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January 20, 2005

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

RE: Modification of Pro Rata Allocation Algorithm for GLOBEX Eurodollar futures market

**Submitted per Sec. 5c(c)(1) of the CEA and Regulation Sec. 40.6(a).
CME Submission # 05-07.**

Dear Ms. Webb:

Chicago Mercantile Exchange ("CME" or "Exchange") hereby notifies the Commission of amendments to the Interpretation of Rule 580. GLOBEX Trade Algorithm concerning Pro Rate Allocation Algorithm for Eurodollar futures contracts. The Exchange certifies that these actions neither violate nor are inconsistent with any portion of the Commodity Exchange Act or of the rules thereunder.

Current trade matching algorithm for Eurodollar futures calls for a pro rata allocation of fills across all eligible opposing orders¹. Each eligible order is filled according to its percentage share of the total outstanding order quantity at the same price, rounding down to the nearest integer number of contracts. Following the first round of allocation, the remaining quantity is allocated to the largest remaining order. As such, the allocation algorithm results in large numbers of small allocations, each requires much post-matching processing. The efficiency of trade matching platform suffers as a result.

Under the modified pro-rata algorithm, the allocated quantity for each order shall be determined by its percentage share of the total outstanding order quantity at the same price, rounding down to the nearest integer number of contracts, provided that the resulting quantity is

¹ In the event an order receives time priority, i.e. designated as TOP order, it is filled in its entirety before the pro rata allocation is invoked. This aspect of the algorithm remains unchanged.

two (2) contracts or more. Following the first round of allocation, the remainder shall be allocated according to the time priority of the remaining eligible orders.

Given the nature² of the Eurodollar futures market, the Exchange believes that the modified allocation algorithm will improve the efficiency of the market by reducing the amount of time for each order to be filled in its entirety. The text of the rule amendment is as follows, with additions underlined and deletions bracketed and overstruck.

CHAPTER 5: FLOOR PRIVILEGES— TRADING QUALIFICATIONS AND PRACTICES

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

² The Eurodollar market is characterized by having large number of orders with large order quantities. Under the previous algorithm, after a sizeable part of the order has been filled, the remaining quantity would have dwindled such that the remainder of the order would represent a negligible proportion of the total order outstanding at the same price as new orders come in. As such, it no longer receives further allocation due to rounding down to the nearest. The First-In-First-Out component of the modified algorithm will solve this problem.

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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.]~~

[The remainder of Chapter 5 remains unchanged.]

The amendments shall be effective for the trade date of January 31, 2005. Please do not hesitate to contact Mr. Richard Co at 312-930-3227 or rcoco@cme.com if any questions arise during the processing of this submission. Please reference our CME Submission #05-07 on all future correspondence for this submission.

Sincerely,



John W. Labuszewski, Director
Research & Product Development

CC: Mr. Clarence Sanders
CFTC Division of Market Oversight