cme

Chicago Mercantile Exchange

20 South Wacker Drive   312/930.1000 *tel*
Chicago, IL 60606-7499   312/466.4410 *fax*
www.cme.com

November 3, 2006

Ms. Eileen Donovan
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 an Amendment
to the Interpretation of CME Rule 580 – GLOBEX TRADE ALGORITHMS.
CME Submission 06-95.**

Dear Ms. Donovan:

    Chicago Mercantile Exchange Inc. ("CME" or "Exchange") hereby certifies with the Commission an amendment to the Interpretation of CME Rule 580 – **GLOBEX TRADE ALGORITHMS**, that supports the trading of user-defined combinations consisting of both options and futures contracts on CME Globex®. For these procedures, CME is using the same methodology currently applied to combinations including both futures and options on Eurodollar futures contracts (see also CME Rule 585 – **GLOBEX CALL MARKET TRADING ALGORITHM** and its Interpretation). The Exchange amended CME Rule 580 to incorporate the same covered options and futures functionality as CME Rule 585. Appendix 1 presents the rule interpretation amendment with additions underlined. Appendix 2 displays a clean copy of the rule interpretation amendment. Appendix 3 displays a copy of the unchanged CME Rule 580 as a reference.

    The Exchange certifies that these actions neither violate nor are inconsistent with any portion of the Commodity Exchange Act or of the rules thereunder.

    If you require any additional information, 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 06-95 on all future correspondence regarding this notification.

Sincerely,

John W. Labuszewski
Managing Director, Research & Product Development

Attachments

Appendix 1

INTERPRETATIONS & SPECIAL NOTICES
RELATING TO CHAPTER 5

(Prior Interpretations are unchanged.)

INTERPRETATION OF RULE 580.— GLOBEX TRADE ALGORITHMS

(Prior text of Rule 580 Interpretation is unchanged. Additions are underlined.)

User-Defined Futures & Options Spreads on CME Globex

For combination trades of options and futures contracts on GLOBEX, the following additional matching mechanisms apply. For each such combination, the quantity of each option contract shall be an integer, while the quantity of futures position can be a fraction. Hereafter, the quantity of each futures contract per combination shall be referred to as the "delta" with respect to the futures expiration. Each delta shall be no smaller than 0.01 and no larger than (i) 1.00, if there is only one option in the combination, or (ii) 40.00, if there are two or more distinct option contracts in the combination. For each futures contract, the price at which the futures transaction shall be consummated shall be defined within the combination, and is subject to the futures price increment conventions defined by the respective Exchange Rules. Two combinations with identical futures and options quantities and buy/sell, long/short configurations are distinct if the futures prices are not identical, and shall be treated as different combinations.

Order matching shall proceed in accordance with the same trade allocation rule as described previously in this interpretation to Rule 580, with the following provisions for assigning the futures positions. For each futures contract specified in the combination,

1. the total number of futures positions to be assigned shall be the number of combinations traded multiplied by the respective delta. This number of futures position shall be assigned to the incoming order.

2. each of the resting limit orders, against which the incoming order are matched to, shall be assigned a futures position of the allocated numbers of combinations times the delta, rounding down to the nearest integer; e.g. if an order is allocated 15 combinations, and the delta is 0.45, 6 futures contracts shall be allocated.

3. the total number of futures position assigned to the resting limit orders following the preceding step will be equal to or fewer than the total number of futures positions to be assigned to the incoming order. The difference, if any, shall be assigned one futures contract per resting order in the following priority until the difference is reduced to zero: the resting order with the highest magnitude of rounding down in step 2 shall be first to receive an additional futures position, followed by the order with the second highest magnitude of rounding down in step 2, etc. If two orders have the same magnitude of rounding down, the oldest order shall receive the additional futures position.

For example, a trade of 60 contracts with a delta of 0.45 is matched between an incoming order and 4 resting limit orders with quantities of 20, 15, 15, 10. Total number of futures position to be assigned is 60 x 0.45 = 27 contracts. The four resting orders shall receive the following assignment of futures position:

Resting Order	Matched Quantity	Quantity X delta	Initial Futures Allocation	Magnitude of Rounding	Additional Allocation	Total Futures Allocation
1	20	9.00	9	0.00	0	9
2	15	6.75	6	0.75	1	7
3	15	6.75	6	0.75	1	7
4	10	4.50	4	0.50	0	4
Incoming Order	60	27.00				27

(End of Rule 580 Interpretation.)

(Remainder of Chapter 5 Interpretations is unchanged.)

Appendix 2

(Clean copy of the interpretation amendment.)

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RELATING TO CHAPTER 5

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4	10	4.50	4	0.50	0	4
Incoming Order	60	27.00				27

(End of Rule 580 Interpretation.)

(Remainder of Chapter 5 Interpretations is unchanged.)

Appendix 3

CHAPTER 5 - TRADING QUALIFICATIONS AND PRACTICES

(CME Rule 580 is unchanged and provided as a reference.)

580. GLOBEX TRADE ALGORITHMS

1. Market orders that are entered into the GLOBEX system shall be converted into limit orders at a price at or above (in the case of a buy order) or at or below (in the case of a sell order) the last price shown on the GLOBEX system. Any part of such order that is not filled at the limit price or better shall remain as a resting order at such limit price until filled or cancelled.

2. Stop limit orders are activated and placed into the order book when the order's specified stop price is traded, at which time the order may be executed at the best available price at or between the specified limit price and the specified stop price. Any part of such order that is not filled shall remain as a resting order at such limit price until filled or cancelled.

3. If the execution of a stop order would result in an execution price that is above (below) the last traded price plus (minus) X ticks, the market shall be placed in a "reserved state." During the reserved state, orders may be entered, modified or cancelled but orders may not be executed. The GLOBEX system will disseminate an "Indicative Opening Price" (IOP) during the reserved state representing the price at which the market could trade if the reserved state were to conclude immediately. If, at the conclusion of the initial reserved state period, the IOP is within a range bounded by the last traded price plus or minus two times (2x) X ticks, then normal execution of trades shall resume. If the IOP is outside such range, the market shall remain in a reserved state for a subsequent period. A series of reserved state periods shall ensue until either (i) the IOP is within a range bounded by the last traded price plus (minus) the number of reserved state periods, plus one, times X ticks at the conclusion of such reserved state periods, at which point normal trading shall resume; or (ii) a total of twelve (12) reserved state periods are concluded, after which normal trading shall resume regardless of the opening price.

    This process shall be applied to such markets as determined by the Exchange. The value X and the duration of a reserved state period shall be determined by the Exchange.

4. Unless otherwise specified by the Exchange, orders entered into the GLOBEX system will be matched in accordance with an algorithm that gives first priority to orders at the best price and that gives priority among orders entered at the same price based on their time of entry into the system, with the first order entered receiving first priority, the second order entered receiving second priority, etc. (First In, First Out or "FIFO" Allocation Algorithm). The Exchange may use a different matching algorithm for particular contracts by giving written notice of such algorithm to members and firms using GLOBEX at least ten days before use of such algorithm is implemented. See Interpretation of Rule 580–GLOBEX TRADE ALGORITHMS at the end of Chapter 5.

5. Request for quote ('RFQ') messages soliciting bids and/or offers for a contract or a combination of contracts traded pursuant to Rule 580 may be entered into the GLOBEX system. Upon receiving the RFQ, the Exchange shall immediately disseminate the message as part of its market data dissemination. The GLOBEX trade matching process will continue independent of the RFQ messaging activity.

(CME Rules 581 to 588.k. are unchanged.)