buy any pit-traded or CME Globex-traded contract (including, but not limited to, ND or E-mini™ Nasdaq-100 Index futures) for his own account or any account in which he has a financial interest prior to the execution of the customer order. In this example, the prohibition would apply regardless of whether the broker executed the order in the pit himself, handed it off to another pit broker for execution, or transmitted the order to a CME Globex terminal operator for electronic execution.

Additionally, no person may enter an order into the CME Globex electronic trading platform for an account such person owns, controls, or in which such person has a financial interest when such person is in possession of any order (without regard to either the product or the side of the market) for another person that is capable of being entered on the platform until such order has been entered, except as provided in Rule 539.C. ("Prearranged, Pre-Negotiated and Noncompetitive Trades Prohibited – Pre-Execution Discussions Regarding GLOBEX Trades").

If you have any questions concerning this advisory, please contact Eric Wolff, Managing Director, Regulatory Affairs, at 312.930.3255, James Moran, Director, Market Regulation Department, at 312.930.8520, or Robert Sniegowski, Associate Director, Market Regulation Department, at 312.648.5493.

RULE 530. PRIORITY OF CUSTOMERS' ORDERS

A member shall not buy a futures contract, buy a call option or sell a put option for his own account or for an account in which he has a direct or indirect financial interest, when he is in possession of any executable order to buy a futures contract, buy a call option or sell a put option for another.

A member shall not sell a futures contract, sell a call option or buy a put option for his own account or for an account in which he has a direct or indirect financial interest, when he is in possession of any executable order to sell a futures contract, sell a call option or buy a put option for another.

A member shall not trade with discretion or execute a discretionary order, including, without limitation, an order allowing the member discretion as to time and price when he is in possession of any executable customer order on the same side of the market.

A member may trade for his own account without violating this rule while holding a DRT order provided the customer has previously consented in writing and evidence of such general consent is indicated on the order with the "WP" (with permission) designation. In the case of a floor broker holding an order open as to time and price for an account described in Rule 547, the "WP" designation on such order shall constitute sufficient prior written consent.

No person shall enter an order into the GLOBEX platform for his own account, an account in which he has a direct or indirect financial interest or an account over which he has discretion, including, without limitation, an order allowing discretion as to time and price, when such person is in possession of any order for another person that the GLOBEX platform is capable of accepting except as provided in Rule 539.C.

Violation of this rule shall be a major offense.

S-4214 February 14, 2005

MODIFICATIONS TO HEADSET POLICY IN INTEREST RATE QUADRANT

At its meeting on February 2, 2005, the CME® Trading Floor Operations Committee ("Committee") approved changes to the headset policy in the Interest Rate quadrant based on requests from several clearing firms. The first change removes differences in allowable headset uses by product within the Interest Rate quadrant such that a single policy is now applicable to the entire quadrant. The second change allows for the use of unrestricted headsets for the communication of non-member customer orders directly to brokers standing at any level of the pit or their clerks standing in approved clerk locations **from clearing firm offices off the trading floors** (or from the floor of other exchanges) subject to the requirements and restrictions detailed in the customer order section below.

Member Orders

Member orders (orders which receive preferential clearing fees) for all CME interest rate futures and options may now be communicated from on or off-floor locations via headsets directly to brokers standing at any level of the pit or to a clerk standing in an approved clerk location in the interest rate quadrant provided that all audit trail and recordkeeping requirements are met. This was allowed under the prior policy, but only with respect to CME Eurodollar futures and options orders. As is currently required, member orders communicated from an off-floor location directly to a broker or clerk will require that the broker or clerk make a written record of the order on a trading card including the identification of the member calling in the order. The member executing the order must record the trade and time of execution to the nearest minute on the card and must then deliver the card to the initiating member's clearing member in sufficient time to comply with the card and order pick-up schedule published by CME. Clearing firms must ensure that the time of execution is entered into the trade timing system.

Non-Member Customer Orders

The policy change will now allow non-member customer orders for pit execution to be communicated by **authorized staff of CME clearing firms located off the trading floor** via unrestricted wireless headsets directly to brokers standing at any level of the pit or to a clerk standing in an approved clerk location in the interest rate quadrant provided

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that approval has been given and the following requirements and restrictions are followed:

1. Non-member customers remain prohibited from communicating directly with brokers or their clerks via the unrestricted headsets.
2. **Clearing firms must tape the telephone lines used to transmit the orders and retain the recordings for thirty days.**
3. In order to comply with CFTC audit trail requirements, the broker or his clerk receiving the order must make a contemporaneous written record of the order on a generic order ticket. Order tickets must be pre-printed with sequential order numbers and the broker's acronym (or the name of a registered CME broker association). In order to ensure that all audit trail requirements are met, the terms of the order, the customer account number, and the name or firm number of the firm transmitting the order must be included on the order ticket. Additionally, the order ticket must be timestamped in on its front when received and whenever modified and timestamped out on its back when the order has been filled (including separate timestamps for receipt of partial fills) or cancelled. As physical conditions allow, CME staff will work with firms and brokers in locating additional timestamp machines in the Interest Rate quadrant to allow for the timestamping of the order tickets.
4. After execution of the order (or upon its cancellation) the broker or his clerk must return the original copy of the order ticket and any associated fill cards to the firm placing the order. Firms must maintain the order for 5 years as required by Exchange rules and the CFTC. Brokers are encouraged to maintain a copy of the order ticket for their records.
5. Firms must keypunch the trade using the information from the order ticket and associated fill cards.
6. The firm placing the order remains financially responsible to its customers for orders placed with brokers or clerks under the terms of this policy. Brokers remain financially responsible for, and must exercise due diligence in, the handling and execution of these orders.

Firms wishing to apply this policy are required to submit a letter of request to Market Regulation (via post or via facsimile 312.648.8665 and post) and must ensure that up-to-date headset applications have been filed with the CME Telecommunications Department that identify the intended use of the headset(s). Further, any changes in the use of an existing headset must be updated with the CME Telecommunications Department. No firm may begin to operate under the terms of this policy until CME staff in conjunction with a co-chairman of the Committee reviews and approves the request.

If you have any questions, please contact Eric S. Wolff, Managing Director, Regulatory Affairs, at 312.930.3255, Robert A. Sniegowski, Associate Director, Market Regulation, at 312.648.5493, or James P. Moran, Director, Market Regulation, at 312.930.8520.