Chicago Mercantile Exchange

July 6, 2006.

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

RE: Amendments to GLOBEX Pre-execution Discussion Rules in connection with GLOBEX Call Markets in Eurodollar Options, and Options and Futures Combination trade on GLOBEX pursuant to Rule 585. GLOBEX Call Market Trading Algorithm

Submitted per Sec. 5c(c)(1) of the CEA and Regulation Sec. 40.6(a). CME Submission # 06-60.

Dear Ms. Webb:

Chicago Mercantile Exchange ("CME" or "Exchange") hereby certifies with the Commission the following amendments to Rule 539.C governing Pre-Execution Discussion for Markets trading pursuant to Rule 585. GLOBEX Call Market Trading Algorithm, and to Rule 585. GLOBEX Call Market Trading Algorithm, and its interpretation. The Exchange certifies that these actions neither violate nor are inconsistent with any portion of the Commodity Exchange Act or of the rules thereunder.

Futures and Options Combinations – under the amended rule, combinations consisting of both Eurodollar Options and Futures shall be permitted to trade on GLOBEX pursuant to Rule 585. GLOBEX Call Market Trading Algorithm.

Market participants may define the options and futures combination as desired. In particular, combinations commonly referred to as "delta-neutral strategies" are permitted. For each combination, only integer numbers of options contracts shall be permitted, while a "fractional" futures position shall be permitted. However, the actual number of futures contracts traded shall be an integer that reflects the total numbers of combination times the fractional futures position per combination.

The prices at which the futures are traded are consummated shall be specified by the participant at the time when the combination is defined. An example of one such combination could be a call on December 2006 Eurodollar futures struck at 95.00 and short 0.45 December 2006 futures contract at 94.765. The combination shall be quoted on the basis of "net premium" per combination. As time elapses, the underlying futures contracts may drift away from the specified prices. The net premium quoted will reflect the changes in the futures and options prices.

After the combination is defined by the participant, Requests For Quotes (RFQs) may be issued for the combination. The order entry and trade matching procedures shall follow the existing Rule 585. GLOBEX Call Market Trading Algorithm and its interpretation, with the futures position allocated based on the quantity of combinations allocated times the delta (i.e. ratio of futures per combination.)

For example, a trade of 60 contracts with a delta of 0.45 is matched between an incoming order and 4 resting limit orders with quantities of 20, 15, 15, 10. Total number of futures position to be assigned is 60 x 0.45 = 27 contracts. The four resting orders shall receive the following assignment of futures positions:

Resting Orders	Matched Quantity	Quantity x delta	Initial Futures Allocation	Magnitude of Rounding	Additional Allocation	Total Futures Allocation
1	20	9.00	9	0.00	0	9
2	15	6.75	6	0.75	1	7
3	15	6.75	6	0.75	1	7
4	10	4.50	4	0.50	0	4
Incoming Order	60	27.00				27

For each resting order matched against the incoming order, the number of futures contract shall be the quantity times the delta, rounding down to the nearest integer. Following the first round of futures allocation, the remaining futures position shall be allocated to the resting orders that have the largest magnitude of rounding, with time priority as a tie-breaking criterion.

Revisions of Request for Cross – the current Request for Cross (RFC) procedure for trades pursuant to Rule 585. GLOBEX Call Market Trading Algorithm was instituted to ensure that a trade that is subject to a pre-execution discussion has been properly disclosed in the market prior to the actual trade matching. In particular, the RFC orders are subject to a 15-second holding period, in accordance with the pre-execution discussion rule. During the 15-second holding period, other market participants may enter orders. At the conclusion of the period, the RFC orders will be first matched to the orders from other participants before being matched against each other.

The existing procedure, however, does not take into consideration that the RFC orders may represent true price improvements on both the bid and offer side of the market. As the RFC orders are disclosed, other participants may simply match the price improvements to be eligible for trade allocation. Therefore, the algorithm may not be able to provide enough incentive for market participants to quote as tight a market as possible.

The RFC matching algorithm will be amended to allow a portion of the RFC orders to match against each other in the following situation. If (a) at the time of the entry of the RFC, the price represents strict improvement over existing best bid and offer, and (b) following the 15-second holding period, the prices remain at the best bid and offer, fifty (50) percent of the RFC orders shall be matched against each other prior to matching with the other orders and to continue with the ensuing order matching procedures.

To prevent abuse of this preferential RFC trade matching, the Exchange will reinstate the requirement that an RFQ on the outright or combination be issued within 15 minutes prior to the RFC. This requirement precludes RFC participants from waiting for the bid/offer spread to widen before entering the RFC to ensure the preferential trade matching.

Further, in connection with the introduction of options and futures combinations on GLOBEX, the corresponding amendments to Rule 539.C is adopted to cover the RFC for these combinations.

The text of the Rule amendment is as follows, with additions underlined and deletions bracketed and overstruck.

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. 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. <u>an eligible combination of futures and options contract shall be defined by the quantity per combination of each option bought or sold by the combination</u>

buyer, and the net long or short futures positions per combination per contract month to be assumed by the combination buyer, with the futures prices for each month defined within the combination. The combination shall be quoted in terms of net options premium, with the futures traded at the defined price;

[~~b~~]c. 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~~]d. an RFQ means an electronic message soliciting bids and offers for a contract or a combination of contracts;

[~~d~~]e. 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.

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. If the order with time priority has a quantity of a minimum of fifty (50), it will be designated as the TOP order. If there is a TOP order, it shall also receive an allocation of the smaller of 25% times the original quantity of the opposing order, rounded down to the nearest integer, or the size of the TOP order.

3. Following the allocation of trades to the LMM(s) and the TOP order, if it exists, 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.

New combinations of futures and option contracts, as defined in Rule 585.1.b, can be defined by any market participants on demand. For each such combination, the quantity of each option contract shall be an integer, while the quantity of futures position can be a fraction. Hereafter, the quantity of each futures contract per combination shall be referred to as the "delta" with respect to the futures expiration. Each delta shall be no smaller than 0.01 and no larger than (i) 1.00, if there is only one option in the combination, or (ii) 40.00, if there are two or more distinct option contracts in the combination. For each futures contract, the price at which the futures transaction shall be consummated shall be defined within the combination, and is subject to the futures price increment conventions defined by the respective Exchange Rules. Two combinations with identical futures and options quantities and buy/sell, long/short configurations are distinct if the futures prices are not identical, and shall be treated as different combinations.

Order matching shall proceed in accordance with the same trade allocation rule as described previously in this interpretation to Rule 585, with the following provisions for assigning the futures positions. For each futures contract specified in the combination,

1. the total number of futures positions to be assigned shall be the number of combinations traded multiplied by the respective delta. This number of futures position shall be assigned to the incoming order.

2. each of the resting limit orders, against which the incoming order are matched to, shall be assigned a futures position of the allocated numbers of combinations times the delta, rounding down to the nearest integer; e.g. if an order is allocated 15 combinations, and the delta is 0.45, 6 futures contracts shall be allocated.

3. the total number of futures position assigned to the resting limit orders following the preceding step will be equal to or fewer than the total number of futures positions to be assigned to the incoming order. The difference, if any, shall be assigned one futures contract per resting order in the following priority until the difference is reduced to zero: the resting order with the highest magnitude of rounding down in step 2 shall be first to receive an additional futures position, followed by the order with the second highest magnitude of rounding down in step 2, etc. If two orders have the same magnitude of rounding down, the oldest order shall receive the additional futures position.

For example, a trade of 60 contracts with a delta of 0.45 is matched between an incoming order and 4 resting limit orders with quantities of 20, 15, 15, 10. Total number of futures position to be assigned is 60 x 0.45 = 27 contracts. The four resting orders shall receive the following assignment of futures position:

Resting Order	Matched Quantity	Quantity x delta	Initial Futures Allocation	Magnitude of Rounding	Additional Allocation	Total Futures Allocation
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3	15	6.75	6	0.75	1	7
4	10	4.50	4	0.50	0	4
Incoming Order	60	27.00				27

In the case of a Request For Cross (RFC), entered pursuant to Rule 539.C, [~~a set~~] of matching bid and offer (hereafter referred to as the RFC bid and offer) with the same price and quantity, trade matching of this pair of RFC bid and offer shall be suspended for fifteen (15) seconds in accordance with Rule 539.C. Pre-Execution Discussion. Immediately following the fifteen-second suspension, the RFC bid and offer shall be matched separately against opposing bids and offers in accordance with the allocation algorithm described above. The remainder of the pair of RFC bid and offer shall be matched against each other at a quantity of 60% of the smaller of the remaining RFC bid and offer. The remaining unmatched portions of the RFC bid and offer shall be available for matching against other incoming orders for an additional ten (10) seconds. Thereafter, the remaining RFC bids and offers shall be matched against each other, with the remaining bid and offer joining the rest of the order book.

Notwithstanding the preceding trade matching provision, if the RFC orders (i) represent strict improvement on both the current bid and offer prices at the time of the entry of the RFC, and (ii) remain at the best bid and offer price levels at the conclusion of the fifteen (15) seconds following the entry of the RFC, the RFC orders shall be matched against each other at a quantity of 50% of the original order, with the remaining RFC orders matching against other competitive bids and offers in accordance with the preceding procedure for RFC matching.

< *End of Interpretation to Rule.585*>

539.C. Pre-Execution Discussions Regarding GLOBEX Trades

[1. – 4. unchanged]

5. In electronic Eurodollar options operated pursuant to Rule 585 ("GLOBEX® Call Market Trading Algorithm"), solicitation of bid(s) and/or offer(s) between market participants through private discussion for the purpose of establishing a market or improving the market for an eligible contract or an eligible combination of contracts for [~~options on~~] Eurodollar futures and options shall be preceded by issuing a Request For Quote ("RFQ") through an eligible terminal. Subsequent to such RFQ, a trade intended for execution pursuant to Rule 585 for which there has been a pre-execution discussion must be initiated by the entrance of a Request for Cross ("RFC") Order which will contain both the buy and the sell orders. The RFC Order must be entered within fifteen (15) minutes in the same trading session [~~as~~]of the entry of the RFQ. Failure to enter the RFC order within fifteen (15) minutes of [~~the same trading session as~~] the entry of the RFQ shall be considered an abandonment of that pre-execution discussion. Any pre-execution discussion or attempt to enter RFC orders [~~during a subsequent trading session~~] must be preceded by the entry of a new RFQ.

The amended rules shall become effective on the trade date of Monday, July 10, 2006. Please do not hesitate to contact Mr. Richard Co at 312-930-3227 or rco@cme.com if any questions arise during the processing of this submission. Please reference our CME Submission #06-60 on all future correspondence for this submission.

Sincerely,

John W. Labuszewski, Managing Director
Research & Product Development