



U S F U T U R E S
E X C H A N G E

September 26, 2007

Eileen A. Donovan
Secretary
Commodity Futures Trading Commission
1155 21st Street, N.W.
Washington, D.C. 20581

OFFICE OF THE SECRETARIAT

2007 SEP 26 PM 3:16

RECEIVED
CFTC

RE: Certification of Morningstar Stock Price Index Futures Contracts
USFE Submission #07-10

Dear Ms. Donovan:

United States Futures Exchange, LLC ("USFE"), pursuant to Commission Regulation 40.2(a), has adopted rules governing the trading of futures on certain Morningstar Stock Price Indexes. The launch date has been set for September 28, 2007.

The rules are attached. USFE certifies that these Morningstar Stock Price Indexes are not narrow-based, as defined by Section 1a(25) of the Commodity Exchange Act (7 USC § 1a(25)). In addition, USFE intends to join the Intermarket Surveillance Group (ISG).

In setting the minimum block trade size of 250 for the futures on Morningstar Stock Price Indexes, the Exchange intends to permit block trades on only the largest orders that will be entered in the market and its determination of the minimum size is based on assumptions made from information provided by market makers and USFE staff. It bears noting that there are no closely related or similar cash or futures markets that can be used as a basis of comparison and no historical statistics exist. However, USFE would prefer most orders to be exposed to the entire marketplace and, at least in the beginning, expects that few, if any, block trades will be executed. In addition, once the market establishes itself, historical statistics can be used to re-assess and identify the appropriate block transaction size.

USFE certifies that the Morningstar Stock Price Index Futures Contracts comply with the Commodity Exchange Act and regulations thereunder.

Yours Truly,

Matthew Lisle
Chief of Compliance

CC: Thomas Leahy, CFTC
Riva Adriance, CFTC

403. Orders.

(a) In General.

- (i) Except as otherwise expressly provided in these Rules, all transactions of any type in or involving Contracts must be bid, offered and executed through the Trading System.
- (ii) Orders may be entered into the Trading System only:
 - (A) In such form and during such times as the Exchange shall prescribe;
 - (B) By an Authorized Trader; and
 - (1) For orders in an amount not exceeding the following number of contracts per order:

Contract	Maximum Order Size
Binary Event Futures	2000
Weatherbid Indexes	2000
ISE Stock Price Index Futures	2000
<u>Morningstar Stock Price Index Futures</u>	<u>2000</u>
Spot Equivalent Futures on Currencies	2000

408. Cancellation of Transactions.

- (b) The Exchange shall cancel a transaction executed on the Trading System which results from the erroneous entry of an order or a quote (“mistrade”) in order to ensure orderly and fair market conditions if:
 - (i) The Member which entered the erroneous order or quote into the Trading System informs the Exchange by telephone within 15 minutes of the execution of the transaction by the Trading System that the transaction was the result of an order or quote that was mistakenly entered into the Trading System; and
 - (ii) The price of the transaction effected by the erroneous entry of the order or quote is outside the following range as applicable:

Contract	Ticks Away From the Fair Market Price
Binary Event Futures	None*
Weatherbid Indexes	70
ISE Stock Price Index Futures (except Homebuilders)	30
ISE Homebuilders Stock Price Index	10

Contract	Ticks Away From the Fair Market Price
<u>Morningstar Large Cap Core Index Futures</u>	<u>10</u>
<u>Morningstar Large Cap Growth Index Futures</u>	<u>10</u>
<u>Morningstar Large Cap Value Index Futures</u>	<u>10</u>
<u>Morningstar Medium Cap Core Index Futures</u>	<u>15</u>
<u>Morningstar Medium Cap Growth Index Futures</u>	<u>10</u>
<u>Morningstar Medium Cap Value Index Futures</u>	<u>10</u>
<u>Morningstar Small Cap Core Index Futures</u>	<u>25</u>
<u>Morningstar Small Cap Growth Index Futures</u>	<u>10</u>
<u>Morningstar Small Cap Value Index Futures</u>	<u>15</u>
Spot Equivalent Futures on Currencies	10

*All trades will stand unless the Exchange determines that failure to cancel may have a material, adverse effect on the integrity of the market

415. Block Trade Facility.

- (e) Block Trades may be transacted only in Contracts authorized for that purpose by the Exchange. The minimum number of contracts to qualify as a block trade under this rule are as follows:

Contract	Minimum Number
Binary Event Futures	50
Weatherbid Indexes	10
ISE Stock Price Index Futures	50
<u>Morningstar Stock Price Index Futures</u>	<u>250</u>
Spot Equivalent Futures on Currencies	200

- (f) The transaction may be consummated at a price mutually agreed upon by the parties to the transaction; provided that,
- (i) the price for the Futures Contract does not exceed the range of the day's overall high and low by more than the following values (The range of the day's high and low is determined by a validation matrix):

Contract	Range
Binary Event Futures	1.0 percent
Weatherbid Indexes	0.1 percent
ISE Stock Price Index Futures	1.0 percent
<u>Morningstar Stock Price Index Futures</u>	<u>1.0 percent</u>
Spot Equivalent Futures on Currencies	0.1 percent

416. Exchange of Futures for Physicals Facility (EFPs) and Exchange of Futures for Swaps Facility (EFSs).

Basis Trades, or EFPs, and EFSs may be arranged and executed by a Member through the electronic EFP/EFS Facility, the EFS Facility, respectively, or for both EFPs and EFSs by telephonic means as provided by the Exchange, in accordance with the provisions of this Rule.

- (a) As used in this Rule a “Basis Trade” or “EFP” means a transaction consummated between two parties wherein one of the parties is the buyer of a Commodity and the seller of a Futures Contract, and the other party is the seller of the Commodity and the buyer of the Futures Contract. An “EFS” means a transaction consummated between two parties wherein one of the parties is the buyer of a Futures Contract and assumes the opposite market risk under a swap agreement, the other party is the seller of the Futures Contract and assumes the opposite market risk under the swap agreement, the parties exchange such Futures Contract for the swap agreement and the swap is excluded or exempt from regulation under the Act or Commission Regulations.
- (b) EFPs in FX SEF Contracts that are commonly referred to in the trade as “transitory EFPs” are permitted. A transitory EFP is an EFP in which the cash leg may partially or wholly offset a cash currency transaction; provided, however, that the execution of the EFP was not contingent on the execution of the cash currency transaction or that the cash currency transaction was not contingent on the execution of the EFP, the cash currency transaction was conducted in conformance with standard practices and documentation for the market in which the transaction occurred, and both the cash currency transaction and the EFP constitute *bona fide* transactions.
- (c)
 - (i) For EFPs under this rule the Commodity being exchanged must have a high degree of price correlation to the Underlying Commodity, so that the Futures Contract would serve as an appropriate hedge for that Commodity.
 - (ii) For EFSs, the fluctuations in the value of the swap must have a high degree of correlation to fluctuations in the price of the Underlying Commodity for the Futures Contract being exchanged, so that the Futures Contract would serve as an appropriate hedge for that swap.
- (d) Taking into account any differences in the attributes of the Commodity or swap being exchanged (such as interest rates and maturity dates) and those of the Underlying Commodity and applying hedge ratios as and to the extent appropriate;
 - (i) For EFPs, the quantity of the Commodity being exchanged must correspond with the quantity of the Underlying Commodity of the Futures Contract being exchanged; or

- (ii) For EFSs, the notional amount of the swap being exchanged must correspond approximately with the quantity of the Underlying Commodity of the Futures Contract(s) being exchanged.
- (e) The purchase and sale of the Futures Contract shall be simultaneous with the sale and purchase of the corresponding Commodity or the transfer of the swap.
- (f) The transaction may be consummated at a price mutually agreed upon by the parties to the transaction; provided, that the price of the futures leg does not exceed the range of the day's overall high and low by more than the following values (The range of the day's high and low is determined by a validation matrix):

Contract	Range
ISE Stock Price Index Futures	3 Ticks
<u>Morningstar Stock Price Index Futures</u>	10 Ticks
<u>Spot Equivalent Futures on Currencies</u>	5 Ticks

If the price of an FX SEF leg exceeds the range of the day's overall high and low, performance on the futures leg will be guaranteed by the Clearing Organization only in accordance with its procedures.

- (g) Eligible Contracts:
 - (i) EFPs may be transacted under this rule with respect to the following Futures Contracts:
 - (ii) EFSs may be transacted under this rule with respect to the following Futures Contracts:

Contract
<u>ISE Stock Price Index Futures</u>
<u>Morningstar Stock Price Index Futures</u>
<u>Spot Equivalent Futures on Currencies</u>

- (h) Basis Trades and EFSs under this rule may be transacted with respect to a Delivery Month on any Business Day up to and including the Last Trading Day until trading has ceased in that Delivery Month. In the case of FX SEFs, EFPs may be transacted with respect to a Delivery Month on any Business Day up to and including the Last Trading Day until 45 minutes after trading has ceased in that Delivery Month or until such earlier time the Clearing Organization may direct in order to accommodate its processing schedule.
- (i) Upon request by any employee of the Operations or Compliance Departments, Members must produce satisfactory evidence that the EFP or EFS was arranged in accordance with the Rules (including, but not limited to, full documentation

relating to the cash leg of the EFP, master swap agreements and any supplements thereto in the case of an EFS and, if the transaction is in the name of an omnibus account or foreign broker, the name of the Customer).

902 Specifications for Futures Contracts on the Morningstar Stock Price Index (“Morningstar Index Futures”).

The Morningstar Index Futures are broadly based weighted averages of the available liquid U.S. stocks that trade on one of the three major exchanges broken out into 9 separate “style boxes” as categorized by their growth or value orientation and market capitalization. Each Morningstar Index Futures Contract shall be a contract whereby, after the close of trading in the contract, the seller of a Morningstar Index Futures Contract shall pay in cash any difference between the contract price and a higher final settlement price and the purchaser of a Morningstar Index Futures Contract shall pay in cash any difference between the contract price and a lower final settlement price. The value of a contract shall be \$10 per index point.

- (a) **Morningstar Style Indexes:** The Exchange will list futures contracts on the following Morningstar Style Indexes; provided, however, that the Exchange may determine not to list a particular Morningstar Style Index:

Morningstar Style Indexes
Large Cap Core
Large Cap Growth
Large Cap Value
Medium Cap Core
Medium Cap Growth
Medium Cap Value
Small Cap Core
Small Cap Growth
Small Cap Value

- (b) **Trading Sessions:** Trading shall take place on each Business Day at such hours as may be specified from time to time by the Exchange; provided, however, that trading in the current month will cease at 8:30 a.m. on the last trading day.
- (c) **Delivery Months:** Four consecutive delivery months following the current month; provided, however, that the Exchange may determine to list additional delivery months or not to list any delivery month. Delivery months are March, June, September and December. Effective the first trading day following the last trading day of a Morningstar Index Futures Contract for any delivery month, the next eligible delivery month shall automatically be listed for trading.
- (d) **Last Trading Day:** The last trading day of a Morningstar Index Futures Contract shall be the final settlement day; provided, however, that if such day is not a Business Day the immediately prior Business Day shall be the last trading day.
- (e) **Minimum Price Ticks:** The minimum price tick shall be .5 point (\$5.00) except that calendar spreads may be traded at .1 point (\$1.00) per contract.

- (f) **Contract Grade:** A Morningstar Index futures contract is a Futures Contract on one of the Morningstar Style Indexes as listed above. The compilation and composition of the Morningstar Style Indexes are in the exclusive control of Morningstar, Inc.
- (g) **Final Settlement:** Contracts shall be settled in cash according to procedures established by the Clearing Organization. The final settlement price shall be based on the opening prices of the underlying index on the final settlement day as reported by Morningstar.
- (h) **Final Settlement Day:** The final settlement day shall be the third Friday of the delivery month; provided, however, that if the Morningstar Index is not scheduled for publication on such Friday, the final settlement day shall be the immediately prior Business Day on which the Morningstar Index is scheduled to be published.
- (i) **Trading Halts:** Trading halts and price limits in the Morningstar Index Futures Contract shall be coordinated with trading halts in the component stocks. When trading is halted in the Lead Contract, trading is halted in all delivery months in the Contract. For no less than two minutes before trading is scheduled to resume Members may enter, amend or delete orders and quotes during a Pre-Trading Period. At the end of a trading halt, trading in all delivery months shall be resumed with an Opening Period in accordance with Rule 401.
- (i) For purposes of this paragraph, the following definitions will apply:
- (A) “Core Trading” hours shall be 8:30 a.m. to 3:15 p.m.;
 - (B) “Front Contract” means the next delivery month to expire;
 - (C) “Lead Contract” shall be the one for the delivery month with the highest traded volume on any given day;
 - (D) “Limit Offered” means that the current best offer shown in the Trading System for Morningstar Index Futures is at the Limit Price (defined below);
 - (E) “Limit Orders” include quotes and stop orders as well as limit orders within the meaning of Rule 403(b)(iii);
 - (F) “Limit Price” shall be the price level currently in effect below which sell limit orders and quotes may not be entered. The Limit Prices are sequentially the 10% Limit, the 20% Limit and the 30% Limit, respectively, below the last previous Settlement Price. In the event that there was no previous Settlement Price for a contract month, Operations will calculate a fair market estimate of such and disclose it to the market. After trading has been halted, the Limit Price will be the next sequential limit;
 - (G) “Primary Stock Market” for the Morningstar Index Futures shall be the New York Stock Exchange;

- (H) the "10% Limit," "20% Limit" and "30% Limit" in the current quarter shall be 10%, 20% and 30% of the average of the settlement prices of the Front Contract, rounded to the nearest tenth (0.1) point, for the calendar month immediately prior to the current quarter.
- (ii) Sell Limit Orders or sell quotes may not be entered into the Trading System at prices below the 10% Limit except in accordance with the provisions of this paragraph.
- (iii) During Core Trading hours, trading in Morningstar Index Futures will be halted if:
 - (A) a trade is executed in the Trading System at the Limit Price;
 - (B) the Lead Contract is Limit Offered; or
 - (C) trading in the Primary Stock Market is halted.
- (iv) Outside of the Core Trading hours, trading in Morningstar Index Futures will be halted if a trade is executed in the Trading System at the 10% Limit or the Lead Contract is Limit Offered at the 10% Limit.
- (v) If trading has been halted during Core Trading hours, trading in Morningstar Index Futures may not resume until:
 - (A) trading has been halted for 10 minutes; and
 - (B) trading in the primary stock market was never halted or has resumed and 50% of the stocks in the Morningstar Index, calculated on a capitalization weighted basis, have recommenced trading.
- (vi) If trading has been halted outside of Core Trading hours, trading in Morningstar Index Futures will not resume until the beginning of Core Trading hours at which time the provisions of the previous paragraph (v) will apply.
- (vii) Block Trades or Basis Trades may not be entered into at prices lower than the Limit Price then in effect.
- (j) **Reportable Positions:** A Person shall report any position that such Person owns or controls in Morningstar Index Futures that exceed 200 contracts or more in any one delivery month.
- (k) **Position Accountability:** A Person who owns or controls an aggregate position in Morningstar Index Futures of more than 25,000 futures contracts shall be subject to the requirements of Rule 414 as set forth therein.
- (l) **Settlement Prices:** The Exchange will base its settlement price recommendations on trading conditions at 3:15 p.m. except that: