CME Group

A CME/Chicago Board of Trade Company

April 11, 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 Rule 539 ("Prearranged, Pre-Negotiated and Noncompetitive
Trades Prohibited")
CME Rule 584 ("CME Globex Options Volatility Quote Trading")
CME Rule 585 ("Globex Call Market Trading Algorithm")
Interpretation of Rule 585 – Globex Call Market Trading Algorithm
CME Market Regulation Advisory Notice RA0802-2
CME Submission No. 08-70

Dear Mr. Stawick:

Chicago Mercantile Exchange Inc. ("CME") hereby notifies the Commission of amendments to CME Rules 539, 584, 585 and the Interpretation of Rule 585 and the release of CME Market Regulation Advisory Notice RA0802-2. The rule changes have been made in connection with CME adopting revised requirements with respect to engaging in pre-execution communications in CME products trading on CME Globex®. Upon adoption of the changes, CME Rule 539 will require a party to enter a Request for Quote ("RFQ") prior to engaging in a pre-execution communication with respect to CME options trades on CME Globex (including option spreads or combinations and options/futures spreads). Subsequent to the entry of the RFQ, any options trade intended for execution pursuant to a pre-execution communication will require the entry of an additional RFQ followed by the entry of a Request for Cross ("RFC") order, an order which contains both the buy and sell orders.

With the exception of CME equity options, the RFC order must be entered no less than 15 seconds and no more than 30 seconds after the entry of the additional RFQ. In CME equity options, the RFC order must be entered no less than 5 seconds and no more than 30 seconds after the entry of the additional RFQ. The RFQs and the RFC must be entered within the same trading session and failure to enter the RFC order within the time parameters set forth above will require a new RFQ to be entered prior to the entry of the RFC order. In all cases, the entry of the RFC order must comply with the time parameters set forth in Rule 539.C.4.

Pre-execution communications with respect to CME futures trades on CME Globex will continue to require the order of the party initiating the discussion to be entered into CME Globex first, with a period of 5 seconds elapsing prior to the entry of the opposing order.

The changes to Rule 539 required related revisions to Rules 584, 585 and the Interpretation to Rule 585. The changes to Rule 584 clarify that trades in volatility quoted

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options which result from pre-execution communications will be matched pursuant to Rule 585. The changes to Rule 585 clarify that volatility-quoted options combinations will continue to be quoted in volatility terms as opposed to net options premium. The changes to the Interpretation of Rule 585 clarify that the Exchange may designate the trade allocation algorithms applicable to a designated set of contracts trading pursuant to Rule 585, and includes specific information on how options trades will be matched when such trades result from pre-execution communications.

The changes will become effective on May 11, 2008, for trade date May 12, 2008.

The amendments are attached with additions underscored and deletions overstruck. The CME Market Regulation Advisory Notice concerning the revised requirements for pre-execution communications is also attached.

CME certifies that these changes and the Advisory Notice neither violate nor are 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

539.   PREARRANGED, PRE-NEGOTIATED AND NONCOMPETITIVE TRADES PROHIBITED

539.A.   General Prohibition

No person shall prearrange or pre-negotiate any purchase or sale or noncompetitively execute any transaction, except in accordance with Sections B and C below.

539.B.   Exceptions

The foregoing restriction shall not apply to block trades pursuant to Rule 526 or Exchange of Futures for Related Position transactions pursuant to Rule 538.

539.C.   Pre-Execution Communications Regarding Globex Trades

Parties may engage in pre-execution communications with regard to transactions executed on the Globex platform where one party (the first party) wishes to be assured that a contra party (the second party) will take the opposite side of the order under the following circumstances:

1.   A party may not engage in pre-execution communications with other market participants on behalf of another party unless the party for whose benefit the trade is being made has previously consented to permit such communications.

2.   Parties to pre-execution communications shall not (i) disclose to a non-party the details of such communications or (ii) enter an order ~~through the Globex platform~~ to take advantage of information conveyed during such communications except in accordance with this rule.

3.   In the case of futures orders, ~~With the exception of orders entered pursuant to the terms of Section C.5. below,~~ the first party's order must be entered into the Globex platform first and the second party's order may not be entered into the Globex platform until a period of 5 seconds ~~has~~shall elapsed from the time of~~between~~ entry of the first~~two~~ ~~orders in the case of futures orders or a period of 15 seconds shall elapse between entry of the two orders in the case of option orders.~~

4.   ~~With the exception of orders entered pursuant to the terms of Section C.5. below, in any transaction involving pre-execution communications, the first party's order must be entered into the Globex platform first and the second party's order may not be entered into the Globex platform until the time period prescribed in Section 539.C.3. above has elapsed.~~

5.   In the case of options orders, a pre-execution communication must be preceded by the submission of a Request for Quote ("RFQ"). ~~In electronic options operated pursuant to Rule 585 ("Globex Call Market Trading Algorithm"), including Eurodollar and Euroyen Options, solicitation of bid(s) and/or offer(s) between market participants through private communication for the purpose of establishing a market or improving the market for an eligible contract or an eligible combination of contracts for futures and options shall be preceded by issuing a Request For Quote ("RFQ") through an eligible terminal.~~

Subsequent to such RFQ, a trade intended for execution ~~pursuant to Rule 585~~for which there has been a pre-execution communication ~~must be initiated by~~requires the entry of an additional RFQ; thereafter, a Request for Cross ("RFC") ~~O~~order which ~~will~~contain_s_ both the buy and the sell orders must be entered no less than fifteen (15) seconds and no more than thirty (30) seconds after the entry of the additional RFQ in order to proceed with the trade, except in equity options where the RFC must be entered no less than five (5) seconds and no more than thirty (30) seconds after the entry of the additional RFQ. The RFQs and the RFC ~~O~~order must be entered within ~~fifteen (15) minutes in~~the same trading session ~~of the entry of the RFQ~~. Failure to enter the RFC order within 30 seconds after the entry of the additional RFQ will require a new RFQ to be entered prior to the entry of the RFC order, which must be entered in accordance with the time parameters described above in order to proceed with the trade.~~fifteen (15) minutes of the entry of the RFQ shall be considered an abandonment of that pre-execution communication. Any subsequent pre-execution communication or attempt to enter RFC orders must be preceded by the entry of a new RFQ.~~

584.   CME GLOBEX OPTIONS VOLATILITY QUOTE TRADING
[The first two paragraphs are unchanged.]

Volatility quoted option trades shall be matched at the option instrument level according to the first priority for best price and FIFO matching algorithm described in Rule 580 – **GLOBEX TRADE ALGORITHMS** and its Interpretation, except for trades involving pre-execution communications which must comply with the requirements of Rule 539.C.4. and which shall be matched pursuant to Rule 585 and its Interpretation. Further, volatility quoted option bids shall be matched only with volatility quoted option offers (premium quoted options will not be matched with volatility quoted options). At the time of an options volatility match,

CME Globex will utilize standard options pricing models to convert the options volatility trade into a premium quoted option for clearing, and where applicable, create accompanying risk reducing futures contracts as a delta-neutral hedge for the matched position.

[The remainder of the rule is unchanged.]

585. GLOBEX CALL MARKET TRADING ALGORITHM

The following Globex Call Market Trading Algorithm shall be applied to such contract markets as determined by the Exchange, including, but not limited to, theall options on Eurodollar futures. This rule supersedes, if applicable, other Exchange rules governing trading on Globex, including, but not limited to, Rule 580 and its interpretations.

1. For the purpose of Rule 585:

[Section a. is unchanged.]

b. an eligible combination of futures and options contracts shall be defined by the quantity per combination of each option bought or sold by the combination buyer, and the net long or short futures positions per combination per contract month to be assumed by the combination buyer, with the futures prices for each month defined within the combination. The combination shall be quoted in terms of net options premium, with the futures traded at the defined price, except for volatility-quoted options in which case the combination shall be quoted in volatility terms, which implies the appropriate combination of options premium and futures prices as defined in Rule 584;

[Section 1.c. through Section 3 are unchanged.]

4. Solicitation of bid(s) and/or offer(s) through private discussion for the purpose of establishing a market or improving the market for an eligible contract or an eligible combination of contracts must comply withshall be preceded by issuing an RFQ through an eligible terminal. Further, in such cases, the provisions of Rule 539.C.4. Pre-Execution Discussions Regarding Globex Trades, remain applicable.

[The remainder of the rule is unchanged.]

INTERPRETATION OF RULE 585 – GLOBEX CALL MARKET TRADING ALGORITHM

Trade Allocation Algorithm pertinent to Globex Call Markets

The Exchange may designate the trade allocation algorithms applicable to a designated set of contracts trading pursuant to Rule 585 – Globex Call Market Trading Algorithm, including without limitation any of the algorithms set forth in Rule 580 – Globex Trade Algorithms., per

Pursuant to the provisions of Rule 581 – Globex Lead Market Maker Program and Rule 585 — Globex Call Market Trading Algorithm, the Exchange may designate multiple Lead Market Makers (LMMs) for a Globex Call Market for a designated set of contracts. Each LMM shall be assigned an allocation proportion for the purpose of trade matching. Trade allocation in a Call Market with LMMs operates as follows:

[The remainder of the rule is unchanged with the exception of the last four paragraphs.]

In the case of a Request Ffor Cross (RFC) entered pursuant to Rule 539.C.4., matching will depend upon whether the RFC price at the time of entry, relative to other orders in the market, improves both the current bid and offer prices, matches the bid or offer price, or is outside of the bid or offer price.a set of matching bid and offer (hereafter referred to as the RFC bid and offer) with the same price and quantity, trading matching of this pair of RFC bid and offer shall be suspended for fifteen (15) seconds in accordance with Rule 539.C. Pre-Execution Discussion. Immediately following the fifteen-second suspension, the RFC bid and offer shall be matched separately against opposing bids and offers in accordance with the allocation algorithm described above. The remainder of the pair of RFC bid and offer shall be matched against each other at a quantity of 60% of the smaller of the remaining RFC bid and offer. The remaining unmatched portions of the RFC bid and offer shall be available for matching against other incoming orders for an additional ten (10) seconds. Thereafter, the remaining RFC bids and offers shall be matched against each other, with the remaining bid and offer joining the rest of the order book.

RFC Price Improves Current Bid and Offer Prices in the Market

Notwithstanding the preceding trade matching provision, iIf the RFC priceorders (i) represents strict improvement on both the current bid and offer prices at the time of the entry of the RFC, and (ii) remain at the best bid and offer price levels at the conclusion of the fifteen (15) seconds following the entry of the RFC,100% of the buy and sell orders represented in the RFC orders shall be matched against each other at the RFC price immediately upon submission of the RFC.a quantity of 50% of the original order, with the remaining RFC orders matching against other competitive bids and offers in accordance with the preceding procedure for RFC matching.

RFC Price Matches or is Outside the Current Bid or Offer Price in the Market

All Products Excluding Equity Options

If the RFC price matches or is outside the bid or offer price in the market at the time the RFC order is entered, 1) the applicable side of the RFC order will immediately match against orders in the market at a price better than or equal to the RFC price in accordance with the allocation algorithm described above, 2) immediately thereafter, 60% of the smaller quantity remaining on one side of the RFC order will be matched against the opposite side of the RFC order at the RFC price, 3) any remaining unmatched portion of the RFC bid and offer will then be available for matching against other incoming orders for an additional five (5) seconds, 4) any match-eligible quantity remaining on the RFC order will then be matched at the RFC price, and 5) any remaining unmatched balance on one side of the RFC will either be cancelled or will remain in the order book depending on the order instructions entered via the RFC.

Equity Options

If the RFC price matches or is outside the bid or offer price in the market at the time the RFC order is entered, 1) the applicable side of the RFC order will immediately match against orders in the market at a price better than or equal to the RFC price in accordance with the allocation algorithm described above, 2) immediately thereafter, 100% of the smaller quantity remaining on one side of the RFC order will be matched against the opposite side of the RFC order at the RFC price, and 3) any remaining unmatched balance on one side of the RFC will either be cancelled or will remain in the order book depending on the order instructions entered via the RFC.

MARKET REGULATION ADVISORY NOTICE

Exchange	**CME**
Subject	**Pre-Execution Communications in CME Products on CME Globex**
Rule References	**CME Rule 539**
Advisory Date	**April 15, 2008**
Advisory Number	**CME – RA0802-2**
Effective Date	**May 11, 2008**

This Advisory supersedes CME Market Regulation Advisory Notice RA0801-2 and **applies only to CME products traded on CME Globex**. Pre-execution communications involving CBOT products are prohibited as detailed in CBOT Market Regulation Advisory Notice RA0802-1.

Pre-execution communications are permitted in CME products traded on CME Globex pursuant to the requirements of Rule 539.C. ("Pre-Execution Communications Regarding Globex Trades"). CME Rule 539 expressly prohibits pre-execution communications in connection with pit transactions executed on the trading floor.

Effective May 11, for trade date May 12, 2008, CME will adopt revisions to Rule 539.C. related to pre-execution communications in connection with electronic trading of all CME options products. The revisions require pre-execution communications involving CME options products (including options spreads and combinations and options/futures spreads) to be preceded by the entry of a Request for Quote ("RFQ"). Subsequent to the entry of the RFQ, any trade intended for execution pursuant to a pre-execution communication requires the entry of an additional RFQ followed by the entry of a Request for Cross ("RFC") order, an order which contains both the buy and sell orders.

With the exception of CME equity options, the RFC order must be entered no less than 15 seconds and no more than 30 seconds after the entry of the additional RFQ. In CME equity options, the RFC order must be entered no less than 5 seconds and no more than 30 seconds after the entry of the additional RFQ. The RFQs and the RFC must be entered within the same trading session and failure to enter the RFC order within the time parameters set forth above requires a new RFQ to be entered prior to the entry of the RFC order. In all cases, the entry of the RFC order must comply with the time parameters set forth in Rule 539.C.4.

The revised rules ensure that all liquidity providers are afforded the opportunity to respond to RFQs in a timely manner, assuring transparent price discovery for market participants. The requirements with respect to engaging in pre-execution communications in CME futures and options contracts trading on CME Globex are described on pages 2 and 3 of this Advisory. The text of revised Rule 539 appears on page 6 of this Advisory. For additional information on the changes to the CME algorithm rules being implemented in connection with the revisions to Rule 539.C., please see today's release of Special Executive Report S-4703.

Pre-execution communications may occur only when the party for whose benefit the trade is being made has previously consented to such communications. <u>Additionally, parties who have been involved in a pre-execution communication may not disclose the details of that communication to other parties, nor may a party place any order to take advantage of the information conveyed in such communications except to facilitate the trade in accordance with the rule.</u>

Requirements for Pre-Execution Communications in CME Options Products

1. **Prior** to engaging in pre-execution communications involving CME options products or any spread or combination involving options, the market participant must submit a Request for Quote ("RFQ").

2. Subsequent to submitting the RFQ and engaging in pre-execution communications, a trade to be executed pursuant to such communications requires the market participant to issue an additional RFQ.

3. In all CME options other than Equity options, no less than 15 seconds and no more than 30 seconds after issuing the additional RFQ, a trade to be executed pursuant to pre-execution communications **must** be initiated by the entry of an RFC order, a submission which includes both the buy and sell orders. In CME Equity options, the RFC order must be entered no less than 5 seconds and no more than 30 seconds after issuing the additional RFQ. The revised RFC matching algorithm is summarized below.

4. If an RFC order is not entered within 30 seconds after the additional RFQ, any subsequent trade to be executed pursuant to pre-execution communications must be preceded by the entry of a new RFQ and, thereafter, the RFC order must be entered in accordance with the time parameters set forth in #3 above.

Revised RFC Matching Algorithm for CME Options Products

The RFC price improves <u>both</u> the best bid and best offer in the order book or there is no bid/offer in the order book.

If the RFC price improves both the best bid and best offer in the order book or if there is no bid/offer in the order book, 100% of the RFC quantity will match at the RFC price immediately upon submission of the RFC.

The RFC price matches or is outside the best bid or best offer in the order book.

- If the RFC price matches or is outside the best bid or offer in the market, the applicable side of the RFC order will immediately match against the orders in the market at a price better than or equal to the RFC price;

All Options Other than Equity Options

- Immediately thereafter, 60% of the smaller quantity remaining on one side of the RFC will match against the order on the opposite side of the RFC at the RFC price;

- Any remaining unmatched portion on the RFC will then be available for matching against other incoming orders for five (5) seconds;

- Any match-eligible quantity remaining on the RFC will then match at the RFC price;

- Any unmatched balance on one side of the RFC will either be cancelled or remain in the order book depending on the instructions submitted with the RFC.

<u>Equity Options</u>

- Immediately thereafter, 100% of the smaller quantity remaining on one side of the RFC will match against the order on the opposite side of the RFC at the RFC price;

- Any unmatched balanced on one side of the RFC will either be cancelled or remain in the order book depending on the instructions submitted with the RFC.

Requirements for Pre-Execution Communications in CME Futures Products

1. For transactions in CME futures products which involve pre-execution communications, the order of the party who initiated the pre-execution communication must be the first order entered into CME Globex. No RFQ or RFC is required.
2. At least 5 seconds must elapse after the entry of the first order before the opposing order can be entered.

Q&A Regarding Pre-Execution Communication Requirements
in CME <u>Options</u> Products Executed on CME Globex

1.	Is a client's consent to pre-execution communications necessary?	YES
2.	May the parties involved in pre-execution communications disclose the details of those communications to other parties?	NO
3.	If a party has participated in a pre-execution communication where non-public information has been disclosed about an order or a potential order and the party does not agree to take the other side of the trade, may the party subsequently enter an order into the market to take advantage of the non-public information?	NO
4.	Is an RFQ required to be submitted <u>prior</u> to engaging in pre-execution communications?	YES
5.	Is the RFQ referenced in #4 above required if the system is showing current bids and/or offers in the contract(s) that will be the subject of a pre-execution communication?	YES
6.	After the first RFQ is submitted and a pre-execution communication has taken place, is an additional RFQ required to be submitted <u>prior</u> to entering a Request for Cross ("RFC") in order to proceed with the transaction?	YES
7.	In all options other than equity options, must the RFC be entered no less than 15 seconds and no more than 30 seconds after issuing the additional RFQ?	YES
8.	In equity options, must the RFC be entered no less than 5 seconds and no more than 30 seconds after issuing the additional RFQ?	YES
9.	Are the quantity and price of the orders on the RFC displayed to the marketplace upon submission of the RFC?	NO
10.	Must both RFQs and the RFC be entered within the same trading session?	YES
11.	If the RFC is not entered within the time parameters set forth in #7 or #8 above after issuing the additional RFQ, is a new RFQ required to be issued <u>prior</u> to entering the RFC?	YES
12.	May an RFC ever be entered outside the time parameters set forth in #7 or #8 above after entry of the required RFQ?	NO
13.	If a call is made to solicit the improvement of a market posted on CME Globex, must an RFQ be entered prior to making the call regardless of whether the parties discuss price, quantity or the side of market with respect to any potential trade?	YES
14.	If the call described in #13 results in the parties agreeing to trade opposite one another must the requirements of #6 and, depending on the option product, #7 or #8 be followed in order to proceed with the trade?	YES

**Q&A Regarding Pre-Execution Communication Requirements
in CME <u>Futures</u> Products Executed on CME Globex**

1.	Is a client's consent to pre-execution communications necessary?	YES
2.	May the parties involved in pre-execution communications disclose the details of those communications to other parties?	NO
3.	If a party has participated in a pre-execution communication where non-public information has been disclosed about an order or a potential order and the party does not agree to take the other side of the trade, may the party subsequently enter an order into the market to take advantage of the non-public information?	NO
4.	Is an RFQ required to be issued prior to engaging in pre-execution communications?	NO
5.	If pre-execution communications have occurred, must the order of the initiator of the pre-execution communication be entered prior to the entry of the opposing order?	YES
6.	Must a minimum of 5 seconds elapse after the entry of the first order before the entry of the second order?	YES
7.	Is the entry of an RFC required?	NO

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

Kathleen Zaino, Associate Director, 312.930.2341

Jennifer Baum, Associate Director, 312.341.3124

Robert Sniegowski, Associate Director, 312.648.5493

CME RULE 539.
PREARRANGED, PRE-NEGOTIATED AND NONCOMPETITIVE TRADES PROHIBITED

539.A. General Prohibition

No person shall prearrange or pre-negotiate any purchase or sale or noncompetitively execute any transaction, except in accordance with Sections B. and C. below.

539.B. Exceptions

The foregoing restriction shall not apply to block trades pursuant to Rule 526 or Exchange of Futures for Related Position transactions pursuant to Rule 538.

539.C. Pre-Execution Communications Regarding Globex Trades

Parties may engage in pre-execution communications with regard to transactions executed on the Globex platform where one party (the first party) wishes to be assured that a contra party (the second party) will take the opposite side of the order under the following circumstances:

1. A party may not engage in pre-execution communications with other market participants on behalf of another party unless the party for whose benefit the trade is being made has previously consented to permit such communications.
2. Parties to pre-execution communications shall not (i) disclose to a non-party the details of such communications or (ii) enter an order to take advantage of information conveyed during such communications except in accordance with this rule.
3. In the case of futures orders, the first party's order must be entered into the Globex platform first and the second party's order may not be entered into the Globex platform until a period of 5 seconds has elapsed from the time of entry of the first order.
4. In the case of options orders, a pre-execution communication must be preceded by the submission of a Request for Quote ("RFQ").

    Subsequent to such RFQ, a trade intended for execution for which there has been a pre-execution communication requires the entry of an additional RFQ; thereafter, a Request for Cross ("RFC") order which contains both the buy and the sell orders must be entered no less than fifteen (15) seconds and no more than thirty (30) seconds after the entry of the additional RFQ in order to proceed with the trade, except in equity options where the RFC must be entered no less than five (5) seconds and no more than thirty (30) seconds after the entry of the additional RFQ. The RFQs and the RFC order must be entered within the same trading session. Failure to enter the RFC order within 30 seconds after the entry of the additional RFQ will require a new RFQ to be entered prior to the entry of the RFC order, which must be entered in accordance with the time parameters described above in order to proceed with the trade.