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March 12, 2008

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

RE: CME & CBOT Market Regulation Advisory Notice RA0804-3
CME & CBOT Submission No. 08-55

Dear Mr. Stawick:

Chicago Mercantile Exchange Inc. ("CME") and The Board of Trade of the City of Chicago, Inc. ("CBOT") (collectively, "the Exchanges") hereby notify the Commission that the Exchanges have issued the following Market Regulation Advisory Notice: CME & CBOT RA0804-3 ("Outtrades, Errors and Mishandling of Orders"). A copy of this Notice is attached.

CME and CBOT certify that this Notice neither violates nor is inconsistent with any provision of the Commodity Exchange Act or of the rules and regulations thereunder.

If you have any questions regarding this matter, please contact Robert Sniegowski, Associate Director, Market Regulation Department, at 312.648.5493 or me at 312.648.5422.

Sincerely,

/s/ Stephen M. Szarmack
Director and Associate General Counsel

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MARKET REGULATION ADVISORY NOTICE

Exchange	CME & CBOT
Subject	Outtrades, Errors and Mishandling of Orders
Rule References	Rule 527
Advisory Date	March 11, 2008
Advisory Number	CME & CBOT – RA0804-3
Effective Date	March 24, 2008

Effective March 24, 2008, CME and CBOT will adopt common rule language with respect to Rule 527 (“Outtrades, Errors and Mishandling of Orders”). The rule sets forth the procedures and requirements for the appropriate resolution of outtrades, errors and the mishandling of orders. The key elements of the rule are summarized below, and the complete text of Rule 527 appears at the end of this advisory.

The rules and procedures for the proper resolution of outtrades in no way limit a member’s right to submit a claim related to the resolution of an outtrade to arbitration in accordance with the provisions of Chapter 6 (“Arbitration”).

As certain aspects of Rule 527 have changed for CME and CBOT members, all members and member firms are encouraged to ensure that relevant personnel are fully informed with respect to these requirements.

I. Outtrades

Members who discover an outtrade during Regular Trading Hours (“RTH”) must immediately 1) notify the opposite trader, 2) determine who will cover the outtrade, and 3) cover the outtrade. Outtrades discovered after an RTH session has ended must be resolved no later than the opening of the next RTH session.

It is imperative that members resolve outtrades in a timely fashion. Financial liability resulting from the resolution of an outtrade is limited to the opening price(s) of the next RTH session. However, a party who unreasonably fails to cover an outtrade during the intervening period may be liable for the difference between the opening price(s) of the next RTH session and the price at which the outtrade could have been covered during the intervening period, including during electronic trading hours or in an appropriate alternative market.

A. Straight Out Outtrades Involving Orders

A floor broker who discovers that he has a straight out outtrade in connection with a trade that was executed in the market for an order has two options for resolving the outtrade.

1. **Re-execution** - The broker may re-execute the order. If the re-execution price is worse than the original execution price, then the broker must adjust the customer by check to the original execution price. If the re-execution price is better than the original execution price, the customer is entitled to the better price.
2. **Assignment** - The broker may assign the opposite side of the trade that cannot be cleared to his error account, thereby filling the order at the original execution price. The broker may not liquidate the position assigned to his error account until at least ten minutes have passed from the time of the original execution of the order and the bracket period in which the outtrade occurred has ended (unless the liquidation takes place during the post close

session where such time restrictions do not apply). Any profits or losses resulting from the liquidation of the position in the broker's error account belong to the broker and he may retain or disburse any profits at his discretion.

B. Price Outtrades

Provided that the members involved in the outtrade agree that the trade was executed at one of the two prices in question, the outtrade must be resolved by clearing the trade at the execution price.

If the outtrade involves a price discrepancy between a local and a broker and the parties cannot agree on the price of execution, the price recorded by the broker shall be used to clear the trade. If the outtrade is between two locals or two brokers and the parties cannot agree on the price of execution, the buyer's price shall be used to clear the trade.

In the case of a price outtrade between two brokers in which the members cannot agree on the execution price and the buyer's price is therefore used to clear the trade, the broker representing the sell order may resolve the outtrade in any of the following ways:

1. Clear the sales for the order at the buyer's price. If the price is worse than the originally confirmed price, the broker must adjust the customer by check to the confirmed execution price.
2. Clear the sales at the buyer's price in his error account and re-execute the order. If the re-execution price is worse than the original execution price, then the broker must adjust the customer by check to the original execution price.
3. Clear the sales at the buyer's price in his error account and assign a fill at the original execution price to the sell order opposite his error account pursuant to the assignment trade procedures.

C. Quantity Outtrades

Provided that the members involved in the outtrade agree that the trade was executed for one of the two quantities in question, the outtrade must be resolved by clearing the trade at the executed quantity.

If the outtrade is between two locals and the parties cannot agree on the quantity that was executed, the higher quantity shall be used to clear the trade.

A broker may assign the opposite side of the uncleared portion of a quantity outtrade that he believes he has executed to his error account and assign a fill to the order at the execution price pursuant to the assignment trade procedures.

D. Bona Fide Contract Month, Strike, Put vs. Call and Side of Market (Buy vs. Buy or Sell vs. Sell) Outtrades

A broker who believes that he has executed an order in accordance with its instructions and is involved in an outtrade due to a contract month, strike price, side of market or put/call discrepancy may resolve the outtrade in any of the following ways:

1. The trade may be busted. If the broker re-executes the order at a price less favorable than the price to which the order was entitled, the customer must be adjusted by check. If the order is re-executed at a more favorable price, the customer is entitled to the better price.
2. Either or both trades may be cleared in accordance with the members' recorded data.
3. The broker may assign the opposite side of the order to his error account, thereby filling the customer at the execution price, and may also agree to clear the other party's outtrade in his error account.
4. If both members are representing customer orders, both brokers may assign the opposite side of their respective orders to their error accounts pursuant to the assignment trade procedures.

II. Errors and Mishandling of Orders

A. Overbuys and Oversells

If a broker overbuys or oversells for an order, the customer is not entitled to the executed quantity in excess of the order quantity. The excess quantity should be placed in the broker's error account and any profits realized through the liquidation of the position may be retained or disbursed by the broker at his discretion.

B. Unfilled or Underfilled Orders

If a broker, as the result of an error or mishandling, fails to execute an order or underfills an order, **the broker must first execute the unfilled quantity in the market.** The error may then be reconciled as follows:

1. If the order, or balance of the order, is executed at a more favorable price, the customer must be allocated the trade at the more favorable price.
2. If the order, or the balance of the order, is executed at a worse price than that to which the customer was entitled, the broker may:
 - i.) allocate the less favorable fill to the order and issue an adjustment check to the customer; or
 - ii.) allocate the less favorable fill to the broker's error account and assign the opposite side of the order to the broker's error account at the price to which the customer was entitled.

C. Wrong Contract Month, Wrong Strike or Wrong Commodity Executions

If an order is executed in the wrong contract month or strike price, the error should be rectified by placing the erroneous transaction into the error account of the broker or the firm and either:

1. Re-executing the order according to its terms and adjusting the customer by check if the order is filled at a worse price than that to which the customer was entitled due to the error; or
2. Executing a spread transaction such that one leg of the spread represents the correct execution of the original order at the price to which the customer was entitled and the other leg offsets the position in the broker's or firm's error account.

D. Wrong Side of Market Executions

When an order has been executed on the wrong side of the market, the erroneous execution must be placed in the broker's or firm's error account. Thereafter, to resolve the error, the order must be executed in the market in accordance with its terms and the customer adjusted by check if the order is executed at a worse price as a result of the error.

E. Erroneous Confirmations

If a floor broker or his employee confirms, in good faith, an execution to a customer at an erroneous price that is reasonably relied upon by the customer and in the customer's favor, the floor broker may (but is not obligated to) assign the order at the confirmed price and allocate the executed trade to his error account. In such cases, only bona fide prices active in the market at the time the order was in the pit may be allocated to the customer. In lieu of assigning the trade, the floor broker may (but is not obligated to) issue an adjustment check.

III. Assignment Trade Requirements

A. Error Account Requirements

All assignment trades must be placed into the broker's error account. Firms that utilize house brokers and allocate the brokers' errors to the firm's error account must maintain sub-accounts held in the name of each floor broker for this purpose.

B. Liquidation Requirements

If a broker assigns an **outtrade** to his error account, the position may not be liquidated until 1) at least 10 minutes have elapsed since the time of the original execution and 2) the bracket period has changed. Therefore the broker must wait at least 10 minutes, and possibly as long as 15 minutes, after the original execution before liquidating the assigned position. However, an assignment trade may be liquidated during the post-close session regardless of when the outtrade occurred. Profits or losses resulting from the offset of such assignments belong to the floor broker and any profits may be retained or disbursed to whomever he chooses at his discretion.

In the case of an **unfilled or underfilled order**, the order must first be executed in the market and may be assigned only if the quantity executed in the market is at a worse price than the price to which the customer was entitled. In this case, the trade executed in the market and the assignment trade will offset each other at a loss in the broker's error account.

C. Recordkeeping Requirements

1. Assignment trades must be clearly identified as a type "Z" trade on the trading documents used to record the trades for the broker's error account. Firms must keypunch the broker's assignment trade allocated to the broker's error account as order type "Z".
2. The circumstances surrounding the assignment trade must be documented in writing. Members may record the circumstances on the trading document used to record the assignment trade. Members recording the circumstances on another document must retain the document and must provide the document to Market Regulation upon request.
3. In accordance with Rule 536, trades that are not recorded contemporaneously due to an error or an outrade must be recorded on the member's next pre-printed, sequentially numbered trading card. If the trade is not recorded in sequence (and the member uses trading cards to record his trades), the member must cross out the pre-printed sequence number and write "9999" on the card. If a person other than the member records the trade, the person who records the trade must initial the card.

Under no circumstances shall it be permissible for a floor broker to guarantee, directly or indirectly, the execution of an order, or any of its terms, except in the case of a bona fide error or mishandling.

No member firm may pressure a floor broker to improperly guarantee an execution or to resolve an outrade or error other than in accordance with Rule 527. Additionally, no member firm may refuse to accept a bona fide fill from a floor broker which results from the floor broker's resolution of an outrade or error in accordance with Rule 527.

Violations of Rule 527 may result in disciplinary action.

Questions regarding this advisory may be directed to the following individuals in Market Regulation:

Jennifer Baum, Associate Director, Market Regulation	312.341.3124
Robert Sniegowski, Associate Director, Market Regulation	312.648.5493
Kathleen Zaino, Associate Director, Market Regulation	312.930.2341
Market Regulation Department Hotline	312.930.3333
Market Regulation Trading Floor Investigators	

Text of CME and CBOT Rule 527

527. OUTTRADES, ERRORS AND MISHANDLING OF ORDERS

527.A. Outtrades Discovered During a Regular Trading Hours Trading Session

It shall be the duty of a member discovering an outtrade during a Regular Trading Hours session to immediately notify the opposite trader. Thereafter, if the matter cannot be resolved between the parties, they shall immediately determine who will cover the trade and the trade shall immediately be covered.

527.B. Outtrades Discovered After a Regular Trading Hours Trading Session

A clearing member that is unable with diligent effort to resolve an outtrade with another clearing member shall notify the member who executed the trade. Such notice shall be given prior to the following day's Regular Trading Hours session in sufficient time to allow the member to make provisions for the resolution of the outtrade.

Outtrades discovered after a Regular Trading Hours session shall be resolved between the parties to the outtrade as provided in this rule, no later than the opening of trading of the next Regular Trading Hours session.

527.C. Outtrades Resolution

To resolve an outtrade, the parties shall attempt to agree upon: (1) the reconciliation of any discrepancy in the terms of the trade, (2) which party will cover the trade and the method for covering the trade, if applicable, and (3) the apportionment of the financial results of the outtrade. In the event the parties are unable to agree on the apportionment of the financial results, the parties must nevertheless immediately reconcile the outtrade.

The price at the time of the open of the next Regular Trading Hours session shall fix the limit of liability as a result of the outtrade. Regardless of the ultimate determination of financial responsibility for the outtrade, a party who unreasonably refuses to cover the outtrade via an appropriate alternate market may be liable to the other party for the difference between the price at which the outtrade could have been covered in the alternate market and the price at the time of the open of the next Regular Trading Hours session.

Outtrades shall be resolved in accordance with the procedures below:

1. Straight Out Customer Outtrades

If a floor broker discovers that all or some portion of a customer order was executed but cannot be cleared, the broker shall either 1) re-execute the order in the market and adjust the customer by check if the re-execution price is worse than the original execution price, or, if the re-execution price is better than the original execution price, the customer is entitled to the better price or 2) assign the opposite side of the portion that cannot be cleared to his error account and assign a fill to the customer at the execution price. The floor broker shall not liquidate the assigned position until at least ten minutes have elapsed after the execution of the order giving rise to the outtrade and the bracket period in which the outtrade occurred has ended; however, these liquidation restrictions shall not apply to a liquidation during the post close session. Any profits or losses resulting from the liquidation of the assigned position belong to the floor broker and any such profits may be retained or disbursed at his discretion.

A floor broker who assigns the opposite side of an order pursuant to this rule shall: 1) clearly identify all such transactions by appropriate designation; 2) submit such trade information to his qualifying clearing member in sufficient time to enable the clearing member to submit the

trade for the next intra-day reconciliation; 3) document in writing the circumstances surrounding any such transaction and promptly provide such documentation to the Market Regulation Department upon request; and 4) identify the subsequent liquidation of the assigned trade on the floor broker's trading card or other document.

2. Price Outtrades

When an outtrade exists due to a price discrepancy, members making the trade may choose to resolve the discrepancy by electing either of the two prices in question, if they agree that the trade was executed at that price.

If an outtrade involves a price discrepancy between a local and a broker, and the members cannot agree on the price of execution, the price recorded by the broker shall be used to clear the trade.

If an outtrade between locals or an outtrade between brokers involves a price discrepancy, and the members cannot agree on the price of execution, the buyer's price shall be used to clear the trade.

3. Quantity Outtrades

When an outtrade exists due to a quantity discrepancy, members making the trade may choose to resolve the discrepancy by electing either of the two quantities in question, if they agree that the trade was executed for that quantity.

If an outtrade between locals involves a quantity discrepancy and the members cannot agree on the quantity that was executed, the higher quantity shall be used to clear the trade.

A broker may assign the opposite side of any quantity which he believes that he has executed, but which cannot be cleared, to his error account, pursuant to Section 1 above.

4. Bona Fide Contract Month, Strike, Put vs. Call and Side of Market (Buy vs. Buy or Sell vs. Sell) Outtrades

When an outtrade exists due to a contract month, strike price, side of market, or put/call discrepancy, and any party who executed a customer order believes that the order was executed in accordance with its instructions, the outtrade may be resolved in any one of the following ways:

- a. The trade may be busted. If a broker re-executes his order, any losses incurred by the customer as a result of the delay in execution must be adjusted by check. If the order is executed at a more favorable price, the customer is entitled to the better price.
- b. The members making the trade(s) may agree to clear either trade or both trades in accordance with the members' recorded trade data.
- c. A broker may assign the opposite side of his order to his error account, pursuant to Section 1. above, and he may agree to the clearing of the transaction according to the terms of the other member's recorded trade data.
- d. If both members involved in the outtrade are brokers, they may each assign the opposite side of their respective orders to their error accounts pursuant to Section 1. above.

A customer shall not be entitled to any portion of any profits realized by a local who was on the opposite side of an outtrade between the local and the customer's broker, as a result of the local's liquidation of his position. Such profits belong to the local, and may be retained or disbursed at his discretion. If the local chooses to disburse any portion of such profits to the broker, and the broker's customer has received a fill in accordance with the broker's recorded trade data, the broker is not obligated to offer such profits to his customer.

Nothing herein shall in any way limit a member's right to submit an outtrade to Exchange arbitration if the outtrade cannot be resolved by agreement.

527.D. Errors and Mishandling of Orders

If a broker overbuys or oversells for an order, the customer is not entitled to any of the quantity executed in excess of the order quantity. A position that has been established as a result of an erroneous execution or mishandling of an order must be placed in the error account of the broker or firm responsible for the error or order mishandling. Any profits resulting from the liquidation of trades placed in a broker's or firm's error account belong to the relevant broker or firm, and any such profits may be retained or disbursed at the broker's or firm's discretion.

1. Unfilled or Underfilled Orders

If a broker fails to execute an order or underbuys or undersells for an order, the broker shall do one of the following:

- a. Execute the order or the remainder of the order in the market and adjust the customer by check if the customer is filled at a price less favorable than that to which he was entitled due to the broker's error or mishandling of the order. If the order is filled at a more favorable price, the customer is entitled to the better price.
- b. Execute the order or the remainder of the order in the market. If the order, or the remainder of the order, is filled at a worse price than that to which the customer was entitled but for the error or mishandling, the broker may allocate the fill to his error account, pursuant to Section C.1. above, provide the customer a fill at the price to which the customer was entitled, and place the opposite side of the customer fill into his error account. If the order is filled at a more favorable price, the customer is entitled to the better price.

2. Wrong Contract Month, Wrong Strike, or Wrong Commodity Executions

When an order has been executed in the wrong contract month, wrong strike price, or wrong commodity, and the erroneous transaction has been placed in the relevant broker's or firm's error account, the error may be corrected by one of the following:

- a. Execution of the order in accordance with its terms, with an adjustment to the customer by check if the order is executed at a worse price as a result of the error or mishandling of the order.
- b. Execution of a spread or combination transaction to execute the order and liquidate the position arising from the initial erroneous execution of the order, whereby one leg of the spread or combination transaction represents the correct execution of the order and the other leg offsets the erroneous position in the broker's or firm's error account. The broker or firm must clearly identify such transactions by appropriate designation, clearly document in writing the circumstances surrounding the nature of the error and promptly provide such documentation to the Market Regulation Department upon request.

3. Wrong Side of Market Executions

When an order has been executed on the wrong side of the market and the erroneous execution has been placed in the relevant broker's or firm's error account, the order shall be executed in accordance with its terms, with an adjustment to the customer by check if the order is executed at a worse price as a result of the error or mishandling of the order.