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December 6, 2004

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

**RE: Interpretation of CME Rule 580 – Globex® Trade Algorithms  
Submission No. 04-118**

Dear Ms. Webb,

Chicago Mercantile Exchange Inc. ("CME" or "Exchange") hereby notifies the Commission that the Exchange has approved a modification to the CME Globex Eurodollar Trade Matching Algorithms that is designed to enhance the efficiency of the Globex platform. Under the existing Eurodollar Trade Matching Algorithms, if the "initial allocation" results in a fraction, the algorithm will round down the fractional amount. Under the modification, any contracts still to be allocated after the "initial allocation" will be allocated on a first in, first out basis. In addition, during the allocation process, the minimum quantity that the Pro Rata Allocation Algorithm will allocate is two contracts.

The modification to the Eurodollar Trade Matching Algorithms is attached in the Interpretation of Rule 580, with additions underlined and deletions lined out. The tentative implementation date for the modification is January 2005.

The Exchange certifies that this revision 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 call me at (312) 648-5422.

Sincerely,

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

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## INTERPRETATION OF RULE 580.— GLOBEX TRADE ALGORITHMS

### Pro Rata Allocation Algorithm

The Exchange has determined to use a Pro Rata Allocation Algorithm to match orders in Eurodollar futures contracts entered in the GLOBEX Electronic Trading System. Unless specifically referenced in this Interpretation, all other futures and options contracts, including Eurodollar options, will continue to use the default normal matching algorithm based on price and time priority. Eurodollar futures contracts were chosen to use the Pro Rata Allocation Algorithm because they usually trade in a narrow price range, and each price level is represented by size. The Pro Rata Allocation Algorithm operates as follows:

- After the opening, Time Priority is assigned to the first order at a price that betters the market when the order is received (the "TOP order"). Only one buy order and one sell order can have Time Priority at any given time. Orders with Time Priority (TOP orders) are matched first regardless of size.
- An order will lose Time Priority when an order at a better price is entered. Example: An order to buy 50 contracts is entered at 105. This order is the first order in at this price level. Another order comes in and betters the market, buy 25 contracts at 106. The order at the 106 level has Time Priority now and is the TOP order. The market sells off and the bid for 25 contracts at 106 is hit. The bid for 50 contracts at 105 does not regain its Time Priority and will be allocated according to size along with all the other 105 bids.
- After the Time Priority or TOP order is filled, the Pro Rata Allocation Algorithm is applied to the remainder of the resting orders at that price level. The Algorithm will attempt to match quantities to orders in the same proportion to the size of each such order. Example: There are orders to buy 10 and 20 contracts at the same price, and neither order has Time Priority. A sell order for 15 contracts at that price is entered. The Algorithm will match the sell order against the buy orders so that 50% of each buy order is matched. The minimum quantity the Pro Rata Allocation Algorithm will allocate is two contracts.
- If the "Initial Allocation" results in a fraction, the Algorithm will "Round Down" or drop the fractional amount. Any contracts still to be allocated after the "Initial Allocation" has run will be allocated on a first in, first out basis, are added to the largest order. If two or more orders have identical quantities and are the largest orders, the Algorithm will allocate remaining contracts equally between the largest orders. If additional unallocated contracts remain, those contracts shall be allocated on the basis of time of entry into the system.

Use of the Pro Rata Allocation Algorithm for Eurodollar futures will start upon the launch of the GLOBEX 2 System.

[Remainder of Interpretation Unchanged]