

December 27, 2004

Jean Webb
Secretary
Commodity Futures Trading Commission
1155 21st Street, N.W.
Washington, D.C. 20581

Re: U.S. Futures Exchange, LLC — Trading Incentive Programs – Russell and U.S. Treasury Futures Contracts

Dear Ms. Webb:

The current trading incentive program for U.S. Treasury futures contracts (“Treasury Futures”) on U.S. Futures Exchange, LLC (“Eurex US” or the “Exchange”) is set to expire at the end of 2004. In addition, the Exchange is planning to launch new futures contracts, including futures on the Russell 1000®¹ Index and Russell 2000®² Index (“Russell Products”)³ and new futures contracts on 2-Year and 3-Year U.S. Treasury Notes by the end of January 2005. In order to promote continuing trading in Treasury Futures and to promote the launch of the Russell Products, the Exchange has developed new trading incentive plans. The purpose of this letter is to appraise the Commodity Futures Trading Commission (“Commission”) as to the proposed trading incentive plans.

Purpose of Incentive Programs

Since its launch in February 2004, Eurex US has deemed it necessary to promote its business by implementing a variety of trading incentive programs. These incentive programs encourage members to sign up as market makers and early adopters to compete for rewards, thereby producing a core volume of proprietary trading activity at the Exchange. As volumes and liquidity build, other users such as brokers and end users will begin to use the products as well. Experience has demonstrated that such incentives must be sufficiently lucrative and specifically targeted to promote trading in order to compete with the offerings of other exchanges.

When U.S. Treasury futures were initially listed, the Exchange offered a long-term promise of low transaction fees for all users and extended fee waivers as incentives for early adopters. Due to a substantial transaction fee reduction by the Chicago Board of Trade, this modest package of incentives was insufficient to generate significant activity on the Exchange. In response, the Exchange developed a more substantive incentive program designed to appeal to and reward professional traders who were early supporters of the Exchange. This program consisted of generous monthly market maker stipends and a revenue share program with a minimum payout. As a result, the Exchange has seen volume grow from an average of approximately 3,500 contracts per day to over 50,000 contracts per day.

¹ Russell 1000® is a trademark and service mark of the Frank Russell Company, used under license.

² Russell 2000® is a trademark and service mark of the Frank Russell Company, used under license.

³ While Eurex US has not established a specific launch date, launch will probably occur within Q1 of 2005.

And, as volume builds, the payout per contract to market makers and early adopters decreases.

As it gains experience, the Exchange continues to innovate and modify its incentive programs. The requirements to comply with the two new incentive programs to be launched by the Exchange in 2005 are more extensive than the current Treasury Futures program and feature more targeted rewards. In the future, the Exchange plans to roll out new products and continue to develop its incentive programs to optimize activity on its trading platform. It is the opinion of Exchange management that incentive programs are necessary and form an integral part in the launch of new products in order to compete with the offerings of other exchanges. At the same time, the Exchange is always cognizant of its self-regulatory duties, ensuring that the trading incentive programs are balanced against the Exchange's duty to maintain and administer fair markets in compliance with regulatory requirements.

Trading Incentive Programs for 2005

The Exchange's plans for new trading incentive programs in 2005 are based, structurally, on current trading incentive programs for Treasury Futures that will expire at the end of 2004. The new incentive program for Treasury Futures is an extension and amendment to the existing program while the Russell Products program includes fee holidays, market making programs, and revenue sharing. In regards to both new programs, the Exchange will not publish to the public, nor will it inform participants directly of, the relative performance and/or rankings of the participants.

The chart on the following page compares the two new proposed programs to the existing program.

Program Terms	2004 (Current Incentive Program)	2005 Treasury Futures Incentives	Russell Products Incentives
Fee Holiday (Applies to all trades)	Feb. – Dec. 2004	None (\$0.05 per contract flat rate in effect)	Feb. – Apr. 2005 (Permanent Pricing TBD)
Core Hour ⁴ MM Product Trading Requirement	2 of 4 Treasury Futures Products of MM Choice	Choice of Short-Term (2Y,3Y,5Y) or Long-Term (10Y,30Y)	Both Russell 1000 and 2000 Futures
MM Bid/Ask Spreads ⁵	2-4 Ticks depending on product liquidity	Same as 2004	3 Ticks
MM Minimum Contract Size	2Y: 10; 5 and 10Y: 25; and 30Y: 20 or 10 depending on spread size	Same as 2004	15 contracts
MM Time Period	70% of Core Hours	Same as 2004	80% of Core Hours
MM Minimum Volume Requirement	4,000 contracts per month (Approx. 200 contracts per day)	1000 contracts per day allocated as follows: ⁶ Short-Term: 2Y/3Y=250/day; 5Y=750/day Long-Term: 10Y=750/day; 30Y=250/day	Russell 1000: Every 3-month period the monthly minimum increases as follows: 0, 250, 400, and 550 contracts per month Russell 2000: Every 3-month period the monthly minimum progresses as follows: 1,000, 2,000, 3,000, and 4,000 contracts
MM Stipends	\$15,000 per month (Jul – Dec 2004)	\$5,000 per month (Jan – Mar 2005) \$10,000 per month (Apr – Dec 2005 for top 4 MMs in Short-Term and Long-Term)	\$10,000 per month (Feb. – Jul 2005) (Note that starting in May 2005, only top 6 MMs by volume receive stipends)
Other MM Awards	Participation in Revenue Share	Participation in Revenue Share	Participation in Revenue Share

⁴ Core Trading Hours for Treasury Futures are 7:20 am to 2:00 pm Chicago time and for Russell Products are 8:30 am to 3:00 pm Chicago time. The existing MM program featured a European Hours plan, which is not reviewed here.

⁵ Bid/Ask Spreads require quoting on both sides of the market at the maximum tick size between bid and offer prices.

⁶ This minimum contract requirement does not apply to MMs that comply with Options MM Program.

Program Terms	2004 (Current Incentive Program)	2005 Treasury Futures Incentives	Russell Products Incentives
MM Bonuses	None	None	\$20K per quarter to top MM in Russell 2000; \$10K per quarter to top MM in Russell 1000
Early Volume Adopter ("EVA") Product Trading Requirement	None	None	Russell 1000 and Russell 2000
EVA Minimum Contracts Requirement	Jul - Sep 2004: 500 per day Oct - Dec 2004: 1000 per day 2005: 1000 per day	Jan. - Aug. 2005: 4000 per day ⁷	Russell 1000: 0, 25, 50, and 75 contracts per day (increasing each quarter) Russell 2000: 75, 150, 225, and 300 per day (increasing each quarter)
EVA Trading Days Requirement	15 of 20 (21) trading days per month	Same as 2004	16 trading days per month
EVA Rewards	Participation in Revenue Share	Participation in Revenue Share	Participation in Revenue Share
Revenue Share Pool	Jul-Sep 2004: 20% of 2005 Revenues ⁸ Oct.-Dec. 2004: 20% of 2005 Revenues 2005: 25% of 2006 Revenues	Jan. - Aug. 2005: 25% of 2006 Revenues	2005-2006: 40% of Revenues as measured each quarter
Guaranteed Minimum/Maximum Pool	Jul - Sep 2004: \$5MM - \$10MM Oct-Dec 2004: \$5MM - \$10MM	Jan. - Jun. 2005: \$5MM minimum ⁹	None
Per Contract Payout Limit	\$5.00	\$5.00	\$5.00

⁷ Note that the current Treasury Futures program includes a Revenue Share component based on trading volumes for 2005. The amended program adds a guaranteed minimum pool if a participant trades 4000 contracts per day.

⁸ Revenues derived from trading in the underlying futures contracts.

⁹ For purposes of calculating payouts for the guaranteed minimum revenue share pool for 2005 activity, the Exchange will apply the following weightings depending on the contract traded: 2Y/3Y=115%, 5Y=100%, 10Y=125%, and 30Y=115%. These relative weights may be adjusted at the Exchange's discretion based on trading results with sufficient notice to all participants.

Program Terms	2004 (Current Incentive Program)	2005 Treasury Futures Incentives	Russell Products Incentives
Miscellaneous Rewards	iPod Giveaway	None	None

Conclusion

Exchange competition necessitates the introduction of incentive programs to promote and maintain a certain level of liquidity in a contract, especially at its launch. If successful, the activity in the new contract will attract other types of users such as brokers and end users. Eurex US's experience has shown that lucrative programs that reward professional proprietary traders work best when the rewards are specifically targeted to promote optimum activity. The two new incentive programs presented here feature more extensive requirements and targeted rewards.

If you have any questions or comments, please do not hesitate to contact me at (312) 544-1076 or matt.lisle@eurexus.com.

Very truly yours,

Matt Lisle
Chief of Compliance

CC: Riva Adriance
David Van Wagner