



Chicago Mercantile Exchange

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May 4, 2005

Ms. Jean A. Webb
Office of the Secretariat
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, D.C. 20581

OFFICE OF THE SECRETARIAT

2005 MAY -4 AM 4:46

RECEIVED
C.F.T.C.

RE: Supplemental SECURITY FUTURES PRODUCT RULE SUBMISSION
Section 5c(c)(1) and Regulations §41.24 and §41.49 Submission,
Pertaining to Clearing and Margining of Security Futures Products.
CME Submission #05-47.

Dear Ms. Webb:

Chicago Mercantile Exchange Inc. ("CME" or "Exchange"), a designated contract market per Section 5 of the Commodity Exchange Act ("CEA"), hereby notifies the Commission that it intends to activate Rule amendments regarding clearing and margining practices associated with Security Futures Products ("SFPs") as of June 6, 2005.

Note that these Rules were originally certified with the Commission by submission dated November 7, 2002 (CME Submission #02-107). Similarly, these Rules were submitted to the Securities and Exchange Commission ("SEC") for approval by submission dated November 7, 2002 (File No. SR-CME-2002-01) and approved on November 8, 2002.

Note that Rule 930.B.2.b.(3) regarding the Market Maker Exclusion, was originally approved on a six-month pilot program basis. Accordingly, by correspondence dated May 6, 2003, CME petitioned the SEC for permission to adopt Rule 930.B.2.b.(3) on a permanent basis (File No. SR-CME-2002-01), which was granted. Similar correspondence to this effect was submitted to the CFTC dated May 6, 2003 (CME Submission #03-38).

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A copy of the amended Rules to be activated are included in the Appendix 1 to this document. A clean copy of said Rules are included in Appendix 2.

Please address any questions that arise during the review and approval process to myself at 312-466-7469 or via e-mail at jlab@cme.com. We would be most appreciative if you would reference CME Submission #05-47 in any related correspondence.

Sincerely,

A handwritten signature in black ink, appearing to read "John W. Labuszewski", with a stylized flourish at the end.

John W. Labuszewski, Managing Director
Research & Product Development

Att.

cc: Office of Market Supervision
Division of Market Regulation
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549-1003

Appendix 1: Customer Performance Bonds for Security Futures

*(The text of the amendments to Exchange Rules is included as follows.
Additions are underlined while deletions are bracketed and overstruck.)*

833. CUSTOMER PERFORMANCE BONDS FOR SECURITY FUTURES HELD IN FUTURES ACCOUNTS

Performance bond (or "margin") requirements associated with Security Futures, as defined by Section 1a(31) of the Commodity Exchange Act (CEA), on behalf of Customers, as defined in Rule 930.B.2.b., whether effected on the Exchange or on a Marketplace apart from Exchange but cleared by the Clearing House per Chapter 8B, and held in a futures account (with any exceptions noted in the Rules), shall be determined and administered per the Rules of the Exchange; and, in compliance with CFTC Regulation Sections 41.42 through 41.49; and, SEC Regulation 242.400 through 242.406, including any successor Regulations. If Exchange Rules should be found to be inconsistent with CFTC Regulation Sections 41.42 through 41.49; and, SEC Regulation 242.400 through 242.406, including any successor Regulations, the CFTC and SEC Regulations shall prevail.

930. PERFORMANCE BOND REQUIREMENTS: ACCOUNT HOLDER LEVEL

930.A. Performance Bond System

The Standard Portfolio Analysis of Risk (SPAN®) Performance Bond System is the performance bond system adopted by the Exchange. SPAN generated performance bond requirements shall constitute Exchange performance bond requirements. All references to performance bond within the rules of the Exchange shall relate to those computed by the SPAN system.

Performance bond systems other than the SPAN system may be used to meet Exchange performance bond requirements if the clearing member can demonstrate that its system will always produce a performance bond requirement equal to or greater than the SPAN performance bond requirements.

930.B. Performance Bond Rates

1. Non-Security Futures

Exchange staff shall determine initial and maintenance performance bond rates used in determining Exchange performance bond requirements. The Board reserves the right to change or modify any performance bond levels determined by Exchange staff.

2. Security Futures

- a. Initial and maintenance performance bond (or "margin") rates used in determining Exchange performance bond requirements applied to Security Futures on behalf of Customers, whether effected on the Exchange or on a Marketplace apart from Exchange but cleared by the Clearing House per Chapter 8B, and held in a futures account, shall be established at levels no lower than those prescribed by CFTC Regulation Section 41.45; and, SEC Regulation 242.403, including any successor Regulations.
- b. As used in this Rule, the term "Customer" does not include (a) an "exempted person" as defined in CFTC Regulation 41.43(a)(9) and SEC Regulation 242.401(a)(9); or (b) Market Makers as defined below.

A Person shall be a "Market Maker" for purposes of this Rule, and shall be excluded from the requirements set forth in CFTC Regulations 41.42 through 41.49; and, SEC Regulations 242.400 through 242.406 in accordance with CFTC Regulation 41.42(c)(2)(v) and SEC Regulation 242.400(c)(2)(v), with respect to all trading in Security Futures for its own account, if such Person is an Exchange Member that is registered with the Exchange as a "Security Futures Dealer."

Each Market Maker shall (a) be a member of the Exchange and be registered as a floor trader or a floor broker with the CFTC under Section 4f(a)(1) of the CEA; or, be registered as a dealer with the SEC under Section 15(b) of the Exchange Act; (b) maintain records sufficient to prove compliance with the requirements set forth in this Rule and CFTC Regulation 41.42(c)(2)(v) and SEC Regulation 242.400(c)(2)(v), including without limitation, trading account statements and other financial records sufficient to detail activity and verify conformance with the standards set forth herein; and (c) hold itself out as being willing to buy and sell Security Futures for its own account on a regular or continuous basis.

A Market Maker satisfies condition (c) above if, at a minimum, any of the following three requirements are fulfilled:

(1) The Market Maker:

- (i) Provides continuous two-sided quotations throughout the trading day for all delivery months of Security Futures Contracts representing a meaningful proportion of the total trading volume of Security Futures Contracts on the Exchange, subject to relaxation during unusual market conditions as determined by the Exchange (such as a fast market in either a Security Futures Contract or a security underlying a Security Futures Contract) at which times the Market Maker must use its best efforts to quote continuously and competitively; and
- (ii) When providing quotations, quotes with a maximum bid/ask spread no more than the greater of \$0.20 or 150% of the bid/ask spread in the primary market for the security underlying each Security Futures Contract.

(2) The Market Maker:

- (i) Responds to at least 75% of the requests for quotation for all delivery months of Security Futures Contracts representing a meaningful proportion of the total trading volume of Security Futures Contracts on the Exchange, subject to relaxation during unusual market conditions as determined by the Exchange (such as a fast market in either a Security Futures Contract or a security underlying a Security Futures Contract) at which times the Market Maker must use its best efforts to quote competitively; and
- (ii) When responding to requests for quotation, quotes within five seconds with a maximum bid/ask spread no more than the greater of \$0.20 or 150% of the bid/ask spread in the primary market for the security underlying each Security Futures Contract.

(3) The Market Maker:

- (i) Is assigned to a group of Security Futures Contracts listed on the Exchange that is either unlimited in nature ("Unlimited Assignment"); or, is assigned to no more than 20% of the Security Futures Contracts listed on the Exchange ("Limited Assignment");.
- (ii) At least 75% of the Market Maker's total trading activity in Exchange Security Futures Contracts is in its assigned Security Futures Contracts, measured on a quarterly basis;
- (iii) During at least 50% of the trading day the Market Maker has bids or offers in the market that are at or near the best market, except in unusual market conditions as determined by the Exchange (such as a fast market in either a Security Futures Contract or a security underlying a Security Futures Contract), with respect to at least 25% (in the case of an Unlimited Assignment) or at least one (in the case of a Limited Assignment) of its assigned Security Futures Contracts; and
- (iv) The requirements in (ii) and (iii) are satisfied on (a) at least 90% of the trading days in each calendar quarter by Market Makers who have undertaken an Unlimited Assignment; or (b) at least 80% of the trading days in each calendar quarter by Market Makers who have undertaken a Limited Assignment; or (c) on at least 80% of the trading days in each calendar quarter by Market Makers who have undertaken either an Unlimited Assignment or Limited Assignment but where the Exchange is listing four (4) or fewer Security Futures Contracts.

For purposes of clauses (1) and (2) above, beginning on the 181st calendar day after the commencement of trading of Security Futures Contracts on the Exchange, a "meaningful proportion of the total trading volume of Security Futures Contracts on the Exchange" shall mean a minimum of 20% of such trading volume.

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Any Market Maker that fails to comply with the applicable Rules of the Exchange, CFTC Regulations 41.41 through 41.49 and SEC Regulations 242.400 through 242.406 shall be subject to disciplinary action in accordance with Chapter 4. Appropriate sanctions in the case of any such failure shall include, without limitation, a revocation of such Market Maker's registration as a Security Futures Dealer.

- c. The Exchange shall establish initial and maintenance performance bond requirements applicable to Security Futures and held in a futures account, provided that the performance bond requirement for any long or short position held by a clearing member on behalf of a Customer shall not be less than 20% of the current market value of the relevant Contract; or, such other requirement as may be established by the CFTC and SEC for purposes of CFTC Regulation 41.45(b)(1) and SEC Regulation 242.403(b)(1) except as provided below.
- d. Initial and maintenance performance bond requirements for offsetting positions involving Security Futures and related positions are provided in the schedule below, for purposes of CFTC Regulation 41.45(b)(2) and SEC Regulation 242.403(b)(2).

PERFORMANCE BOND (or "MARGIN") REQUIREMENTS FOR OFFSETTING POSITIONS

	<u>DESCRIPTION OF OFFSET</u>	<u>SECURITY UNDERLYING THE SECURITY FUTURE</u>	<u>INITIAL MARGIN REQUIREMENT</u>	<u>MAINTENANCE MARGIN REQUIREMENT</u>
1	<u>Long security future (or basket of security futures representing each component of a narrow-based securities index¹) and long put option² on the same underlying security (or index)</u>	Individual stock or narrow-based security index	20% of the current market value of the long security future, plus pay for the long put in full.	The lower of: (1) 10% of the aggregate exercise price ³ of the put plus the aggregate put out-of-the-money ⁴ amount, if any; or (2) 20% of the current market value of the long security future.

¹ Baskets of securities or security futures contracts must replicate the securities that comprise the index, and in the same proportion.

² Generally, for the purposes of these rules, unless otherwise specified, stock index warrants shall be treated as if they were index options.

³ "Aggregate exercise price," with respect to an option or warrant based on an underlying security, means the exercise price of an option or warrant contract multiplied by the numbers of units of the underlying security covered by the option contract or warrant. "Aggregate exercise price" with respect to an index option, means the exercise price multiplied by the index multiplier.

⁴ "Out-of-the-money" amounts shall be determined as follows:

- (1) for stock call options and warrants, any excess of the aggregate exercise price of the option or warrant over its current market value (as determined in accordance with Regulation T of the Board of Governors of the Federal Reserve System);
- (2) for stock put options or warrants, any excess of the current market value (as determined in accordance with Regulation T of the Board of Governors of the Federal Reserve System) of the option or warrant over its aggregate exercise price;
- (3) for stock index call options and warrants, any excess of the aggregate exercise price of the option or warrant over the product of the current index value and the applicable index multiplier; and
- (4) for stock index put options and warrants, any excess of the product of the current index value and the applicable index multiplier over the aggregate exercise price of the option or warrant. See, e.g., NYSE Rule 431 (Exchange Act Release No. 42011 (October 14, 1999), 64 FR 57172 (October 22, 1999) (order approving SR-NYSE-99-03)); Amex Rule 462 (Exchange Act Release No. 43582 (November 17, 2000), 65 FR 71151 (November 29, 2000) (order approving SR-Amex-99-27)); CBOE Rule 12.3 (Exchange Act Release No. 41658 (July 27, 1999), 64 FR 42736 (August 5, 1999) (order approving SR-CBOE-97-67)); or NASD Rule 2520 (Exchange Act Release No. 43581 (November 17, 2000), 65 FR 70854 (November 28, 2000) (order approving SR-NASD-00-15)).

	<u>DESCRIPTION OF OFFSET</u>	<u>SECURITY UNDERLYING THE SECURITY FUTURE</u>	<u>INITIAL MARGIN REQUIREMENT</u>	<u>MAINTENANCE MARGIN REQUIREMENT</u>
2	<u>Short security future (or basket of security futures representing each component of a narrow-based securities index) and short put option on the same underlying security (or index)</u>	Individual stock or narrow-based security index	20% of the current market value of the short security future, plus the aggregate put in-the-money amount, if any. Proceeds from the put sale may be applied.	20% of the current market value of the short security future, plus the aggregate put in-the-money amount, if any. ⁵
3	<u>Long security future and short position in the same security (or securities basket) underlying the security future</u>	Individual stock or narrow-based security index	The initial margin required under Regulation T for the short stock or stocks.	5% of the current market value as defined in Regulation T of the stock or stocks underlying the security future.
4	<u>Long security future (or basket of security futures representing each component of a narrow-based securities index) and short call option on the same underlying security (or index)</u>	Individual stock or narrow-based security index	20% of the current market value of the long security future, plus the aggregate call in-the-money amount, if any. Proceeds from the call sale may be applied.	20% of the current market value of the long security future, plus the aggregate call in-the-money amount, if any.
5	<u>Long a basket of narrow-based security futures that together tracks a broad-based index and short a broad-based security index call option contract on the same index</u>	Narrow-based security index	20% of the current market value of the long basket of narrow-based security futures, plus the aggregate call in-the-money amount, if any. Proceeds from the call sale may be applied.	20% of the current market value of the long basket of narrow-based security futures, plus the aggregate call in-the-money amount, if any.
6	<u>Short a basket of narrow-based security futures that together tracks a broad-based security index and short a broad-based security index put option contract on the same index</u>	Narrow-based security index	20% of the current market value of the short basket of narrow-based security futures, plus the aggregate put in-the-money amount, if any. Proceeds from the put sale may be applied.	20% of the current market value of the short basket of narrow-based security futures, plus the aggregate put in-the-money amount, if any.

⁵ "In-the-money" amounts must be determined as follows:

- (1) for stock call options and warrants, any excess of the current market value (as determined in accordance with Regulation T of the Board of Governors of the Federal Reserve System) of the option or warrant over its aggregate exercise price;
- (2) for stock put options or warrants, any excess of the aggregate exercise price of the option or warrant over its current market value (as determined in accordance with Regulation T of the Board of Governors of the Federal Reserve System);
- (3) for stock index call options and warrants, any excess of the product of the current index value and the applicable index multiplier over the aggregate exercise price of the option or warrant; and
- (4) for stock index put options and warrants, any excess of the aggregate exercise price of the option or warrant over the product of the current index value and the applicable index multiplier.

	<u>DESCRIPTION OF OFFSET</u>	<u>SECURITY UNDERLYING THE SECURITY FUTURE</u>	<u>INITIAL MARGIN REQUIREMENT</u>	<u>MAINTENANCE MARGIN REQUIREMENT</u>
7	<u>Long a basket of narrow-based security futures that together tracks a broad-based security index and long a broad-based security index put option contract on the same index</u>	<u>Narrow-based security index</u>	<u>20% of the current market value of the long basket of narrow-based security futures, plus pay for the long put in full.</u>	<u>The lower of: (1) 10% of the aggregate exercise price of the put, plus the aggregate put out-of-the-money amount, if any; or (2) 20% of the current market value of the long basket of security futures.</u>
8	<u>Short a basket of narrow-based security futures that together tracks a broad-based security index and long a broad-based security index call option contract on the same index</u>	<u>Narrow-based security index</u>	<u>20% of the current market value of the short basket of narrow-based security futures, plus pay for the long call in full.</u>	<u>The lower of: (1) 10% of the aggregate exercise price of the call, plus the aggregate call out-of-the-money amount, if any; or (2) 20% of the current market value of the short basket of security futures.</u>
9	<u>Long security future and short security future on the same underlying security (or index)</u>	<u>Individual stock or narrow-based security index.</u>	<u>The greater of: 5% of the current market value of the long security future; or (2) 5% of the current market value of the short security future.</u>	<u>The greater of: 5% of the current market value of the long security future; or (2) 5% of the current market value of the short security future.</u>
10	<u>Long security future, long put option and short call option. The long security future, long put and short call must be on the same underlying security and the put and call must have the same exercise price. (Conversion)</u>	<u>Individual stock or narrow-based security index.</u>	<u>20% of the current market value of the long security future, plus the aggregate call in-the-money amount, if any, plus pay for the put in full. Proceeds from the call sale may be applied.</u>	<u>10% of the aggregate exercise price, plus the aggregate call in-the-money amount, if any.</u>
11	<u>Long security future, long put option and short call option. The long security future, long put and short call must be on the same underlying security and the put exercise price must be below the call exercise price (Collar)</u>	<u>Individual stock or narrow-based security index.</u>	<u>20% of the current market value of the long security future, plus the aggregate call in-the-money amount, if any, plus pay for the put in full. Proceeds from call sale may be applied.</u>	<u>The lower of: (1) 10% of the aggregate exercise price of the put plus the aggregate put out-of-the money amount, if any; or (2) 20% of the aggregate exercise price of the call, plus the aggregate call in-the-money amount, if any.</u>
12	<u>Short security future and long position in the same security (or securities basket) underlying the security future</u>	<u>Individual stock or narrow-based security index.</u>	<u>The initial margin required under Regulation T for the long stock or stocks.</u>	<u>5% of the current market value, as defined in Regulation T, of the long stock or stocks.</u>

	<u>DESCRIPTION OF OFFSET</u>	<u>SECURITY UNDERLYING THE SECURITY FUTURE</u>	<u>INITIAL MARGIN REQUIREMENT</u>	<u>MAINTENANCE MARGIN REQUIREMENT</u>
13	<u>Short security future and long position in a security immediately convertible into the same security underlying the security future, without restriction, including the payment of money</u>	Individual stock or narrow-based security index.	The initial margin required under Regulation T for the long security.	10% of the current market value, as defined in Regulation T, of the long security.
14	<u>Short security future (or basket of security futures representing each component of a narrow-based securities index) and long call option or warrant on the same underlying security (or index)</u>	Individual stock or narrow-based security index.	20% of the current market value of the short security future, plus pay for the call in full.	The lower of: (1) 10% of the aggregate exercise price of the call, plus the aggregate call out-of-the-money amount, if any; or (2) 20% of the current market value of the short security future.
15	<u>Short security future, Short put option and long call option. The short security future, short put and long call must be on the same underlying security and the put and call must have the same exercise price. (Reverse Conversion)</u>	Individual stock or narrow-based security index.	20% of the current market value of the short security future, plus the aggregate put in-the-money amount, if any, plus pay for the call in full. Proceeds from put sale may be applied.	10% of the aggregate exercise price, plus the aggregate put in-the-money amount, if any.
16	<u>Long (short) a basket of security futures, each based on a narrow-based security index that together tracks the broad-based index and short (long) a broad-based index future</u>	Narrow-based security index	5% of the current market value for the long (short) basket of security futures.	5% of the current market value of the long (short) basket of security futures.
17	<u>Long (short) a basket of security futures that together tracks a narrow-based index and short (long) a narrow-based index future</u>	Individual stock or narrow-based security index	The greater of: (1) 5% of the current market value of the long security future(s); or (2) 5% of the current market value of the short security future(s).	The greater of: (1) 5% of the current market value of the long security future(s); or (2) 5% of the current market value of the short security future(s).
18	<u>Long (short) a security future and short (long) an identical security future traded on a different market.⁶</u>	Individual stock or narrow-based security index	The greater of: (1) 3% of the current market value of the long security future(s); or (2) 3% of the current market value of the short security future(s).	The greater of: (1) 3% of the current market value of the long security future(s); or (2) 3% of the current market value of the short security future(s).

⁶ Two security futures will be considered "identical" for this purpose if they are issued by the same clearing agency or cleared and guaranteed by the same derivatives clearing organization, have identical contract specifications, and would offset each other at the clearing level.

930.C. Acceptable Performance Bond Deposits

1. Non-Security Futures

Clearing members may accept from their account holders as performance bond cash currencies of any denomination, readily marketable securities (as defined by SEC Rule 15c3-1(c)(11) and applicable SEC interpretations), money market mutual funds allowable under CFTC Regulation 1.25, and bank-issued letters of credit.

Clearing members shall not accept as performance bond from an account holder securities that have been issued by the account holder or an affiliate of the account holder unless the clearing member files a petition with and receives permission from Exchange staff.

Bank-issued letters of credit must be in a form acceptable to the Exchange. Such letters of credit must be drawable in the United States. Clearing members shall not accept as performance bond from an account holder letters of credit issued by the account holder, an affiliate of the account holder, the clearing member, or an affiliate of the clearing member.

All assets deposited by account holders to meet performance bond requirements must be and remain unencumbered by third party claims against the depositing account holder.

Except to the extent that Exchange staff shall prescribe otherwise, cash currency performance bond deposits shall be valued at market value. All other performance bond deposits other than letters of credit shall be valued at an amount not to exceed market value less applicable haircuts as set forth in SEC Rule 240.15c3-1.

2. Security Futures

- a. Clearing Members may accept from their Customers as performance bond (or "margin") for Security Futures held in a futures account, deposits of cash, margin securities (subject to the limitations set forth in the following sentence), exempted securities, any other assets permitted under Regulation T of the Board of Governors of the Federal Reserve System (as in effect from time to time) to satisfy a performance bond deficiency in a securities margin account, and any combination of the foregoing, each as valued in accordance with CFTC Regulations 41.46(c) and 41.46(e); and, SEC Regulations 242.404(c) and 242.404(e). Shares of a money market mutual fund that meet the requirements of CFTC Regulation 1.25 may be accepted as a performance bond deposit from a Customer for purposes of this Rule.
- b. A Clearing Member shall not accept as performance bond from any Customer securities that have been issued by such Customer or an Affiliate of such Customer unless such Clearing Member files a petition with and receives permission from the Exchange for such purpose.
- c. All assets deposited by a Customer to meet performance bond requirements must be and remain unencumbered by third party claims against the depositing Customer.

930.D. Acceptance of Orders

Clearing members may accept orders for an account provided sufficient performance bond is on deposit in the account or is forthcoming within a reasonable time.

For an account which has been subject to calls for performance bond for an unreasonable time, clearing members may only accept orders that reduce the performance bond requirements of existing positions in the account.

Clearing members may not accept orders for an account that has been in debit an unreasonable time.

930.E. Calls for Performance Bond

1. Clearing members must issue calls for performance bond that would bring an account up to the initial performance bond requirement: a. when performance bond equity in an account initially falls below the maintenance performance bond requirement; and b. subsequently, when performance bond equity plus existing performance bond calls in an account is less than the maintenance performance bond requirement.

Such calls must be made within one business day after the occurrence of the event giving rise to the call. Clearing members may call for additional performance bond at their discretion. Notwithstanding the foregoing, a clearing member is not required to call for or collect performance bond for day trades.

2. Clearing members shall only reduce a call for performance bond through the receipt of performance bond deposits permitted under subsection C. of this rule. Clearing members may delete a call for performance bond through: a. the receipt of performance bond deposits permitted under subsection C. of this rule only if such deposits equal or exceed the amount of the total performance bond call; or b. inter-day favorable market movements and/or the liquidation of positions only if performance bond equity in the account is equal to or greater than the initial performance bond requirement. Clearing members shall reduce an account holder's oldest outstanding performance bond call first.
3. Clearing members must maintain written records of all performance bond calls issued, reduced, and deleted.

930.F. Disbursements of Excess Performance Bond

Clearing members may only release performance bond deposits from an account if such deposits are in excess of initial performance bond requirements.

930.G. Loans to Account Holders

Clearing members may not extend loans to account holders for performance bond purposes unless such loans are secured as defined in CFTC Regulation 1.17(c)(3). The proceeds of such loans must be treated in accordance with CFTC Regulation 1.30.

930.H. Aggregation of Accounts and Positions

Clearing members may aggregate accounts under identical ownership within the same classifications of customer segregated, customer secured, special reserve account for the exclusive benefit of customers, and nonsegregated for performance bond purposes. Clearing members may compute performance bond requirements on identically owned concurrent long and short positions on a net basis.

930.I. Hedge Positions

Clearing members shall have reasonable support for bona-fide hedge and risk management positions, as defined by Rule 543, that are afforded hedge performance bond rates.

930.J. Omnibus Accounts

1. Clearing members shall collect performance bond on a gross basis for positions held in domestic and foreign omnibus accounts.
2. For omnibus accounts, initial performance bond requirements shall equal maintenance performance bond requirements.
3. Clearing members shall obtain and maintain written instructions from domestic and foreign omnibus accounts for positions which are entitled to spread or hedge performance bond rates.

930.K. Liquidation of Accounts

1. Non-Security Futures

If an account holder fails to comply with a performance bond call within a reasonable time (the clearing member may deem one hour to be a reasonable time), the clearing member may close out the account holder's trades or sufficient contracts thereof to restore the account holder's account to required performance bond status. Clearing members shall maintain full discretion to determine when and under what circumstances positions in any account shall be liquidated.

2. Security Futures

If a Customer fails to comply with a performance bond (or "margin") call within a reasonable period of time (the clearing member may deem one hour to be a reasonable period of time), the relevant clearing member shall take the deduction required with respect to an undermargined account in computing its net capital under applicable CFTC Regulations and SEC Regulations.

If at any time there is a liquidating deficit in an account in which security futures are held, the clearing member shall take steps to liquidate positions in the account promptly and in an orderly manner.

930.L. Failure to Maintain Performance Bond Requirements

If a clearing member fails to maintain performance bond requirements for an account in accordance with this rule, the Exchange may direct such clearing member to immediately liquidate all or part of the account's positions to eliminate the deficiency.

930.M. Violation

Violation of this rule may constitute a major offense.

Appendix 2: Clean Copy of Rules as Amended

833. CUSTOMER PERFORMANCE BONDS FOR SECURITY FUTURES HELD IN FUTURES ACCOUNTS

Performance bond (or "margin") requirements associated with Security Futures, as defined by Section 1a(31) of the Commodity Exchange Act (CEA), on behalf of Customers, as defined in Rule 930.B.2.b., whether effected on the Exchange or on a Marketplace apart from Exchange but cleared by the Clearing House per Chapter 8B, and held in a futures account (with any exceptions noted in the Rules), shall be determined and administered per the Rules of the Exchange; and, in compliance with CFTC Regulation Sections 41.42 through 41.49; and, SEC Regulation 242.400 through 242.406, including any successor Regulations. If Exchange Rules should be found to be inconsistent with CFTC Regulation Sections 41.42 through 41.49; and, SEC Regulation 242.400 through 242.406, including any successor Regulations, the CFTC and SEC Regulations shall prevail.

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930.A. Performance Bond System

The Standard Portfolio Analysis of Risk (SPAN®) Performance Bond System is the performance bond system adopted by the Exchange. SPAN generated performance bond requirements shall constitute Exchange performance bond requirements. All references to performance bond within the rules of the Exchange shall relate to those computed by the SPAN system.

Performance bond systems other than the SPAN system may be used to meet Exchange performance bond requirements if the clearing member can demonstrate that its system will always produce a performance bond requirement equal to or greater than the SPAN performance bond requirements.

930.B. Performance Bond Rates

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Exchange staff shall determine initial and maintenance performance bond rates used in determining Exchange performance bond requirements. The Board reserves the right to change or modify any performance bond levels determined by Exchange staff.

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- a. Initial and maintenance performance bond (or "margin") rates used in determining Exchange performance bond requirements applied to Security Futures on behalf of Customers, whether effected on the Exchange or on a Marketplace apart from Exchange but cleared by the Clearing House per Chapter 8B, and held in a futures account, shall be established at levels no lower than those prescribed by CFTC Regulation Section 41.45; and, SEC Regulation 242.403, including any successor Regulations.
- b. As used in this Rule, the term "Customer" does not include (a) an "exempted person" as defined in CFTC Regulation 41.43(a)(9) and SEC Regulation 242.401(a)(9); or (b) Market Makers as defined below.

A Person shall be a "Market Maker" for purposes of this Rule, and shall be excluded from the requirements set forth in CFTC Regulations 41.42 through 41.49; and, SEC Regulations 242.400 through 242.406 in accordance with CFTC Regulation 41.42(c)(2)(v) and SEC Regulation 242.400(c)(2)(v), with respect to all trading in Security Futures for its own account, if such Person is an Exchange Member that is registered with the Exchange as a "Security Futures Dealer."

Each Market Maker shall (a) be a member of the Exchange and be registered as a floor trader or a floor broker with the CFTC under Section 4f(a)(1) of the CEA; or, be registered as a dealer with the SEC under Section 15(b) of the Exchange Act; (b) maintain records sufficient to prove compliance with the requirements set forth in this Rule and CFTC Regulation 41.42(c)(2)(v) and SEC Regulation 242.400(c)(2)(v), including without limitation, trading account statements and other financial records sufficient to detail activity and verify conformance with the standards set forth herein; and (c) hold itself out as being willing to buy and sell Security Futures for its own account on a regular or continuous basis.

A Market Maker satisfies condition (c) above if, at a minimum, any of the following three requirements are fulfilled:

(4) The Market Maker:

- (iii) Provides continuous two-sided quotations throughout the trading day for all delivery months of Security Futures Contracts representing a meaningful proportion of the total trading volume of Security Futures Contracts on the Exchange, subject to relaxation during unusual market conditions as determined by the Exchange (such as a fast market in either a Security Futures Contract or a security underlying a Security Futures Contract) at which times the Market Maker must use its best efforts to quote continuously and competitively; and
- (iv) When providing quotations, quotes with a maximum bid/ask spread no more than the greater of \$0.20 or 150% of the bid/ask spread in the primary market for the security underlying each Security Futures Contract.

(5) The Market Maker:

- (iii) Responds to at least 75% of the requests for quotation for all delivery months of Security Futures Contracts representing a meaningful proportion of the total trading volume of Security Futures Contracts on the Exchange, subject to relaxation during unusual market conditions as determined by the Exchange (such as a fast market in either a Security Futures Contract or a security underlying a Security Futures Contract) at which times the Market Maker must use its best efforts to quote competitively; and
- (iv) When responding to requests for quotation, quotes within five seconds with a maximum bid/ask spread no more than the greater of \$0.20 or 150% of the bid/ask spread in the primary market for the security underlying each Security Futures Contract.

(6) The Market Maker:

- (v) Is assigned to a group of Security Futures Contracts listed on the Exchange that is either unlimited in nature ("Unlimited Assignment"); or, is assigned to no more than 20% of the Security Futures Contracts listed on the Exchange ("Limited Assignment");
- (vi) At least 75% of the Market Maker's total trading activity in Exchange Security Futures Contracts is in its assigned Security Futures Contracts, measured on a quarterly basis;
- (vii) During at least 50% of the trading day the Market Maker has bids or offers in the market that are at or near the best market, except in unusual market conditions as determined by the Exchange (such as a fast market in either a Security Futures Contract or a security underlying a Security Futures Contract), with respect to at least 25% (in the case of an Unlimited Assignment) or at least one (in the case of a Limited Assignment) of its assigned Security Futures Contracts; and
- (viii) The requirements in (ii) and (iii) are satisfied on (a) at least 90% of the trading days in each calendar quarter by Market Makers who have undertaken an Unlimited Assignment; or (b) at least 80% of the trading days in each calendar quarter by Market Makers who have undertaken a Limited Assignment; or (c) on at least 80% of the trading days in each calendar quarter by Market Makers who have undertaken either an Unlimited Assignment or Limited Assignment but where the Exchange is listing four (4) or fewer Security Futures Contracts.

For purposes of clauses (1) and (2) above, beginning on the 181st calendar day after the commencement of trading of Security Futures Contracts on the Exchange, a "meaningful proportion of the total trading volume of Security Futures Contracts on the Exchange" shall mean a minimum of 20% of such trading volume.

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Any Market Maker that fails to comply with the applicable Rules of the Exchange, CFTC Regulations 41.41 through 41.49 and SEC Regulations 242.400 through 242.406 shall be subject to disciplinary action in accordance with Chapter 4. Appropriate sanctions in the case of any such failure shall include, without limitation, a revocation of such Market Maker's registration as a Security Futures Dealer.

- c. The Exchange shall establish initial and maintenance performance bond requirements applicable to Security Futures and held in a futures account, provided that the performance bond requirement for any long or short position held by a clearing member on behalf of a Customer shall not be less than 20% of the current market value of the relevant Contract; or, such other requirement as may be established by the CFTC and SEC for purposes of CFTC Regulation 41.45(b)(1) and SEC Regulation 242.403(b)(1) except as provided below.
- d. Initial and maintenance performance bond requirements for offsetting positions involving Security Futures and related positions are provided in the schedule below, for purposes of CFTC Regulation 41.45(b)(2) and SEC Regulation 242.403(b)(2).

PERFORMANCE BOND (or "MARGIN") REQUIREMENTS FOR OFFSETTING POSITIONS

	DESCRIPTION OF OFFSET	SECURITY UNDERLYING THE SECURITY FUTURE	INITIAL MARGIN REQUIREMENT	MAINTENANCE MARGIN REQUIREMENT
1	Long security future (or basket of security futures representing each component of a narrow-based securities index ⁷) and long put option ⁸ on the same underlying security (or index)	Individual stock or narrow-based security index	20% of the current market value of the long security future, plus pay for the long put in full.	The lower of: (1) 10% of the aggregate exercise price ⁹ of the put plus the aggregate put out-of-the-money ¹⁰ amount, if any; or (2) 20% of the current market value of the long security future.

⁷ Baskets of securities or security futures contracts must replicate the securities that comprise the index, and in the same proportion.

⁸ Generally, for the purposes of these rules, unless otherwise specified, stock index warrants shall be treated as if they were index options.

⁹ "Aggregate exercise price," with respect to an option or warrant based on an underlying security, means the exercise price of an option or warrant contract multiplied by the numbers of units of the underlying security covered by the option contract or warrant. "Aggregate exercise price" with respect to an index option, means the exercise price multiplied by the index multiplier.

¹⁰ "Out-of-the-money" amounts shall be determined as follows:

- (1) for stock call options and warrants, any excess of the aggregate exercise price of the option or warrant over its current market value (as determined in accordance with Regulation T of the Board of Governors of the Federal Reserve System);
- (2) for stock put options or warrants, any excess of the current market value (as determined in accordance with Regulation T of the Board of Governors of the Federal Reserve System) of the option or warrant over its aggregate exercise price;
- (3) for stock index call options and warrants, any excess of the aggregate exercise price of the option or warrant over the product of the current index value and the applicable index multiplier; and
- (4) for stock index put options and warrants, any excess of the product of the current index value and the applicable index multiplier over the aggregate exercise price of the option or warrant. See, e.g., NYSE Rule 431 (Exchange Act Release No. 42011 (October 14, 1999), 64 FR 57172 (October 22, 1999) (order approving SR-NYSE-99-03)); Amex Rule 462 (Exchange Act Release No. 43582 (November 17, 2000), 65 FR 71151 (November 29, 2000) (order approving SR-Amex-99-27)); CBOE Rule 12.3 (Exchange Act Release No. 41658 (July 27, 1999), 64 FR 42736 (August 5, 1999) (order approving SR-CBOE-97-67)); or NASD Rule 2520 (Exchange Act Release No. 43581 (November 17, 2000), 65 FR 70854 (November 28, 2000) (order approving SR-NASD-00-15)).

	DESCRIPTION OF OFFSET	SECURITY UNDERLYING THE SECURITY FUTURE	INITIAL MARGIN REQUIREMENT	MAINTENANCE MARGIN REQUIREMENT
2	Short security future (or basket of security futures representing each component of a narrow-based securities index) and short put option on the same underlying security (or index)	Individual stock or narrow-based security index	20% of the current market value of the short security future, plus the aggregate put in-the-money amount, if any. Proceeds from the put sale may be applied.	20% of the current market value of the short security future, plus the aggregate put in-the-money amount, if any. ¹¹
3	Long security future and short position in the same security (or securities basket) underlying the security future	Individual stock or narrow-based security index	The initial margin required under Regulation T for the short stock or stocks.	5% of the current market value as defined in Regulation T of the stock or stocks underlying the security future.
4	Long security future (or basket of security futures representing each component of a narrow-based securities index) and short call option on the same underlying security (or index)	Individual stock or narrow-based security index	20% of the current market value of the long security future, plus the aggregate call in-the-money amount, if any. Proceeds from the call sale may be applied.	20% of the current market value of the long security future, plus the aggregate call in-the-money amount, if any.
5	Long a basket of narrow-based security futures that together tracks a broad-based index and short a broad-based security index call option contract on the same index	Narrow-based security index	20% of the current market value of the long basket of narrow-based security futures, plus the aggregate call in-the-money amount, if any. Proceeds from the call sale may be applied.	20% of the current market value of the long basket of narrow-based security futures, plus the aggregate call in-the-money amount, if any.
6	Short a basket of narrow-based security futures that together tracks a broad-based security index and short a broad-based security index put option contract on the same index	Narrow-based security index	20% of the current market value of the short basket of narrow-based security futures, plus the aggregate put in-the-money amount, if any. Proceeds from the put sale may be applied.	20% of the current market value of the short basket of narrow-based security futures, plus the aggregate put in-the-money amount, if any.

¹¹ "In-the-money" amounts must be determined as follows:

- (1) for stock call options and warrants, any excess of the current market value (as determined in accordance with Regulation T of the Board of Governors of the Federal Reserve System) of the option or warrant over its aggregate exercise price;
- (2) for stock put options or warrants, any excess of the aggregate exercise price of the option or warrant over its current market value (as determined in accordance with Regulation T of the Board of Governors of the Federal Reserve System);
- (3) for stock index call options and warrants, any excess of the product of the current index value and the applicable index multiplier over the aggregate exercise price of the option or warrant; and
- (4) for stock index put options and warrants, any excess of the aggregate exercise price of the option or warrant over the product of the current index value and the applicable index multiplier.

	DESCRIPTION OF OFFSET	SECURITY UNDERLYING THE SECURITY FUTURE	INITIAL MARGIN REQUIREMENT	MAINTENANCE MARGIN REQUIREMENT
7	Long a basket of narrow-based security futures that together tracks a broad-based security index and long a broad-based security index put option contract on the same index	Narrow-based security index	20% of the current market value of the long basket of narrow-based security futures, plus pay for the long put in full.	The lower of: (1) 10% of the aggregate exercise price of the put, plus the aggregate put out-of-the-money amount, if any; or (2) 20% of the current market value of the long basket of security futures.
8	Short a basket of narrow-based security futures that together tracks a broad-based security index and long a broad-based security index call option contract on the same index	Narrow-based security index	20% of the current market value of the short basket of narrow-based security futures, plus pay for the long call in full.	The lower of: (1) 10% of the aggregate exercise price of the call, plus the aggregate call out-of-the-money amount, if any; or (2) 20% of the current market value of the short basket of security futures.
9	Long security future and short security future on the same underlying security (or index)	Individual stock or narrow-based security index.	The greater of: 5% of the current market value of the long security future; or (2) 5% of the current market value of the short security future.	The greater of: 5% of the current market value of the long security future; or (2) 5% of the current market value of the short security future.
10	Long security future, long put option and short call option. The long security future, long put and short call must be on the same underlying security and the put and call must have the same exercise price. (Conversion)	Individual stock or narrow-based security index.	20% of the current market value of the long security future, plus the aggregate call in-the-money amount, if any, plus pay for the put in full. Proceeds from the call sale may be applied.	10% of the aggregate exercise price, plus the aggregate call in-the-money amount, if any.
11	Long security future, long put option and short call option. The long security future, long put and short call must be on the same underlying security and the put exercise price must be below the call exercise price (Collar)	Individual stock or narrow-based security index.	20% of the current market value of the long security future, plus the aggregate call in-the-money amount, if any, plus pay for the put in full. Proceeds from call sale may be applied.	The lower of: (1) 10% of the aggregate exercise price of the put plus the aggregate put out-of-the money amount, if any; or (2) 20% of the aggregate exercise price of the call, plus the aggregate call in-the-money amount, if any.
12	Short security future and long position in the same security (or securities basket) underlying the security future	Individual stock or narrow-based security index.	The initial margin required under Regulation T for the long stock or stocks.	5% of the current market value, as defined in Regulation T, of the long stock or stocks.

	DESCRIPTION OF OFFSET	SECURITY UNDERLYING THE SECURITY FUTURE	INITIAL MARGIN REQUIREMENT	MAINTENANCE MARGIN REQUIREMENT
13	Short security future and long position in a security immediately convertible into the same security underlying the security future, without restriction, including the payment of money	Individual stock or narrow-based security index.	The initial margin required under Regulation T for the long security.	10% of the current market value, as defined in Regulation T, of the long security.
14	Short security future (or basket of security futures representing each component of a narrow-based securities index) and long call option or warrant on the same underlying security (or index)	Individual stock or narrow-based security index.	20% of the current market value of the short security future, plus pay for the call in full.	The lower of: (1) 10% of the aggregate exercise price of the call, plus the aggregate call out-of-the-money amount, if any; or (2) 20% of the current market value of the short security future.
15	Short security future, Short put option and long call option. The short security future, short put and long call must be on the same underlying security and the put and call must have the same exercise price. (Reverse Conversion)	Individual stock or narrow-based security index.	20% of the current market value of the short security future, plus the aggregate put in-the-money amount, if any, plus pay for the call in full. Proceeds from put sale may be applied.	10% of the aggregate exercise price, plus the aggregate put in-the-money amount, if any.
16	Long (short) a basket of security futures, each based on a narrow-based security index that together tracks the broad-based index and short (long) a broad-based index future	Narrow-based security index	5% of the current market value for the long (short) basket of security futures.	5% of the current market value of the long (short) basket of security futures.
17	Long (short) a basket of security futures that together tracks a narrow-based index and short (long) a narrow-based index future	Individual stock or narrow-based security index	The greater of: (1) 5% of the current market value of the long security future(s); or (2) 5% of the current market value of the short security future(s).	The greater of: (1) 5% of the current market value of the long security future(s); or (2) 5% of the current market value of the short security future(s).
18	Long (short) a security future and short (long) an identical security future traded on a different market. ¹²	Individual stock or narrow-based security index	The greater of: (1) 3% of the current market value of the long security future(s); or (2) 3% of the current market value of the short security future(s).	The greater of: (1) 3% of the current market value of the long security future(s); or (2) 3% of the current market value of the short security future(s).

¹² Two security futures will be considered "identical" for this purpose if they are issued by the same clearing agency or cleared and guaranteed by the same derivatives clearing organization, have identical contract specifications, and would offset each other at the clearing level.

930.C. Acceptable Performance Bond Deposits

1. Non-Security Futures

Clearing members may accept from their account holders as performance bond cash currencies of any denomination, readily marketable securities (as defined by SEC Rule 15c3-1(c)(11) and applicable SEC interpretations), money market mutual funds allowable under CFTC Regulation 1.25, and bank-issued letters of credit.

Clearing members shall not accept as performance bond from an account holder securities that have been issued by the account holder or an affiliate of the account holder unless the clearing member files a petition with and receives permission from Exchange staff.

Bank-issued letters of credit must be in a form acceptable to the Exchange. Such letters of credit must be drawable in the United States. Clearing members shall not accept as performance bond from an account holder letters of credit issued by the account holder, an affiliate of the account holder, the clearing member, or an affiliate of the clearing member.

All assets deposited by account holders to meet performance bond requirements must be and remain unencumbered by third party claims against the depositing account holder.

Except to the extent that Exchange staff shall prescribe otherwise, cash currency performance bond deposits shall be valued at market value. All other performance bond deposits other than letters of credit shall be valued at an amount not to exceed market value less applicable haircuts as set forth in SEC Rule 240.15c3-1.

2. Security Futures

- a. Clearing Members may accept from their Customers as performance bond (or "margin") for Security Futures held in a futures account, deposits of cash, margin securities (subject to the limitations set forth in the following sentence), exempted securities, any other assets permitted under Regulation T of the Board of Governors of the Federal Reserve System (as in effect from time to time) to satisfy a performance bond deficiency in a securities margin account, and any combination of the foregoing, each as valued in accordance with CFTC Regulations 41.46(c) and 41.46(e); and, SEC Regulations 242.404(c) and 242.404(e). Shares of a money market mutual fund that meet the requirements of CFTC Regulation 1.25 may be accepted as a performance bond deposit from a Customer for purposes of this Rule.
- b. A Clearing Member shall not accept as performance bond from any Customer securities that have been issued by such Customer or an Affiliate of such Customer unless such Clearing Member files a petition with and receives permission from the Exchange for such purpose.
- c. All assets deposited by a Customer to meet performance bond requirements must be and remain unencumbered by third party claims against the depositing Customer.

930.D. Acceptance of Orders

Clearing members may accept orders for an account provided sufficient performance bond is on deposit in the account or is forthcoming within a reasonable time.

For an account which has been subject to calls for performance bond for an unreasonable time, clearing members may only accept orders that reduce the performance bond requirements of existing positions in the account.

Clearing members may not accept orders for an account that has been in debit an unreasonable time.

930.E. Calls for Performance Bond

1. Clearing members must issue calls for performance bond that would bring an account up to the initial performance bond requirement: a. when performance bond equity in an account initially falls below the maintenance performance bond requirement; and b. subsequently, when performance bond equity plus existing performance bond calls in an account is less than the maintenance performance bond requirement.

Such calls must be made within one business day after the occurrence of the event giving rise to the call. Clearing members may call for additional performance bond at their discretion. Notwithstanding the foregoing, a clearing member is not required to call for or collect performance bond for day trades.

2. Clearing members shall only reduce a call for performance bond through the receipt of performance bond deposits permitted under subsection C. of this rule. Clearing members may delete a call for performance bond through: a. the receipt of performance bond deposits permitted under subsection C. of this rule only if such deposits equal or exceed the amount of the total performance bond call; or b. inter-day favorable market movements and/or the liquidation of positions only if performance bond equity in the account is equal to or greater than the initial performance bond requirement. Clearing members shall reduce an account holder's oldest outstanding performance bond call first.
3. Clearing members must maintain written records of all performance bond calls issued, reduced, and deleted.

930.F. Disbursements of Excess Performance Bond

Clearing members may only release performance bond deposits from an account if such deposits are in excess of initial performance bond requirements.

930.G. Loans to Account Holders

Clearing members may not extend loans to account holders for performance bond purposes unless such loans are secured as defined in CFTC Regulation 1.17(c)(3). The proceeds of such loans must be treated in accordance with CFTC Regulation 1.30.

930.H. Aggregation of Accounts and Positions

Clearing members may aggregate accounts under identical ownership within the same classifications of customer segregated, customer secured, special reserve account for the exclusive benefit of customers, and nonsegregated for performance bond purposes. Clearing members may compute performance bond requirements on identically owned concurrent long and short positions on a net basis.

930.I. Hedge Positions

Clearing members shall have reasonable support for bona-fide hedge and risk management positions, as defined by Rule 543, that are afforded hedge performance bond rates.

930.J. Omnibus Accounts

1. Clearing members shall collect performance bond on a gross basis for positions held in domestic and foreign omnibus accounts.
2. For omnibus accounts, initial performance bond requirements shall equal maintenance performance bond requirements.
3. Clearing members shall obtain and maintain written instructions from domestic and foreign omnibus accounts for positions which are entitled to spread or hedge performance bond rates.

930.K. Liquidation of Accounts

1. Non-Security Futures

If an account holder fails to comply with a performance bond call within a reasonable time (the clearing member may deem one hour to be a reasonable time), the clearing member may close out the account holder's trades or sufficient contracts thereof to restore the account holder's account to required performance bond status. Clearing members shall maintain full discretion to determine when and under what circumstances positions in any account shall be liquidated.

2. Security Futures

If a Customer fails to comply with a performance bond (or "margin") call within a reasonable period of time (the clearing member may deem one hour to be a reasonable period of time), the relevant clearing member shall take the deduction required with respect to an undermargined account in computing its net capital under applicable CFTC Regulations and SEC Regulations.

If at any time there is a liquidating deficit in an account in which security futures are held, the clearing member shall take steps to liquidate positions in the account promptly and in an orderly manner.

930.L. Failure to Maintain Performance Bond Requirements

If a clearing member fails to maintain performance bond requirements for an account in accordance with this rule, the Exchange may direct such clearing member to immediately liquidate all or part of the account's positions to eliminate the deficiency.

930.M. Violation

Violation of this rule may constitute a major offense.