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CME Group
A CME/Chicago Board of Trade Company

July 14, 2010

Mr. David Stawick
Office of the Secretariat
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, D.C. 20581

RE: CME New Chapter 383 ("S&P 500 Dividend Index Futures")
CFTC Approval of Standard and Poor's 500 Dividend Index Futures
CME Submission No. 10-195

Dear Mr. Stawick:

Chicago Mercantile Exchange Inc. ("CME" or "Exchange") voluntarily submits to the Commodity Futures Trading Commission ("Commission") new Chapter 383, S&P 500 Dividend Index Futures, for Commission review and approval pursuant to Section 5c(c) of the CEA and Regulation §40.3 thereunder.

This submission is being filed electronically with the Secretary of the Commission and at the Chicago regional office pursuant to Section 40.3(a)(1) of the Commission's Regulations. Further, we are including a check in the amount of six-thousand dollars ($6,000.00) pursuant to Section 40.3(a)(8) of the Regulations along with a a hard copy of this submission delivered to the Secretary of the Commission.

CME certifies that this action complies with the Commodity Exchange Act and regulations thereunder.

If you require any additional information regarding this action, please do not hesitate to contact Mr. John Labuszewski, Managing Director, Research & Product Development at 312-466-7469 or via e-mail at jlab@cmegroup.com or me at 312-648-5422. Please reference CME Submission No. 10-195 in any related correspondence.

Sincerely,

/s/ Stephen M. Szarmack
Regulatory Counsel

Attachment

cc: Mr. Thomas M. Leahy, Jr.
Mr. Steven B. Benton
Mr. Geoffrey Price

Voluntary Submission of Standard and Poor's 500® Dividend Index Futures for Commission Review and Approval

July 14, 2010

1. Introduction

Chicago Mercantile Exchange Inc. ("CME" or "Exchange") voluntarily submits its S&P 500 Dividend Index Futures Rules for Commission review and approval pursuant to Section 5c(c) of the CEA and Regulation §40.3 thereunder.

- This submission is being filed electronically with the Secretary of the Commission and at the Chicago regional office pursuant to §40.3(a)(1) of the Regulations.
- This document is accompanied by a submission cover sheet in accordance with the instructions in Appendix D to §40.3(a)(2) of the Regulations.
- The Rules which would govern S&P 500 Dividend Index futures are included in section 3 of this document in accordance with §40.3(a)(3) of the Regulations.
- This document includes an explanation of how the specific terms and conditions of the proposed futures contract satisfy the acceptable practices set forth in Guideline No. 1, Appendix A to Part 40, in narrative form, as provided below in section 2 and in accordance to §40.3(a)(4)(i) of the Regulations.
- Pursuant to §40.3(a)(4)(iii) of the Regulations, and to the extent that the proposed contract would be settled in cash, section 2 of this document addresses the insusceptibility of the contract to manipulation.
- Pursuant to §40.3(a)(4)(iv) of the Regulations, section 2 of this document includes a brief description of the cash market for the index that underlies the proposed futures contract.
- Pursuant to §40.3(a)(5) of the Regulations, the Exchange hereby discloses that the proposed contract would be offered under license from Standard & Poor's Corporation.
- We are delivering a hard copy of this submission to the Secretary of the Commission along with a check in the amount of six thousand dollars ($6,000.00) per §40.3(a)(8) of the Regulations.

The Exchange is not requesting confidential treatment of this document or any section of this document. The Exchange plans to launch the contract on a date to be determined and reported to the Commission subsequent to the Commission's review and approval. S&P 500 Dividend index futures shall be traded exclusively on the CME Globex® electronic trading system. The Exchange stands ready to support this certification with additional information as requested by the Commission.

2. Nature of the Index

The S&P 500 Dividend Index represents the accrued ex-dividend amounts associated with all constituents of the S&P 500 cumulated over the course of a specified quarterly accrual period.

Constructing the Index - For these purposes, the accrual period runs from the business day subsequent to the 3rd Friday of the "March quarterly cycle" (*i.e.,* months of March, June, September and December) through the 3rd Friday of the next month in the cycle. (*e.g.,* the S&P 500 Dividend Index for June 2009 represents the dividends excised from the S&P 500 index portfolio from the business day after the 3rd Friday of March 2009 through the 3rd Friday of June 2009.) The cumulative index is expressed in index points and is reset at zero at the conclusion of each cycle. Thus, the Index at any given point represents a running total of dividends, through their ex-dividend dates, associated with all stocks in the S&P 500.

The Index is maintained by Standard & Poor's. It is calculated through a bottom-up approach where the dividends paid by a constituent company during the quarter are added up. The cumulative dividends for the S&P 500 are then converted into index points, which represents the dividend index level. The index dividend of S&P 500 is calculated on any given day as the total dividend value for all constituents of the index divided by the index divisor. The total dividend value is calculated as the sum of dividends per share multiplied by shares outstanding for all constituents of the Index which have a dividend going ex- on the date in question.

Declared ordinary gross dividends paid on stocks going ex-dividend in that period are included. They are most likely to be recurring and thus potentially "forecast-able." A special dividend is usually defined as not fitting a regular payment out of operating earnings and does not have an impact on future dividend payments. S&P defines special dividends as those dividends that are outside of the normal payment pattern established historically by the issuing corporation. These may be described by the company as "special", "extra", "year-end", or "return of capital".

However, even if a company calls a dividend "special" but it is recurring, S&P includes it as part of its index dividend calculation.

Do Dividends Constitute Interests in Securities? – During the course of the Securities and Exchange Commission's (SEC) review and approval of an application by the Chicago Board Options Exchange (CBOE) to list options on the S&P 500 Dividend Index, the SEC opined "that the S&P 500 Dividend Index Options are options on interests in, or based on the value of interests in, a group or index of securities and, therefore, are securities under Section 3(a)(10) of the Act." [1]

The Exchange believes that this interpretation is in error and that dividends cannot be considered securities pursuant to Section 1a(30) of the Commodity Exchange Act (CEA). Further, we believe that the S&P 500 Dividend Index may not be considered a securities index and thus is not subject to the requirements of Section 1a(25) of the CEA.

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[1] Securities and Exchange Commission Release No. 34-61136; File No. SR-CBOE-2009-022, December 10, 2009, p. 10.

Commission staff expressed similar reservations when it queried "[w]hether the Index is an index of securities – traditionally a securities index is based on the weighted average of constituent stock prices; here ... the index is based on accrued dividend amounts, and staff believe that this 'index' may be more akin to an event contract rather than a securities index." [2]

The SEC, in part, based its approval of the CBOE proposal on the CBOE position that "[t]he S&P 500 Dividend Index is based on the weighted average of S&P 500 Index constituent stock price changes on ex-dividend days ... Measuring a stock's price change based on this factor is an appropriate methodology to calculate the change in value of securities." [3] However, we believe this statement to be erroneous. The S&P 500 Dividend Index does not reference the price changes in S&P 500 Index constituent stocks at all. Rather, it is based exclusively on the value of declared dividends.

Some have suggested that, on a theoretical basis, the value of a stock should decline by the value of any declared dividend on the ex-dividend date. While there tends to be a correlation between declared dividends and equity price changes on ex-dividend days, this correlation is imperfect. Thus, it is inappropriate and misleading to equate the declared value of dividends with observed price changes in the value of a stock.

In fact, there is ample anecdotal evidence to suggest that stock prices sometimes rise, even in the wake of a dividend payment.

> "Consider McDonald's (MCD). The fast-food chain pumped up its annual per-share dividend 50% to $1 last year. It paid the dividend Dec. 1 to shareholders who owned the stock on November 15 ... So you'd expect the stock price of McDonalds to fall by $1 Nov. 16 because investors who buy the stock that day would miss out on the $1 dividend. Just the opposite happened: On Nov. 16 shares of McDonald's gained 57 cents to $41.67. It's hard to know why, perhaps because the broad market rose that day ... There could be other explanations too. Some hedge funds and speculators try to trade ahead of dividend payments hoping other investors will temporarily set a wrong price on the stock. If you have enough people doing that, it can cause the stock to do strange things. So in theory, your thinking is correct. But as in so many things, results can differ in practice." [4]

The academic literature is replete with studies that document how many different factors can impact stock values around the ex-dividend date. As a result, and as demonstrated by Heath and Jarrow, "even in a continuous trading, frictionless economy ... it is possible for the ex-dividend stock price drop to differ from the dividend, and still short-term traders cannot generate arbitrage profits ... independent of transaction costs." [5] The root causes of such anomalies can be many and varied and include tax considerations, posturing around ex-dividend dates, market microstructures and macroeconomic conditions.

Much of the available literature on the subject suggests that stocks tend to decline less than the dividend value on the ex-dividend date when ordinary income tax rates exceed capital gains tax

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[2] E-mail communication addressed to James Eastman and Elizabeth King from Julian Hammer, Re: CBOE proposal to list options on the S&P 500 Dividend Index, May 4, 2009.
[3] Letter addressed to Elizabeth M. Murphy, Secretary, U.S. Securities and Exchange Commission from Jenny L. Klebes, CBOE, May 19, 2009, p. 1.
[4] Krantz, Matt, "Dividends Can Dent a Stock's Price ... or Not," USA Today, January 11, 2007.
[5] Heath, David C. and Jarrow, Robert A. "Ex-Dividend Stock Price Behavior and Arbitrage Opportunities" The Journal of Business, Vol. 61, No. 1 (Jan., 1988), pp. 95-108.

rates. Note that dividends are typically taxed as ordinary income while equity price fluctuations may qualify for capital gains treatment. For more complete discussions of this effect, please refer to Elton and Gruber (1970), Barclay (1987), Bell and Jenkinson (2002), Graham, Michaely and Roberts (2002). [6]

Other researchers cite factors associated with market microstructures in addition, or as an alternative, to tax considerations. Bali and Hite (1998) suggest that the discrete nature of price movements rather than tax considerations account for the apparent pricing anomalies. [7] Alternatively, Frank and Jagannathan (1998) suggest that the collection and re-investment of dividends is burdensome for retail investors but much less so for professional traders such as market makers. Thus, individuals may sell stock before ex-dividend dates and reacquire the shares after ex-dividend dates. [8]

CBOE acknowledges that "[i]ndeed, a stock's price is an amalgam of multiple factors, one of which is its dividend." [9] But these various factors cannot be considered securities because they impact upon, or correlate to whatever degree, with the value of a security. (*e.g.*, the monthly release of non-farm payroll (NFP) data frequently exerts a strong impact upon security values. But NFPs cannot be considered securities on the basis of some imperfect degree of correlation.)

We believe that dividends may be most accurately characterized as a non-price-based measure of economic or commercial activity which cannot directly be traded but which can be used for a hedging application when incorporated into a futures contract. In fact, the Commission recently approved other contracts that may likewise be described suggesting that "such a commodity is a right or interest within the meaning of Section 1(a)(4) [of the CEA]. While the right or interest may be intangible, it can clearly serve as the basis for a futures or option contract. More than 500 of these types of contracts have been approved or self-certified to the Commission to date. Examples of these contracts ... are: Company-Specific Earnings per Share; Eurozone Index of Consumer Prices; Consumer Price Index; Nonfarm Payrolls; Retail Sales Data ..." [10]

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[6] See Elton, E., Gruber, M. "Marginal Shareholder Tax Rates and the Clientele Effect" Rev. Econ. Stat. 52, pp. 68-75 (1970); Barclay, M. "Dividends, Taxes and Common Stock Prices: The Ex-Dividend Day Behavior of Common Stock Prices Before Income Tax" Journal of Financial Economics 19, pp. 31-44 (1987); Bell, L., Jenkinson, T. "New Evidence on the Impact of Dividend Taxation and on the Identify of the Marginal Investor" Journal of Finance, 57, pp. 1321-1346 (2002); Graham, J.R., Michaely, R., Roberts, M. "Do Price Discreteness and Transaction Costs Affect Stock Returns?" Comparing Ex-Dividend Pricing Before and After Decimalization" Journal of Finance 68, pp. 2613-2637 (2003).

[7] Bali, R., Hite, G.L. "Ex-Dividend Day Stock Price Behavior: Discreteness or Tax Induced Clienteles?" Journal of Finance 47, pp. 127-159 (1998).

[8] Frank M., Jagannathan, R. "Why Do Stock Prices Drop By Less than that Value of the Dividend? Evidence from a Country without Taxes." Journal of Financial Economics 47, pp. 161-188 (1998).

[9] Letter addressed to Ms. Elizabeth M. Murphy, Secretary, U.S. Securities and Exchange Commission from Jenny L. Klebes, CBOE, May 19, 2009, p. 1.

[10] Statement of the Commission serving to approve the contracts of MDEX, June 14,2010.

While we reject the interpretation that dividends constitute securities or interests in securities, we nonetheless suggest that the Index may be considered broad-based pursuant to the provisions described in Section 1a(25) of the CEA. Indeed, as suggested in the CBOE communication to the SEC, "[t]he S&P 500 Dividend Index is calculated using the same set of component securities, same shares outstanding, same capitalization methodology and same index divisor that is used to calculate the S&P 500 Index ... Accordingly, the S&P 500 Dividend Index is a broad-based security index." [11]

Note that the S&P 500 Index has continuously been offered in the form of a futures contract since 1982 and meets or exceeds all the requirements of Section 1a(25) with a wide margin to spare. Accordingly, we believe it is valid to infer that the S&P 500 Dividend Index similarly meets the definition of "broad-based" pursuant to Section 1a(25) and that futures trading tied to the Index is insusceptible to manipulation as required by Sec 5(d)(3) of the CEA.

As such, we believe that Dividend Index futures fall clearly within the jurisdiction of the Commission.

Insusceptibility to Manipulation – The Exchange proposes to enact several measures designed to alleviate any possible concerns regarding the susceptibility of the Index to possible price manipulation. Specifically, we propose: (i) a targeted trading prohibition coupled with a 25 contract large trader reporting threshold; (ii) a 2,000 contract position limit and (iii) an additional Market Regulation review program that will become active when there are 9 or fewer than nine index component companies have declared a dividend.

The trading prohibition, embodied in proposed Rule 383.02.J., Trading Prohibition, is targeted towards directors, officers and employees of corporations which are amongst the last nine (9) index constituents to declare a dividend prior to futures contract expiration; and, who are in possession of material, non-public information regarding that forthcoming dividend. The prohibition would be applied to preclude Clearing Members from accepting orders from such persons under the specified conditions to the extent that CME can only exercise authority over its Clearing Members and not with respect to the public at large.

The prohibition is only applied when there are 9 or fewer index constituents scheduled to declare a dividend with reference to Section 1a(25) of the CEA which describes a "narrow-based" index as one which, amongst other criteria, have 9 or fewer index constituents. The implicit assumption of Section 1a(25) seems to be that when more than 9 index constituents are scheduled to declare a dividend, the index is insusceptible to manipulation.

We believe that this prohibition is parallel in form and effect to MDEX Rule 907, Trading by Certain Persons Prohibited, which was recently approved by the Commission. [12] Thus, we submit that this protection satisfies the requirement to ensure that trading in this contract is fair and equitable.

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[11] *Ibid.*, p. 2.
[12] *Op. cit.,* Statement of the Commission, June 14, 2010.

The Exchange further plans to create a website application that summarizes the history and schedule of dividends as a reference piece in support of the contract and this prohibition. In particular, the Market Regulation Department would issue, via e-mail, a memo advising the marketplace when such prohibition becomes effective.

The Exchange's Market Regulation Department will also monitor compliance with the 2,000 contract position limit and when there are 9 companies or fewer remaining to declare dividends, will monitor market impacting news relating to those companies on a daily basis and scrutinize the trading in dividend futures which may have preceded and benefited from the release of that news.

3. Description of Individual Contract Terms

In order to facilitate the certification process, the Exchange offers the following description and explanation of futures on S&P 500 Dividend Index contract terms and conditions. Note further that the Exchange intends to offer futures on S&P 500 Dividend Index contracts on the CME electronic trading system.

Contract Size - Rule 38301., COMMODITY SPECIFICATION, provides that "[e]ach futures contract shall be valued at $2,500.00 times the S&P 500 Dividend Index."As of this writing, the Index was in the vicinity of 5.41 index points which equates to a contract value of approximately $13,525. This is consistent with terms and conditions of myriad other index based futures contracts.

Quotation Specification - Rule 38302.C., Price Increments, specifies that "[b]ids and offers shall be quoted in terms of the S&P 500 Dividend Index expressed in S&P 500 Index points, *e.g.*, 7.22 points, 7.23 points, 7.24 points. The minimum fluctuation of the futures contract shall be 0.01 index points, equivalent to $25.00 per contract." The proposed tick size is not unusual and well within the ranges typically observed with respect to futures contracts.

Position Limits - Per Rule 38302.D., Position Limits, states that "[a] person shall not own or control more than 2,000 contracts net long or net short in all contract months combined."

Block Trading – Block trading is allowed in the context of this product with minimum order size of 50 contracts.

Other Contract Terms and Conditions – All other terms and conditions of the proposed contract are substantially identical to existing domestic stock index futures. For the reader's convenience, we provide a table (below) summarizing contract terms and conditions.

S&P 500 Dividend Index Futures Summary

Contract Value	$2,500 x S&P 500 Dividend Index
Tick Size	0.01 Index Points (or $25 per tick = 0.01 x $2,500)
Listing Cycle	Five (5) months in March Quarterly Cycle, *i.e.,* March, June September & December
Hours of Trade	Offered exclusively on CME Globex® electronic trading platform on Mondays-Thursdays from 5:00 pm-3:15 pm & 3:30 pm-4:30 p.m.; Sundays from 5:00 pm-3:15 pm (CT)
Termination of Trading	8:30 am (CT) on third Friday of contract month
Final Settlement	Cash Settlement to the S&P 500 Cumulative Quarterly Dividend Index
Final Settlement Date	Third (3rd) Friday of contract month with contingencies if Underlying Reference Value should not be published on that day
Limits	None
Ticker	Clearing=XXX, Ticker=XXX

3. Rules Governing S&P 500 Dividend Index Futures

Chapter 383
S&P 500 Dividend Index Futures

38300. SCOPE OF CHAPTER

This chapter is limited in application to futures trading in the Standard & Poor's 500 Dividend Index ("S&P 500 Dividend Index"). The procedures for trading, clearing, settlement, and any other matters not specifically covered herein shall be governed by the rules of the Exchange.

38301. COMMODITY SPECIFICATIONS

Each futures contract shall be valued at $2,500.00 times the S&P 500 Dividend Index. The S&P 500 Dividend Index represents the accumulated ex-dividend amounts of all components of the Standard & Poor's 500 Stock Price Index ("S&P 500") over a specified quarterly accrual period as defined in Rule 38303.A. The S&P 500 Dividend Index is expressed in S&P 500 Index points and is reset to zero at the conclusion of each quarterly accrual period.

38302. FUTURES CALL

38302.A. Trading Schedule

Futures contracts shall be scheduled for trading during such hours and for delivery in such months as may be determined by the Board of Directors.

38302.B. Trading Unit

The unit of trading shall be $2,500.00 times the S&P 500 Dividend Index.

38302.C. Price Increments

Bids and offers shall be quoted in terms of the S&P 500 Dividend Index expressed in S&P 500 Index points, *e.g.*, 7.22 points, 7.23 points, 7.24 points. The minimum fluctuation of the futures contract shall be 0.01 index points, equivalent to $25.00 per contract.

38302.D. Position Limits

A person shall not own or control more than 2,000 futures contracts net long or net short in all contract months combined.

38302.E. Accumulation of Positions

For the purposes of this rule, the positions of all accounts directly or indirectly owned or controlled by a person or persons, and the positions of all accounts of a person or persons acting pursuant to an expressed or implied agreement or understanding, and the positions of all accounts in which a person or persons have a proprietary or beneficial interest, shall be cumulated.

38302.F. Exemptions

The foregoing position limits shall not apply to (1) bona fide hedge positions meeting the requirements of Regulation 1.3(z)(1) of the CFTC and the rules of the Exchange and (2) other positions exempted pursuant to Rule 543.

38302.G. Termination of Trading

Futures trading shall terminate on the business day immediately preceding the day of determination of the Final Settlement Price.

38302.H. Contract Modifications

Specifications shall be fixed as of the first day of trading of a contract. If any U.S. governmental agency or body issues an order, ruling, directive or law that conflicts with the requirements of these rules, such order, ruling, directive or law shall be construed to take precedence and become part of these rules, and all open and new contracts shall be subject to such government orders.

38302.I. Price Limits, Trading Halts, and/or Trading Hours

Daily price limits shall not be applied to trading in the S&P 500 Dividend Index futures contract. Trading halts and trading hours of the S&P 500 Dividend Index futures contract shall be coordinated with trading halts and trading hours of the E-mini Standard & Poor's 500 Stock Price Index futures contract per Rule Chapter 358.

38302.J. Trading Prohibition

Clearing members shall not accept orders in S&P 500 Dividend Index futures contracts from any director, officer or employee of a corporation which is one of nine (9) or fewer Index constituents scheduled to declare a dividend prior to the expiration of the S&P 500 Dividend Index futures contract; and, who is in possession of any material, non-public knowledge regarding forthcoming dividends of such corporation.

38303. SETTLEMENT PROCEDURES

Delivery under the S&P 500 Dividend Index Futures contract shall be by cash settlement.

38303.A. Final Settlement Price

The Final Settlement Price shall be a special quotation of the S&P 500 Dividend Index that represents the accumulated ex-dividend amounts of all components of the Standard & Poor's 500 Stock Price Index ("S&P 500") over a specified quarterly accrual period. The quarterly accrual period shall commence on the day subsequent to the day of determination of the Final Settlement Price of the previous quarterly contract month for E-mini Standard & Poor's 500 Stock Price Index futures per in Rule 35803.A. The quarterly accrual period shall extend through the day of determination of the Final Settlement Price for the same quarterly contract month for E-mini Standard & Poor's 500 Stock Price Index futures per Rule 35803.A. The S&P 500 Dividend Index is expressed in S&P 500 Index points and is reset to zero at the conclusion of each quarterly accrual period.

38303.B. Final Settlement

Clearing members holding open positions in an S&P 500 Dividend Index futures contract at the time of termination of trading in that contract shall make payment to or receive payment from the Clearing House in accordance with normal variation margin procedures based on a settlement price equal to the final settlement price.

38304. ACTS OF GOVERNMENT, ACTS OF GOD AND OTHER EMERGENCIES

(Refer to Rule 701. – ACTS OF GOVERNMENT, ACTS OF GOD AND OTHER EMERGENCIES)

38305.-06. [RESERVED]

(End Chapter 383)

INTERPRETATIONS AND SPECIAL NOTICES RELATING TO CHAPTER 383

Standard & Poor's, a division of the McGraw–Hill Companies, Inc. ("S&P"), licenses the Exchange to use various S&P stock indices ("S&P Stock Indices") in connection with the trading of futures contracts and options on futures contracts based upon such indices. S&P shall have no liability for damages, claims, losses or expenses caused by any errors or delays in calculating or disseminating the S&P Stock Indices.

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