



August 2, 2005

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

OFFICE OF THE SECRETARIAT

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RECEIVED  
C.F.T.C.

**RE: Amendment to GLOBEX Call Market Trading Algorithm Rules;  
Eurodollar Options Trading pursuant to GLOBEX Call Market Trading Algorithm  
integrated with regular GLOBEX network.**

**Submitted per Sec. 5c(c)(1) of the CEA and Regulation Sec. 40.6(a).  
CME Submission # 05-77.**

Dear Ms. Webb:

Chicago Mercantile Exchange ("CME" or "Exchange") hereby notifies the Commission of amendments to Rule 585. GLOBEX Call Market Trading Algorithm and the integration of Eurodollar Options Trading pursuant to Rule 585 with regular GLOBEX network. The Exchange certifies that these actions neither violate nor are inconsistent with any portion of the Commodity Exchange Act or of the rules thereunder.

Options on Eurodollar Futures trading pursuant to GLOBEX Call Market Trading Algorithm, also known as the Enhanced Options System (EOS), commenced on August 2, 2004. As stated in CME Submission #04-066 and a subsequent communication dated July 27, 2004 in response to the Commission's inquiry, access to EOS required special computer terminals. The Exchange also stated that it would integrate EOS into its regular GLOBEX trading system at a later date to eliminate the need for separate access to the EOS.

The Exchange has determined that necessary system development work has been completed to allow access to EOS through its regular GLOBEX system. Beginning on the trade date of August 15, 2005, the EOS system shall be integrated with the regular GLOBEX system. Participating in EOS directly through regular GLOBEX system will be possible. However, existing specialized EOS terminals may continue to be employed for the purpose of accessing EOS. The Exchange shall also continue to honor requests for additional EOS terminals.

In conjunction, the Exchange amends Rule 585. GLOBEX Call Market Trading Algorithm to clarify the requirement for issuing a Request For Quotes (RFQs) in connection with solicitation of bids

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and offers. Specifically, solicitation of bids and/or offers through private discussion shall be preceded by issuing an RFQ through EOS. The Exchange believes that the requirement would further increase the transparency in the market. Further, given that the order books for all eligible contracts or combination of contracts exist at all times in the GLOBEX system, the text in Rule 585.2 regarding the creation of order books for eligible contracts ceases to be relevant and shall be deleted.

The text of the Rule amendment is as follows, with additions underlined and deletions bracketed and overstruck. A clean copy of the amended rules can be found in the appendix.

#### **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, the Options on Eurodollar Futures on the Enhanced Options System. 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:
  - a. an eligible contract means a contract deemed eligible to trade pursuant to the algorithm stipulated hereunder; an eligible combination of contracts means a combination of eligible contracts deemed eligible to trade pursuant to the algorithm stipulated hereunder;
  - b. an eligible terminal means a device capable of transmitting to and receiving from GLOBEX Requests For Quotes ("RFQ"), and sending order instructions in response to RFQs to GLOBEX;
  - c. an RFQ means an electronic message soliciting bids and offers for a contract or a combination of contracts;
  - d. a trading session means a trading session in which Rule 585 applies. The hours of the trading session may be determined by the Exchange independent of the trading hours of the identical contracts not traded pursuant to this rule;
2. An RFQ for an individual eligible contract or an eligible combination of contracts may be entered into GLOBEX through an eligible terminal. [~~An order book for the specified individual contract or combination of contracts, if it does not already exist, shall be created in GLOBEX. This order book shall remain in GLOBEX until the conclusion of the trading session.~~] The RFQ shall be disseminated by GLOBEX to all eligible terminals for the purpose of quote solicitation.
3. Following the dissemination of an RFQ, limit bids and limit offers for the specified contract or combination of contracts may be entered into GLOBEX through an eligible terminal. In particular, the party initiating the RFQ may also enter orders. GLOBEX shall not recognize any order other than limit orders.
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 shall be preceded by issuing an RFQ through an eligible terminal. Further, in such cases, the provisions of Rule 539.C Pre-Execution Discussions Regarding GLOBEX Trades, remain applicable.

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- 5[4]. Trade matching occurs whenever tradable pair(s) of bid and offer can be identified in the order book. Trade matching shall be executed in accordance with an algorithm that gives first priority to orders at the best price. In the event that multiple orders with the same price are eligible to execute against an opposing order, an allocation algorithm shall be employed to match the trade. See Interpretation of Rule 585 – GLOBEX Call Market Trading Algorithm at the end of Chapter 5. Unexecuted and partially executed orders shall remain in the order book until the conclusion of the trading session unless instructions to cancel the orders have been received.
- 6[5]. Trades of eligible combination of contracts consummated pursuant to Rule 585 shall not trigger any conditional orders, e.g. stop orders, stop limit orders, MIT orders, etc., in the contract markets not trading pursuant to Rule 585.
- 7[6]. The Exchange may establish Market Maker Programs specific to GLOBEX Call Markets for specific sets of contracts. These programs may be deployed in conjunction with or independent of similar programs for identical contracts not traded pursuant to Rule 585 established pursuant to Rule 581.
- 8[7]. In accordance with a Market Maker Program, designated Lead Market Makers may be required to regularly provide price indications for some contracts or combinations of contracts eligible for trading pursuant to Rule 585. These price indications are provided for informational purposes only and shall not be construed as actual bids or offers for the contracts. In response to any RFQs, Market Makers may enter bids or offers at any price, irrespective of what price indication the Market Maker may have provided prior to the RFQ.

The amendments to the Rule 585 shall become effective on the trade date of August 15, 2005. Please do not hesitate to contact Richard Co at (312)930-3227 or rco@cme.com if any questions arise during the review of this submission. Please reference our CME Submission #05-077 on all future correspondence for this submission.

Sincerely,



John W. Labuszewski, Director  
Research & Product Development

**APPENDIX: Clean copy of the amended rules**

**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, the Options on Eurodollar Futures on the Enhanced Options System. 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:
  - a. an eligible contract means a contract deemed eligible to trade pursuant to the algorithm stipulated hereunder; an eligible combination of contracts means a combination of eligible contracts deemed eligible to trade pursuant to the algorithm stipulated hereunder;
  - b. an eligible terminal means a device capable of transmitting to and receiving from GLOBEX Requests For Quotes ("RFQ"), and sending order instructions in response to RFQs to GLOBEX;
  - c. an RFQ means an electronic message soliciting bids and offers for a contract or a combination of contracts;
  - d. a trading session means a trading session in which Rule 585 applies. The hours of the trading session may be determined by the Exchange independent of the trading hours of the identical contracts not traded pursuant to this rule;
2. An RFQ for an individual eligible contract or an eligible combination of contracts may be entered into GLOBEX through an eligible terminal. The RFQ shall be disseminated by GLOBEX to all eligible terminals for the purpose of quote solicitation.
3. Following the dissemination of an RFQ, limit bids and limit offers for the specified contract or combination of contracts may be entered into GLOBEX through an eligible terminal. In particular, the party initiating the RFQ may also enter orders. GLOBEX shall not recognize any order other than limit orders.
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 shall be preceded by issuing an RFQ through an eligible terminal. Further, in such cases, the provisions of Rule 539.C Pre-Execution Discussions Regarding GLOBEX Trades, remain applicable.
5. Trade matching occurs whenever tradable pair(s) of bid and offer can be identified in the order book. Trade matching shall be executed in accordance with an algorithm that gives first priority to orders at the best price. In the event that multiple orders with the same price are eligible to execute against an opposing order, an allocation algorithm shall be employed to match the trade. See Interpretation of Rule 585 – GLOBEX Call Market Trading Algorithm at the end of Chapter

5. Unexecuted and partially executed orders shall remain in the order book until the conclusion of the trading session unless instructions to cancel the orders have been received.
6. Trades of eligible combination of contracts consummated pursuant to Rule 585 shall not trigger any conditional orders, e.g. stop orders, stop limit orders, MIT orders, etc., in the contract markets not trading pursuant to Rule 585.
7. The Exchange may establish Market Maker Programs specific to GLOBEX Call Markets for specific sets of contracts. These programs may be deployed in conjunction with or independent of similar programs for identical contracts not traded pursuant to Rule 585 established pursuant to Rule 581.
8. In accordance with a Market Maker Program, designated Lead Market Makers may be required to regularly provide price indications for some contracts or combinations of contracts eligible for trading pursuant to Rule 585. These price indications are provided for informational purposes only and shall not be construed as actual bids or offers for the contracts. In response to any RFQs, Market Makers may enter bids or offers at any price, irrespective of what price indication the Market Maker may have provided prior to the RFQ.