

January 27, 2006

Ms. Jean A. Webb
Secretary
Commodity Futures Trading Commission
Three Lafayette Center
1155 21st Street, NW.
Washington, DC 20581

Re: Reference File #2624.01
Request for Commission Rule Approval

Dear Ms. Webb:

40.5(a) (i) The following Request for Commission Rule Approval is submitted pursuant to Section 5c(c) of the Commodity Exchange Act and Commission Regulation 40.5.

40.5(a) (ii) The Chicago Board of Trade (CBOT[®]) hereby notifies the Commodity Futures Trading Commission (CFTC) that it intends, with CFTC approval, to amend CBOT Rulebook Appendix 9B-2 “e-cbot[®] ERROR TRADE POLICY” per the attached text (additions underlined; deletions struck through).

40.5(a) (iii) The Board of Directors approved these amendments pursuant to the CBOT Charter, Article VIII and the CBOT Bylaws, Article IX.

The CBOT intends to implement these amendments shortly after CFTC approval.

40.5(a) (iv) The revised Error Trade Policy contains substantive changes as indicated below.

First, with respect to CBOT metals futures, the revised policy will address circumstances where equivalent markets (i.e., full-sized and mini-sized metals) become disjointed. Specifically:

- For sell/buy errors in the Metals Complex, e-cbot Operations will identify the low/high for the equivalent contract for the time period that the markets were disjointed and use that value as the reference price to determine the price adjustment of the error trade. e-cbot Operations may determine that a metals futures trade is an error if the trade has been executed at a price at least \$4 away from fair value for the Gold Complex and at least 8¢ away from fair value for the Silver Complex.

- Metals futures error trades will be resolved via a price adjustment based on the following prices:
Gold: \$4 less than the determined reference price in the case of a sell error or \$4 greater than the determined reference price in the case of a buy error.
Silver: 8¢ less than the determined reference price in the case of a sell error or 8¢ greater than the determined reference price in the case of a buy error.

These provisions for re-pricing (rather than busting) metals futures transactions have been developed based on input from market participants, and are generally consistent with the established error trade procedures for option transactions. These policy revisions will provide an improved mechanism for addressing manifest errors in the submission of metals orders.

Additionally, regarding stop and limit orders for all products, the policy will be modified to state that if a trade is re-priced to a level that is higher/lower than the limit price or the trigger price of the sell/buy stop order, the customer cannot reject the trade. The trade will be cleared at the re-priced level and allocated to the customer's account.

Consistent with the current policy, parties to these transactions are permitted to make cash adjustments to settle losses that occur as a result of an asserted error trade or an actual error trade. Should parties to a disputed transaction be unable to mutually resolve financial disputes, arbitration facilities are available through the Exchange.

These policy revisions are designed to enhance trade certainty without compromising the remedies available to market participants if they incur financial loss as a result of another party's error.

- 40.5(a) (v) There were no opposing views among the CBOT Board of Directors concerning this proposal.
- 40.5(a) (vi) The CBOT has not identified any Commission regulations or sections of the Act which require interpretation or amendment in connection with this proposal.

Sincerely,

Paul J. Draths
Vice President and Secretary

APPENDIX 9B-2

e-cbot Error Trade Policy

The CBOT's error trade policy is designed to preserve the integrity of CBOT product markets by striking an appropriate balance between trade certainty and erroneous price discovery. The policy provides a mechanism to promptly address transactions that are executed at obviously erroneous prices substantially inconsistent with the last trade price of the contract or alternative determination of the contract's fair value. This policy does not relieve market participants from potential financial responsibility or liability for the execution of trades that are deemed or asserted to be an "error trade" if their actions caused financial loss to other parties.

1. Invoking the Error Trade Policy

If an e-cbot user believes that he executed a trade through e-cbot at a price that was in error, he must contact e-cbot Market Operations ("e-cbot Operations") at (312) 347-4600 without delay. If e-cbot Operations is not notified within five minutes of the execution time of the asserted error trade, the trade will stand. A third party or e-cbot Operations may also call a trade into question within five minutes of the execution. Trades called into question within five minutes will be evaluated in accordance with sections 2 and 3 of this policy. However, e-cbot Operations has the authority, but not the obligation, to consider trades reported after the five minute deadline provided the trade price in question is grossly (i.e. multiple points) out of line with the last trade price or alternatively determined fair value of the respective contract.

Trades resulting from quantity errors generally will not be called into question.

2. Trade Price Within the "No Bust Range"

If a futures transaction is asserted to be at a price that is in error, the trade shall not be considered for review by e-cbot Operations unless the price of the asserted error trade is greater than the designated number of ticks (as outlined in Appendix 9B-3) from the reference price. The reference price will be the last trade price preceding the entry of the asserted error trade or an alternatively determined fair value of the contract. Fair value for futures contracts may be determined by the last trade price, preceding settlement price, spread relationships and/or other variables deemed relevant by e-cbot Operations. However, during side-by-side hours the reference price on a downside (upside) move will never be higher (lower) than the low (high) of the pit traded price for an equivalent contract during the time period that the prices of the contracts were disjointed. During non-side-by-side hours, the reference price will never be higher (lower) than the low (high) of an equivalently traded contract.

If e-cbot Operations contacts a member user regarding a suspicious order and the user states that the order is entered correctly, the order (if subsequently executed) may only be called into question by a third party.

Trades that are executed outside of the daily price limits will be busted by e-cbot Operations irrespective of whether the trade(s) falls within the "no bust range" established above.

3. Trade Price Outside of the “No Bust Range”

If the price of the asserted error trade is more than the specified number of ticks from the reference price, e-cbot Operations will send a broadcast message to the user community indicating that the trade has been called into question. If the asserted error trade is outside of the specified tick range and involves only two parties, e-cbot Operations will attempt to contact the parties to the transaction. If both parties agree to bust or re-price the transaction, e-cbot Operations shall send a broadcast message to the user community and an alert to the quote vendor network indicating that the trade was busted or re-priced.

If there is more than one contra-party to the order asserted to have been executed in error, e-cbot Operations will gauge the erroneous transactions against the error trade range to determine the final status of the trades.

4. e-cbot Operations Authority to Halt Markets

e-cbot Operations shall have the authority to halt markets in any contract during extraordinary circumstances where there has been a major market movement without any apparent economic or fundamental basis for movement to have occurred.

5. Decisions of e-cbot Operations

A. e-cbot Operations will review the circumstances surrounding an asserted error trade to determine whether it should be deemed an error trade and busted or repriced. ~~However, subject to the mutual agreement of both parties, the trade may be re-priced in line with the contract's fair value.~~ If the trade is repriced to a level that is below a sell limit price or above a buy limit price, ~~and the customer cannot reject the trade, the trade must be placed in the error account of the customer's clearing firm.~~ Similarly, if the trade is repriced to a level that is higher/lower than the trigger price of the sell/buy stop order, the customer cannot reject the trade. The trade will be cleared at the repriced level and allocated to the customer's account. Parties to these transactions are permitted to make cash adjustments to settle losses that occur as a result of an asserted error trade or an actual error trade. Should parties to a disputed transaction be unable to mutually resolve financial disputes arising from such transactions, arbitration facilities are available through the Exchange. The Arbitration Committee may hold the party who entered the order that resulted in an asserted error trade or an actual error trade financially responsible for losses that occur as a result of the busted or repriced trade(s).

Trade certainty and the timely resolution of asserted error trades are critical objectives of this policy. Therefore, if parties to a disputed transaction do not agree to the terms of resolution, e-cbot Operations reserves the final authority to determine the disposition of the questioned transaction.

During side-by-side trading hours, e-cbot Operations shall, unless impracticable, make its determination within 10 minutes of the broadcast message regarding the asserted error trade. During non side-by-side trading hours, e-cbot Operations shall, unless impracticable, make its determination within 15 minutes of the broadcast message regarding the asserted error trade. The decisions of e-cbot Operations shall be final, and e-cbot Operations shall send a broadcast message and an alert to the quote vendor network indicating whether the trade was busted, re-priced or allowed to stand.

B. In making its determination, e-cbot Operations may consider relevant factors including, but not limited to: market conditions immediately before and after the transaction; the prices of related contracts; whether one or more parties to the trade believe the trade was executed at a valid price; the extent to which the transaction appeared to trigger contingency orders and other trades; information related to the e-cbot Operations by third parties.

6. Procedures for Correcting Error Trades

In the event a trade is busted, the parties to the transaction must reverse the transaction through applicable clearing house procedures. e-cbot Operations will notify OIA regarding any situation where a party fails to claim or misclear trades in a timely manner. Such failure may be deemed a violation of Rule 504.00, Acts Detrimental to the Welfare of the Exchange.

Under no circumstances shall the parties to an asserted error trade be permitted to reverse the error by entering into a prearranged transaction.

If the asserted error trade is determined not to be an actual error trade, the parties to the trade are permitted to mutually agree upon cash adjustment or to arbitrate the matter. Any cash adjustment must be reported to e-cbot Operations.

Spreads

Because of the autoleg feature of the e-cbot system, spreads may be executed such that one leg of the spread is determined to be an error trade and the other leg is deemed to have been executed at a good price. In such circumstances, the party who enters an outright order that causes an error trade on an autolegged spread will be deemed to be the counterparty to the good leg of the spread (see Appendix 9B-4). The parties to the transactions will reverse and claim the transactions as indicated through the applicable clearing house procedures.

If an option trade is asserted to be at a price that is in error, the trade shall not be considered for review by e-cbot Operations unless the price of the asserted error trade conforms to the following guidelines:

7. Determination of Option Error Trades

~~CBOT Market~~ e-cbot Operations will identify error trades by one of two means:

1. Notification of market participants within five minutes of the execution time of the asserted error trade.
2. Determining that the price of an option or option strategy is greater than the designated number of ticks (as outlined in Table 1) from the fair value.

Table 1:

Products	Ranges-Potential Errors
U.S. Treasury	3 ticks
30 Day Fed Funds	6 ticks
CBOT Dow & mini-sized Dow	10 ticks
Commodity	6 ticks

Determining Average Bid and Offer

~~CBOT Market~~ e-cbot Operations will calculate a bid price or an offer price in order to determine whether the potential error trade should be considered an error. If the trade is determined to be an error trade, ~~CBOT Market~~ e-cbot Operations will also use the bid or offer price to determine the price adjustment of the error trade.

~~CBOT Market~~ e-cbot Operations will determine the bid or the offer of an option or an option strategy by using as many as four procedures:

1. ~~e-cbot Market~~ Operations will observe the bid and the offer prices prior to the potential error occurring.
2. ~~e-cbot Market~~ Operations will submit RFQs using delta neutral strategies with futures at the same level prior to the execution of the potential error.
3. ~~e-cbot Market~~ Operations will attempt to contact at least three market makers that were not involved in the potential error trade in order to determine their bids and offers prior to the potential error occurring.
4. During regular trading hours (which are defined as the hours of open auction), ~~e-cbot Market~~ Operations may also obtain bid and offer prices from the open auction platform using delta neutral strategies with futures at the same level prior to the execution of the potential error.

~~CBOT Market~~ e-cbot Operations will determine the average bid or offer price based upon the size of the error trade and the market depth. The average price will be calculated by:

1. Determining the true average (weighted average) bid or offer price.
2. Rounding the true average to the nearest tick value, up for buy orders and down for sell orders.

If the depth of the market in response to the first RFQ is less than the size of the order, ~~e-cbot~~ ~~CBOT Market~~ Operations will submit a second RFQ for the size of the error trade. ~~e-cbot~~ ~~CBOT Market~~ Operations will calculate the average bid or offer price based upon the size of the error trade. If the depth of the response to the second RFQ is less than the size of the trade, ~~e-cbot~~ ~~CBOT Market~~ Operations will calculate an average bid or offer based upon the depth of the market.

Identifying an Error Trade

~~e-cbot~~ ~~CBOT Market~~ Operations will consider an option trade an error if it determines one of the following:

1. The trade has been executed at a price at least two ticks below the determined bid price in the case of a sell error.
2. The trade has been executed at a price at least two ticks above the determined offer price in the case of a buy error.

Determining an Adjustment for Option Error Trades

Option error trades **may not be resolved through a busting of the disputed transactions**. They may **only** be resolved via a price adjustment based on the price which is one tick less than the determined bid price in the case of a sell error or one tick greater than the determined offer price in the case of a buy error.

8. Determination of Error Trades in the Metals Futures Complex

e-cbot Operations will identify error trades by one of two means:

1. Notification of market participants within five minutes of the execution time of the asserted error trade.
2. Determination that the price of the futures trade is greater than the designated number of ticks ('No Bust Range') as outlined in Table 2 from fair value.

Table 2:

Products	No Bust Range
100 oz. Gold Futures	\$4 (40 ticks)
mini-sized Gold Futures	\$4 (40 ticks)
5000 oz. Silver Futures	8 cents (80 ticks)
mini-sized Silver Futures	8 cents (80 ticks)

Determining Reference Price

For sell/buy errors in the Metals Complex, e-cbot Operations will identify the low/high for the equivalent contract for the time period that the markets were disjointed and use that value as the reference price. If the trade is determined to be an error trade, e-cbot Operations will also use the reference price to determine the price adjustment of the error trade.

Identifying an Error Trade

e-cbot Operations may determine that a metals futures trade is an error if the trade has been executed at a price at least \$4 away from fair value for the Gold Complex and at least 8¢ away from fair value for the Silver Complex.

Determining an Adjustment for Metals Futures Complex Error Trades

Metals futures error trades will be resolved via a price adjustment based on the following prices:

Gold: \$4 less than the determined reference price in the case of a sell error or \$4 greater than the determined reference price in the case of a buy error.

Silver: 8¢ less than the determined reference price in the case of a sell error or 8¢ greater than the determined reference price in the case of a buy error.

Arbitration Procedures

In CBOT Arbitrations involving actual error trades or asserted error trades, a notice of intention to arbitrate must be filed within ten business days after the date of the error

trade. The party that caused the error may be held responsible for realized losses incurred by parties as a result of the error.

9. Error Trade Fees

The party responsible for the error must pay a \$1,000 fee for each of the first two error trades, \$3,000 for the 3rd error trade, and \$5,000 for each subsequent error trade within a calendar year.