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July 13, 2004

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

Re: CME Rule 432.D Interpretation; Submission No. 04-61a

Dear Ms. Webb:

We are writing on behalf of LIFFE Administration and Management ("LIFFE"), a Recognized Investment Exchange in the UK, with respect to the above-referenced Interpretation to Rule 432.D (the "Interpretation") certified by the Chicago Mercantile Exchange, Inc. ("CME") to the Commodity Futures Trading Commission ("Commission"). The CME and LIFFE list competing Eurodollar futures and options contracts. Prior to the CME's adoption of the Interpretation a number of transactions on the CME and LIFFE took place resulting in liquidation of open interest in the CME Eurodollar contract and the establishment of open interest in LIFFE Eurodollar contracts. The Interpretation effectively halts such transactions and impairs market competition for the Eurodollar contract. We submit that the Interpretation was adopted by the CME in an attempt to cut off legitimate competition from LIFFE and not to achieve any bona fide regulatory purpose under the Commodity Exchange Act (the "Act") or the rules of the Commission. LIFFE wishes to draw the Commission's attention to the CME's Interpretation because based upon our understanding of the Act and Commission rules, the Interpretation is inconsistent with Section 5(d)(18) of the Act, which provides that "[u]nless necessary or appropriate to achieve the purpose of this Act, [a] board of trade shall endeavor to avoid (A) adopting any rules or taking any actions that result in any unreasonable restraint of trade...".

In connection with LIFFE's launch of its Eurodollar contract earlier this year, LIFFE extended its rules relating to its Basis Trading Facility ("BTF"). (Please see LIFFE General Notice No. 2380 issued on March 16, 2004, a copy of which was provided by LIFFE to the Commission's Division of Market Oversight on March 16, 2004.) Under the extended facility a trader who, for example, sold CME Eurodollar futures contracts (to either liquidate a long position or establish a short position on the CME) could simultaneously, through the operation of LIFFE's BTF, establish a long position, or liquidate a short position, in an equivalent quantity of LIFFE Eurodollar contracts (referred to herein as a "CME/LIFFE combination trade"). It should be noted that the LIFFE BTF rule is market neutral, in that it may be used to establish or close out open positions on LIFFE or the other market. The rationale for this arrangement is to

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provide members with an effective means to manage open interest, operational risk and capital utilization across financial instruments, both exchange traded and OTC, which give rise to related interest rate exposure. For example, in addition to clearing LIFFE's Eurodollar futures contract, LCH.Clearnet Ltd ("LCH") also clears LIFFE's equivalent short term interest rate contracts denominated in Euros, Sterling and Swiss Francs, as well as OTC swaps and repo transactions denominated in US dollars and other currencies. Many LIFFE members and end users would seek the efficiencies across these related instruments available uniquely at LCH.

Moreover, the LIFFE BTF rule described above parallels an Exchange of Futures for Futures ("EFF") rule (6.21(D)) submitted by the New York Mercantile Exchange Inc. ("NYMEX") for approval by the Commission pursuant to Commission Rule 40.5 on January 29, 2002. Importantly, after publishing the NYMEX rule for comment, the Commission approved the NYMEX EFF rule on May 3, 2002.

In its submission to the Commission the CME never identifies any regulatory need or justification for the Interpretation. The CME's Interpretation purports to prohibit as a fictitious trade a prearranged trade on the CME that the parties agree to "reverse" on the CME or on another board of trade. As to the part of the Interpretation that prohibits reversal transactions on the CME, to the extent such reversals involve the same contract in the same contract month, such reversals are already prohibited under CME rules and the inclusion of the reference to "reverses the transaction at the CME" is gratuitous. Such reference to reversal transactions on the CME is simply intended to camouflage the anticompetitive nature of the Interpretation's prohibition of "reversals" on other boards of trade.

As to transactions designed to transfer open interest to or from another board of trade, as noted above, the Commission has approved these precise types of trades in the context of its approval of the NYMEX EFF rule. Additionally, the CME has historically permitted, and the Interpretation would continue to permit, transactions where the futures exposure is replaced by an OTC exposure. As set forth below, the CME's rules permit certain types of transactions that are generically the same as the prohibited CME/LIFFE combination trades. For example, the CME permits prearranged exchange basis facility ("EBF") transactions involving Eurodollar futures that are "reversed" by OTC interest rate forward rate agreements ("FRA") and swap agreements. The Interpretation, when examined in the context of transactions that the CME continues to permit, serves only an anticompetitive purpose and, accordingly, is forbidden by the Act's prohibition on rules that impose unreasonable restraints on trade.

Although prearranged trades are generally prohibited on the CME, there are four categories of transactions on the CME involving prearrangement that are permitted on the CME, namely, EBFs, exchange for physicals ("EFP"s), block trades, and Globex pre-execution discussion trades. An EFP or EBF transaction, or a block trade coupled with an offsetting cash market

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transaction, would not appear to violate the Interpretation, which only prohibits prearranged trades that are "reversed" on the CME or another board of trade. The only real difference between (1) a CME/LIFFE combination trade and (2) an EBF or EFP transaction on the CME, or a block trade on the CME coupled with an offsetting cash market transaction, is that in the latter transaction, the offsetting trade is an OTC instrument rather than a LIFFE trade (and in the case of an EBF or EFP, the trade is identified as such on the CME ticker). Furthermore, if a party effects a block trade on the CME and simultaneously effects an offsetting FRA or interest rate swap in the OTC market, those transactions accomplish the same economic result as an EBF, but no indication of the fact that there was an "offsetting" cash market trade is disseminated on the CME ticker. The only distinction between those trades and the CME/LIFFE combination trade is that in one case the CME futures exposure is replaced by an OTC exposure and in the other case the CME futures exposure is replaced by a LIFFE futures exposure.

CME Eurodollar contracts and LIFFE Eurodollar contracts are not identical or fungible contracts. Although the terms of the two contracts have many similarities, there are also significant differences between the two contracts. The CME Eurodollar contract is subject to CME rules, US law, CFTC customer segregation rules, Section 1256 of the Internal Revenue Code, is traded by open outcry on the floor of the CME and electronically through GLOBEX, and is cleared, margined and settled at the CME Clearing House. The LIFFE Eurodollar contract is subject to LIFFE rules, UK law, UK client money rules, is not subject to Section 1256, is traded electronically through LIFFE CONNECT, and is cleared, margined and settled on LCH. Accordingly, every CME/LIFFE combination trade results in a substantively different risk (i.e., a LIFFE/LCH position, rather than a CME position, or vice versa) than existed previously. Because of the very real economic consequences to the end user of holding a Eurodollar position at LCH rather than at the CME clearing house, a CME/LIFFE combination trade that results in a LIFFE position carried on LCH should no more be prohibited than an EBF on the CME that results in an OTC FRA or swap position. By attempting to prohibit the former while permitting the latter, the CME exposes the anticompetitive nature of the Interpretation.

If the CME's real concern is identifying to market participants that a particular prearranged transaction may be offset on another market, it could simply have required that such prearranged trades be identified to the CME as such, similar to the reporting requirement that it applies to EBFs and EFPs.

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The Commission has clearly indicated that transactions equivalent to the CME/LIFFE combination trades are consistent with the Act and Commission regulations, as evidenced by its approval of the NYMEX EFF rule. To permit the CME to implement its Interpretation would be inconsistent with the Act and Commission precedent.

Very truly yours,



Arthur Hahn

MMP:rjr:60293357

cc: Hon. Walter Lukken, Commissioner of the CFTC
Hon. Sharon Brown-Hruska, Commissioner of the CFTC
Mr. John Foyle, LIFFE
Ms. Verena Ross, FSA
Mr. Craig Donohue, CME