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July 9, 2004

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

RE: Exchange Certification of Rules governing Call Markets on GLOBEX
Submitted per Sec. 5c(c)(1) of the CEA and Regulation Sec. 40.6(a).
CME Submission # 04-066.

Dear Ms. Webb:

Pursuant to Section 5c(c) of the Commodity Exchange Act ("CEA") and Regulation §40.6 thereunder, Chicago Mercantile Exchange Inc. ("CME" or "Exchange") hereby certifies new Exchange Rules governing Call Markets on GLOBEX and amendments to existing rules to accommodate GLOBEX Call Markets. The Exchange certifies that this action neither violates nor is inconsistent with any provision of the CEA or of the rules thereunder.

The Exchange intends to introduce Call Market functionality on its GLOBEX electronic trading system on August 2, 2004. Initially, the Call Market functionality will be available for Options on Eurodollar Futures. For promotional purposes, this functionality may also be referred to as the Enhanced Options System.

The Call Market functionality on GLOBEX is designed to retain, to the extent possible, centralization of order flow, transparency and fairness, recognizing the complexity of options or combination trading. To initiate a call market, market participant may issue a Request For Quote ("RFQ") through GLOBEX. The request will be broadcasted to all market participants capable of receiving such electronic messages. Market participants, upon receiving the RFQ, may respond with bids and offers. Trades will be consummated if and when bids and offers can be matched. Trade matching shall be accomplished by an allocation algorithm.

The Exchange may, at its discretion, establish Market Maker programs. Market Makers shall be required to provide price indication for selected contracts and/or combinations of contracts continuously and respond to RFQs with bids and offers. In recognition of their responsibilities, the Exchange may extend certain trade allocation guarantees to the Market

Makers. However, the total trade allocation guarantees to the Market Makers will not exceed 50% of any trade.

The text of the new Exchange Rule is as follows.

RULE 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 supercedes, if applicable, other Exchange rules governing trading on GLOBEX, including, but not limited to, Rule 580. GLOBEX TRADE ALGORITHM 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, and sending order instructions in response to Request For Quotes to GLOBEX;
    c. a Request For Quote ("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. A Request For Quote ("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. 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 the instructions to cancel the orders have been received.

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.

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. GLOBEX Lead Market Maker Programs.

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 the informational purpose 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.

Interpretation of Rule 585 – GLOBEX Call Market Trading Algorithm

Trade Allocation Algorithm pertinent to GLOBEX Call Markets

The Exchange may designate, per the provisions of Rule 581 – GLOBEX Lead Market Maker Program and Rule 585 – GLOBEX Call Market Trading Algorithm, multiple Lead Market Makers (LMMs) for a GLOBEX Call Market for a designated set of contracts. Each LMM shall be assigned an allocation proportion for the purpose of trade matching. Trade allocation in a Call Market with LMMs operates as follows:

1. If one or more LMM's bids or offers match the best available bid or offer, against which an opposing executable order exist, the LMM's orders shall be eligible for allocation along with the orders at the best bid or offer.

2. For each LMM with orders eligible for allocation, the total allocation for the LMM shall be the smaller of its allocation proportion times the size of the opposing order, rounded down to the nearest integral contract multiple, or the aggregate order size at the same price level from the LMM.

3. Following the allocation of trades to the LMM(s), the remainder of the trade shall be allocated to all remaining bids or offers at the best price on a pro rata basis. The pro rata allocation for each order shall be rounded down to the nearest integral contract multiple, with the residual quantity allocated to the largest order. If two or more orders have identical quantities and are the largest orders, the residuals shall be equally allocated between the largest orders, subject to rounding down to the nearest integral contract multiple. Any remaining unallocated contracts shall be allocated on the basis of time priority.

The Exchange retains the right to grant specific allocation proportion(s) to the LMM(s). The aggregate allocation proportion of all LMM(s), however, shall not exceed 50%. If no LMM has been designated, trade allocation shall be executed on pro rata basis, resembling step 3 of trade allocation with LMMs.

<center>*[End of Interpretation of Rule 585]*</center>

In conjunction to the new Exchange Rule, the Exchange certifies to the following amendment to its existing GLOBEX Error Trade Policy to accommodate the GLOBEX Call Markets. The text of the amendment is as follows, with additions underlined and deletions bracketed and overstruck.

<center>

CHAPTER 5
FLOOR PRIVILEGES—TRADING QUALIFICATIONS AND PRACTICES

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CME GLOBEX ERROR TRADE POLICY

A.   Policy for Futures Contracts Traded Outside Pit Trading Hours

Part A of the GLOBEX Error Trade Policy applies to futures contracts that are traded on GLOBEX outside pit trading hours. Pit trading hours are those when the contract in question or a comparable contract is traded by open outcry on the CME's trading floor. For example, the pit trading hours for Eurodollar futures are from 7:20 a.m. to 2:00 p.m. (Chicago time).

1. Invoking Error Trade Policy

Any request by market users to invoke the error trade policy must be made to the GLOBEX Control Center ("GCC") as soon as possible and not later than 8 minutes after the trade occurred. Additionally, an employee of the GCC can bring a potential error trade to the GCC's attention. However, the GCC can provide assistance only to firm employees, individual members and clearing member employees who are appropriately registered as Contacts with the GCC. Individuals not so registered including, but not limited to, non-members with GLOBEX access pursuant to Rule 574.C. must contact their clearing member firms to request the error trade policy be

invoked. In all cases, if a potential error trade is not brought to the GCC's attention within 8 minutes after the trade occurred, the trade will stand. (See Part D below.)

When a potential error trade is brought to the GCC's attention, it will determine whether the trade price is in the No Bust Range for the particular contract as set forth in the attached GLOBEX Error Trade Tick Range List. In measuring the No Bust Range, the GCC shall determine what the true market price for that contract was immediately before the error trade occurred. In making that determination, the GCC may consider all relevant information, including the last trade price on GLOBEX, a better bid or offer price, a more recent price in a different contract month, the price of the same or a related contract established in open outcry trading, and the prices of related contracts trading in other markets (e.g., cash FX and SIMEX Eurodollars).

2. Trade Price Inside No Bust Range

If the GCC determines that the price of the potential error trade was inside the No Bust Range, then the trade will stand, and no further action will be taken. The trade cannot be busted by agreement of the parties.

3. Trade Price Outside No Bust Range

If the GCC determines that the price of the potential error trade was outside the No Bust Range, then it will send an alert to all keystations and to the quote vendor network indicating that the trade may be an error. The GCC will also attempt to contact all parties to the transaction.

If all parties to the trade agree to bust the trade, and no third party notifies the GCC within 10 minutes from the time the error trade alert message was sent that he or she objects to the trade being busted, then the trade will be busted.

If a party to the trade cannot be contacted or does not agree to bust the trade, or a third party objects to the trade being busted, the GCC will determine if the trade should be busted. Exchange staff will review the circumstances surrounding the transaction to determine whether the trade should be busted. The factors that may be considered by the panel include: the market conditions immediately before and after the trade occurred; the volatility of the market; the prices of related instruments in other markets; whether one or more parties to the trade believe the trade was made at a valid price; and any other factors that the panel deems relevant. The panel shall make its decision as promptly as practicable. The decision of the panel is final.

If the trade is busted, either by agreement of the parties or by Exchange staff, the GCC will cancel the trade and will automatically inform the clearing system that the busted trade is to be removed. The error trade price and any invalid price quotes due to an error trade that is busted will be removed from the Exchange's official record of time and sales.

If the trade is not busted, the parties to the transaction cannot reverse the transaction by using a "type 8 transfer," except as provided in Part D below. The parties to the transaction may not "trade out" of the error trade by entering into a pre-arranged offsetting transaction; provided, however, that a transaction effected in accordance with the Exchange's Interpretation entitled "Pre-Execution Discussions Regarding GLOBEX® Trades" is permissible.

4. Contingency Orders Elected by Error Trade

If an error trade is busted, either by agreement of parties or Exchange staff, the GCC will also (a) bust all trades that were triggered as a result of contingency orders being elected by the error trade and (b) cancel all bids and offers that were immediately entered into the system as a result of contingency orders being elected by the error trade. The GCC will notify the clearing firms responsible for the busted trades and the bids or offers that were cancelled so that the original orders can be re-entered into the system.

5. Notice of Final Action

As soon as a decision regarding a questioned trade has been made, the GCC will send a notice to all keystations and to the quote vendor network indicating whether the trade is busted or stands.

B.   Policy for Futures Contracts Traded During Pit Trading Hours

The policy for futures contracts traded during pit trading hours is the same as the policy for futures contracts traded outside pit trading hours as set forth in Part A above with the following exceptions:

1. Error trades in futures contracts executed during pit trading hours cannot be busted by agreement of the parties without Exchange staff action.

2. Exchange staff should normally make its decision as to whether a questioned trade should be busted within 15 minutes from the time that the error trade alert message was disseminated by the GCC, although additional time may be needed in exceptional circumstances.

C.   Policy for Options and Combination Trades

The policy for options and combination trades is the same as the policy for futures contracts traded outside pit trading hours as set forth in Part A above with the following exceptions:

If all parties to the trade agree to bust the trade, and no third party notifies the GCC within 10 minutes from the time the error trade alert message was sent that he or she objects to the trade being busted, then the trade will be busted. This applies to trade

prices inside and outside the No Bust Range and to trades executed during and outside pit trading hours.

Notwithstanding the provisions for busting trades in this Error Trade Policy, error trades consummated pursuant to Rule 585 – GLOBEX Call Market Trading Algorithm stands. A reciprocal trade negating the error shall be consummated by means of a "type 8 position transfer".

D.   Policy When Error Trade Not Brought to GCC's Attention Within Time Limit

This Part D applies only to error trades that cannot be busted under Parts A through C above because the error trade was not brought to the GCC's attention within the applicable time limit after the trade occurred. This Part D cannot be used if the price of the error trade is within the No Bust Range for the particular contract as of the time that the trade occurred.

1. Both Parties Agree to Transfer Position

If both parties to the error trade agree, they can transfer the position resulting from the error trade to each other by using a "type 8 transfer." The transfer must use the original trade price and quantity. The parties may also, but are not required to, include a cash adjustment to compensate the other side of the error trade. The parties to such a transfer must report it to the Division of Market Regulation on a form approved by the Exchange.

2. Arbitration of Disputes

In the event that the other side of the error trade does not agree to transfer the position, then the party causing the error trade may file an arbitration claim against the member or clearing member representing the other side. Written notice of such claim must be given to the Exchange not later than the close of business on the business day after the error trade occurred. The arbitration claim will be dismissed if the owner of the account on the other side of the error trade is not a member, clearing member, ETH permit holder, or entity otherwise subject to the Exchange's jurisdiction. If not dismissed, the arbitration will be conducted in accordance with CME Rule 600. In deciding the claim, the Arbitration Committee will consider, among other factors, the reasonableness of the actions taken by each party and what action (e.g., laying off the position in another market) the party on the other side of the error trade took before being notified that the trade was being questioned. The maximum amount that can be recovered in such arbitration is the difference between the error trade price and the true market price for the contract immediately before the error trade occurred, as determined with reference to the factors listed in Part A above.

E.   Voluntary Adjustment of Trade Price

When an error trade outside of the No Bust Range is busted in accordance with this Policy, the parties to such trade may agree voluntarily to keep the trade but to adjust its price. This procedure may be used only if all of the following conditions are met:

1. Only the parties who were parties to an error trade that was busted may use this procedure.

2. The quantity of the position being transferred must be the same as the quantity of the error trade that was busted.

3. In the case of an error trade below the true market price, the adjusted price must be the lowest price that traded at or about the time of the error trade without being busted. In the case of an error trade above the true market price, the adjusted price must be the highest price that traded at or about the time of the error trade without being busted.

4. The parties to the adjusted trade must report it to the clearing system using a "type 8 transfer" with a "G" transfer code not later than the close of business on the business day after the error trade occurred. The parties must also report it to the Division of Market Regulation on a form approved by the Exchange.

F.   Schedule of Administrative Fees

When an error trade is taken to Exchange staff and busted pursuant to Parts A through C above, the party making the error trade shall pay an administrative fee to the Exchange in accordance with the following schedule. The fee is $250 for each of the first five occasions that a member or firm made an error trade that was busted by committee action during a calendar year, $500 for each of the next three occasions during such year, and $1,000 for each occasion thereafter during such year.

When a party making an error trade is able to have the resulting position transferred pursuant to Part D.1 above, or brings an arbitration claim pursuant to Part D.2 above, such party shall pay an administrative fee to the Exchange in accordance with the following schedule. The fee is $500 for the first occasion during a calendar year when such action is taken, $1,000 for the second occasion, and $2,000 for the third and each subsequent occasion during such year.

G.   Busting Trades After System Freeze

In certain types of GLOBEX system failures, it is possible that the matching engine will freeze with live orders in the queue waiting to be matched. When the system is unfrozen, the pending orders can be matched before the GCC can halt the matching engine. The GCC is authorized to bust trades resulting from matches in these circumstances if, and only if, the price of such trades is outside of the No Bust Range at the time that a confirmation of the trades was sent.

[The remainder of Chapter 5 remains unchanged.]

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 #04-066 on all future correspondence for this submission.

Sincerely,

John W. Labuszewski, Director
Research & Product Development

CC: Mr. David Van Wagner and Mr. Steven B. Benton
       CFTC Division of Market Oversight