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March 23, 2006

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

> **RE: CME Regulatory Advisory, RA-06-03**
> **Submission No. 06-29**

Dear Ms. Webb:

Chicago Mercantile Exchange Inc. ("CME" or "Exchange") hereby notifies the Commission that the Exchange has issued a Regulatory Advisory to CME members and employees of members regarding CME Globex trading rules and requirements. This advisory provides a brief summary of CME's rules and policies relating to CME Globex and acts as a guide to some of the most commonly referred to questions on electronic trading. A copy of this regulatory advisory is attached.

The Exchange certifies that this regulatory advisory 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:	All Members, Clearing Firms and CME Globex® Users	RA-06-03

FROM: CME Market Regulation Department

DATE: March 23, 2006

SUBJECT: CME Globex Trading Rules and Requirements

The information contained in this Advisory is intended to provide a brief summary of the CME rules and policies most applicable to the CME Globex electronic trading platform ("CME Globex"). It is not intended as a complete list of all rules and policies relating to CME Globex but rather as a short guide to the most commonly referred to questions on electronic trading. The Advisory is divided into the following seven sections:

1. CME Globex Access
2. Clearing Member Firm Responsibilities
3. Identification of CME Globex Workstation Users
4. CME Globex Order Entry Rules
5. CME Globex Recordkeeping Requirements
6. Pre-Execution Discussions Concerning CME Globex Trades
7. CME Globex Trade Cancellations
8. Records Retention

All CME Globex users (whether member, employee, or customer) are expected to know and adhere to CME rules and policies and the rules and the regulations under the Commodity Exchange Act ("Act"). Individuals and entities that violate CME rules or the Act, that threaten the integrity or liquidity of any contract, or that fail to cooperate in a CME investigation may have their access to CME Globex suspended or terminated. CME members, CME clearing member firms and other parties and entities within the direct jurisdiction of CME pursuant to CME Rule 400 ("General Provisions") may be subject to disciplinary action by CME. Additionally, the Commodity Futures Trading Commission ("CFTC") or other regulatory agencies may also bring actions against market participants for failure to comply with CME rules and policies. The complete texts of CME rules cited in this Advisory or applicable to CME Globex are available on the CME website via the online version of the CME Rulebook.

1. CME Globex Access

CME Rule 574 ("GLOBEX Access Restrictions") sets forth certain requirements concerning access to CME Globex. The complete text of CME Rule 574 appears on the following page.

574. GLOBEX ACCESS RESTRICTIONS

All connections to the GLOBEX system must be guaranteed by a clearing member that assumes financial responsibility for all activity through the connection.

All individuals entering non-member customer orders in other than a clerical capacity must have appropriate industry registration. Non-member customer orders may only be entered from designated areas on the floor of the Exchange or from the premises of an entity registered to conduct customer business.

Clearing members shall assist the Exchange in any investigation into potential violations of the rules or the Act which occur through or with respect to a GLOBEX connection guaranteed by the clearing member. Such assistance must be timely and may include, but not be limited to, requiring any non-member customer to produce documents, to answer questions from the Exchange, and/or to appear in connection with an investigation.

Clearing members shall suspend or terminate a non-member customer's GLOBEX access if the Exchange determines that the actions of the non-member customer threaten the integrity or liquidity of any contract or violates any Exchange rule or the Act, or if the non-member customer fails to cooperate in an investigation.

2. Clearing Member Firm Responsibilities

CME Rules 574 and 901.M. ("General Requirements and Obligations") require that all connections to CME Globex be guaranteed by a CME clearing member firm that assumes complete financial responsibility for all activity entered through the connection. Additionally, any CME clearing member firm providing direct CME Globex access to its customers must comply with all CME Credit Control requirements as set forth in Schedule 6 of the Customer Connection Agreement.

3. Identification of CME Globex Workstation Users

CME Rule 576 ("Identification of GLOBEX Terminal Operators") requires that each individual user must use a unique user ID, also known as a workstation operator identifier ("identifier"), to access CME Globex. This unique identifier is in addition to a password, and is required regardless of the entry point into the CME Globex system (CME iLink®, CME Globex Trader, etc.). CME Clearing Member firms are responsible for ensuring that each of the users it guarantees has been assigned a unique identifier and for maintaining an historical record of the identity of each user for a five year period. When firm employed terminal operators end their shifts or otherwise leave their terminals they must sign out and any new user must sign on with his/her unique identifier and password.

Accurate entry of a unique identifier is necessary for regulatory purposes, and in some circumstances is required for the proper fees to be applied. Failure to submit accurate data into the Exchange Fee System ("EFS") with respect to identifiers may be a violation of CME Rule 576.

For additional guidance on requirements concerning EFS registration of identifiers and identifier requirements for orders entered through CME iLink connections, including trades sent to CME Globex by an Automated Trading System ("ATS"), please see CME Regulatory Advisory 06-02 from March 22, 2006. The Advisory is available on the CME website at
http://www.cme.com/trading/res/reg/adv/17684.html

4.   CME Globex Order Entry Rules

This section is intended to highlight the most commonly referred to CME rules and requirements for orders entered into CME Globex on behalf of others; it is not intended as an exhaustive list of all such CME rules and requirements.

- Every order entered into CME Globex must include an account designation, although there is an exception to the requirement of entering the actual account number if the order is entered by an eligible account manager for accounts eligible for post-trade allocation as set forth in CME Rule 536.B.2. ("Bunched GLOBEX Orders"). Also, please follow the link below to display Regulatory Advisory RA-05-01 from February 2, 2005, which contains additional information on the appropriate procedures for the entry of suspense accounts into CME Globex in lieu of actual account numbers.
  http://www.cme.com/trading/res/reg/adv/11727.html
- No person may enter an order for an account they own, an account in which they have a financial interest or an account over which they have discretion when the person is in possession of any order for another party that CME Globex is capable of accepting except as provided in CME Rule 539.C. See CME Rule 530 ("Priority of Customers' Orders").
- All customer orders must be entered into CME Globex in the order received. See CME Rule 548 ("Priority of Execution").
- No person may withhold or withdraw any order from the market for the benefit of any person other than the person placing the order. See CME Rule 529 ("Withholding Orders Prohibited").
- A person in possession of a customer order shall not knowingly enter into a transaction for that order opposite himself except in accordance with the provisions of CME Rule 539.C. ("Prearranged, Pre-Negotiated and Noncompetitive Trades Prohibited – Pre-Execution Discussions Regarding GLOBEX Trades"). See CME Rule 531 ("Trading Against Customers' Orders Prohibited").
- No person may disclose another person's order except in accordance with the provisions of CME Rule 539.C. See CME Rule 532 ("Disclosing Orders Prohibited").
- No person shall knowingly participate in a transaction in which the same beneficial owner is both the buyer and seller, or accept simultaneous buy and sell orders for the same beneficial owner when such orders are for the same product and expiration month, and , for a put or call option, the same strike price. See CME Rule 534 ("Simultaneous Buy and Sell Orders for the Same Beneficial Owner Prohibited").

5.   CME Globex Recordkeeping Requirements

For each order entered into CME Globex, CME Rule 536.B. requires the terminal operator to input the price, quantity, product, expiration month, Customer Type Indicator ("CTI code") and account number, and, for options, put or call and strike price. A description of the four CTI codes appears below:

CTI 1 - Applies to transactions initiated and executed by an individual member for his own account, for an account he controls, or for an account in which he has an ownership or financial interest. However, transactions initiated and executed by a member for the proprietary account of a member firm (as defined below) must be designated as CTI 2 transactions.

CTI 2 - Applies to orders entered/trades executed for the proprietary accounts of CME Clearing Member firms, firms holding a membership pursuant to CME Rules 106.H., 106.I.,

106.N., 106.R (also known as Electronic Corporate Members) or 106.S., and other similar member programs to be announced by CME.

<u>CTI 3</u> - Applies to orders entered by member or non-member terminal operator for the account of another individual member or an account controlled by such other individual member.

<u>CTI 4</u> - Applies to all orders/transactions not included in CTI categories 1, 2, or 3. These typically are orders entered by or on behalf of non-member entities.

Each order entered into CME Globex must be entered with the correct workstation operator identifier as described in Section 3 of this Advisory.

Terminal operators that receive orders which are capable of and are immediately entered into CME Globex are not required to create a written, timestamped order. Orders that cannot be entered immediately into CME Globex must be reduced to writing and include the date, timestamp, order instructions and account designation. See CME Rule 536.B. ("Recordkeeping Requirements for Pit, GLOBEX, and Negotiated Trades – GLOBEX Order Entry"). CME Globex users are encouraged to print and save a listing of orders they enter into CME Globex each session.

CME clearing member firms are responsible for maintaining or causing to be maintained an audit trail for electronic orders entered into CME Globex through CME iLink, and must be able to display this data in a pre-approved format using terminology and field names consistent with other CME systems. See Rule 536.B.3. ("Clearing Member Requirements for Electronic Order Routing/Management Systems").

6.   Pre-Execution Discussions Concerning CME Globex Trades

Market participants are allowed to engage in pre-execution discussions with regard to transactions executed on CME Globex where one party wishes to be assured that a contra party will take the opposite side of the order, provided that parties adhere to the requirements and procedures in CME Rule 539.C.

Some circumstances in which pre-execution discussions might take place are as follows:

- A firm may wish to contact potential contra parties on behalf of its customers or for the benefit of the firm proprietary account in order to gain some assurance that someone will be ready and willing to take the opposite side of the order. These opposite parties could be the firm's customers or house traders, other firms' customers or proprietary traders, or individual traders;
- An individual member may contact potential contra parties to trade opposite his or her personal trading account.

Firms must obtain permission from a customer prior to engaging in pre-execution discussions on behalf of that customer. Once an individual or firm has participated in a pre-execution discussion, they may not disclose that information to another party, or take advantage of the information for their benefit. Firms may not enter orders into CME Globex that result from pre-execution discussions when such orders are from two or more accounts with the same beneficial ownership.

After a pre-execution discussion involving any CME Globex product other than CME Eurodollar options, the order from the party who initiated the pre-execution discussion must be entered into CME Globex first, and the other party's order may not be entered into CME Globex for a period of 5

seconds in the case of futures orders or a period of 15 seconds in the case of non-Eurodollar options orders.

With respect to CME Eurodollar options orders that result from pre-execution discussions, automated functionality has been implemented that requires a two-sided order be sent to CME Globex via a Request for Cross message. Additionally, a Request for Quote must be entered prior to engaging in a pre-execution discussion with respect to CME Eurodollar options orders on CME Globex.
More detailed information, including the text of CME Rule 539.C. and a Question and Answer document concerning the policies and procedures concerning CME Globex pre-execution discussions are available on the CME website via the following links:

http://www.cme.com/trading/res/reg/adv/17328.html
http://www.cme.com/trading/res/reg/adv/17301.html

Failure to follow CME rules and procedures concerning CME Globex trades that result from pre-execution discussions may result in disciplinary action. Additionally, pre-execution discussions concerning trades intended for open outcry/pit execution are not allowed under any circumstances and constitute a violation of CME Rule 539.

7.   CME Globex Trade Cancellations

CME Rule 588 ("GLOBEX Trade Cancellations") sets forth CME's trade cancellation policy which authorizes the CME Globex Control Center to mitigate market disrupting events caused by the improper or erroneous use of the CME Globex system by adjusting trade prices or canceling trades. The intent of the policy is to balance the adverse effects on market integrity of executing trades and publishing trade information inconsistent with prevailing market conditions while preserving legitimate expectations that executed transactions will not be cancelled. The rule also provides, in certain instances, for claims for losses resulting from adjusted trade prices or cancellations. The text of CME Rule 588, which includes the CME Globex no bust ranges for the various CME Globex products, is available in the CME online rulebook.

8.   Records Retention

Each firm or individual with CME Globex trading privileges must keep full, complete and systematic records of CME Globex transactions and retain these records for a period of five (5) years. Records required to be maintained include, but are not limited to, audit trails, order tickets, verifications, confirmations and trade logs. Additional information concerning the requirements for CME Clearing Member firms can be found in CME Rule 536.B.3. ("Clearing Member Requirements for Electronic Order Routing/Management Systems") which is available in the electronic version of the CME Rulebook on the CME website.

If you have any questions about compliance/regulatory issues or specific CME Globex rules, contact one of the following:

CME Market Regulation Department – 312/930.8525
Member's Hotline – 312/930.3333