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OFFICE OF THE SECRETARIAT

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September 30, 2009

Mr. David Stawick  
Office of the Secretariat  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21st Street, N.W.  
Washington, DC 20581

**RE: CME Group Market Regulation Advisory Notices RA0910-5 &  
RA0911-5  
CME/CBOT/NYMEX Submission No. 09-225**

Dear Mr. Stawick:

Chicago Mercantile Exchange Inc. ("CME"), The Board of Trade of the City of Chicago, Inc. ("CBOT") and The New York Mercantile Exchange, Inc. ("NYMEX")(collectively, "the Exchanges") hereby notify the Commodity Futures Trading Commission that they will issue CME Group Market Regulation Advisory Notice RA0910-5 on October 2, 2009, concerning Rule 538 ("Exchange for Related Positions") and CME Group Market Regulation Advisory Notice RA0911-5 on October 5, 2009, concerning Rules 533 ("Simultaneous Buy and Sell Orders for Different Beneficial Owners") and 531 ("Trading Against Customers' Orders Prohibited").

A copy of both Advisory Notices begins on the next page of this submission.

The Exchanges certify that the Advisory Notices comply with the Commodity Exchange Act and regulations thereunder.

If you have any questions regarding the Advisory Notices, please contact Robert Sniegowski, Market Regulation, at 312.341.5991 or me at 312.648.5422. Please reference CME/CBOT/NYMEX Submission No. 09-225 in any related correspondence.

Sincerely,

/s/ Stephen M. Szarmack  
Director and Associate General Counsel

## MARKET REGULATION ADVISORY NOTICE

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<b>Exchange</b>	<b>CME, CBOT, NYMEX &amp; COMEX</b>
<b>Subject</b>	<b>Exchange for Related Positions</b>
<b>Rule References</b>	<b>Rule 538</b>
<b>Advisory Date</b>	<b>October 2, 2009</b>
<b>Advisory Number</b>	<b>CME Group RA0910-5</b>
<b>Effective Date</b>	<b>October 5, 2009</b>

On September 14, 2009, CME, CBOT, NYMEX and COMEX adopted harmonized rule language with respect to Rule 538 ("Exchange for Related Positions"), which is set forth below. A detailed FAQ document addressing EFRP transactions begins on page 3 of this Advisory Notice, which supersedes prior advisories issued on this subject.

Exchange of Options for Options ("EOO"), which were already permissible in NYMEX and COMEX products, are now permitted for all CME, CBOT, NYMEX and COMEX options products.

Additionally, consistent with current NYMEX and COMEX practices, effective January 4, 2010, CME and CBOT will require that the submission of reportable large trader positions include the EFRP volume bought and sold in the reportable instrument by the reportable account.

Member firms are strongly encouraged to ensure that all firm employees, as well as customers on whose behalf the firm clears EFRPs, are fully informed of the requirements of Rule 538 and the interpretations in the associated FAQ.

### **Rule 538 – ("Exchange for Related Positions")**

The following transactions shall be permitted by arrangement between parties in accordance with the requirements of this rule:

Exchange for Physical ("EFP") - A privately negotiated and simultaneous exchange of an Exchange futures position for a corresponding cash position.

Exchange for Risk ("EFR") – A privately negotiated and simultaneous exchange of an Exchange futures position for a corresponding OTC swap or other OTC instrument.

Exchange of Options for Options ("EOO") - A privately negotiated and simultaneous exchange of an Exchange option position for a corresponding OTC option position or other OTC instrument with similar characteristics.

For purposes of this rule, an EFP, EFR or EOO shall be referred to as an Exchange for Related Position ("EFRP").

**538.A. Nature of an EFRP**

An EFRP consists of two discrete but related simultaneous transactions. One party to the EFRP must be the buyer of (or the holder of the long market exposure associated with) the related position and the seller of the corresponding Exchange contract. The other party to the EFRP must be the seller of (or the holder of the short market exposure associated with) the related position and the buyer of the corresponding Exchange contract.

However, a member firm may facilitate, as principal, the related position on behalf of a customer, provided that the member firm can demonstrate that the related position was passed through to the customer who received the Exchange contract position as part of the EFRP.

**538.B. Related Positions**

The related position (cash, OTC swap, OTC option, or other OTC derivative) must involve the commodity underlying the Exchange contract, or must be a derivative, by-product, or related product of such commodity that has a reasonable degree of price correlation to the commodity underlying the Exchange contract.

**538.C. Quantity**

The quantity covered by the related position must be approximately equivalent to the quantity covered by the Exchange contracts.

**538.D. Prices and Price Increments**

An EFRP transaction may be entered into in accordance with the applicable price increments or option premium increments set forth in the rules governing the pertinent Exchange contracts, at such prices as are mutually agreed upon by the two parties to the transaction.

**538.E. Date and Time of Transaction**

The date and the time of execution of all EFRP transactions must be denoted on the record of the transaction required to be created pursuant to Rule 536.E. Notwithstanding the preceding sentence, EFRP transactions entered into CME ClearPort do not need a separate record of the transaction or time of execution provided that such transactions are entered immediately after the relevant terms have been determined during hours ClearPort is available, and in no event later than the earlier of the start of the next business day or the end of the permissible posting period for EFRP transactions following the expiration of the underlying futures contract.

**538.F. Termination of Trading in Exchange Contracts**

EFRP transactions may be permitted after termination of trading in expiring Exchange contracts, as prescribed in the applicable rules governing such Exchange contracts. Such transactions shall not establish new positions.

**538.G. Identification and Submission to the Clearing House**

Each EFRP transaction shall be designated as such and shall be cleared through the Clearing House. Each such transaction shall be submitted to the Clearing House within the time period and in the manner specified by the Exchange. Clearing member firms are responsible for exercising due diligence as to the bona fide nature of EFRP transactions submitted on behalf of customers.

**538.H. Documentation**

Parties to any EFRP transaction must maintain all documents relevant to the Exchange contract and the cash, OTC swap, OTC option, or other OTC derivative, including all documents customarily generated in accordance with relevant market practices and any documents reflecting payment and transfer of title.

Any such documents must be provided to the Exchange upon request, and it shall be the responsibility of the carrying clearing member firm to provide such requested documentation on a timely basis.

**538.I. Account Requirements**

The accounts involved in the execution of an EFRP transaction must be (a) independently controlled accounts with different beneficial ownership; or (b) independently controlled accounts of separate legal entities with the same beneficial ownership, provided that the account controllers operate in separate business units; or (c) independently controlled accounts within the same legal entity, provided that the account controllers operate in separate business units; or (d) commonly controlled accounts of separate legal entities, provided that the separate legal entities have different beneficial ownership.

However, on or after the first day on which delivery notices can be tendered in a physically delivered Exchange futures contract, an EFRP transaction may not be executed for the purpose of offsetting concurrent long and short positions in the expiring Exchange futures contract when the accounts involved in such transaction are owned by the same legal entity and when the date of the Exchange futures position being offset is not the same as the date of the offsetting transaction.

**538.J. Large Trader Requirements for EFRP Transactions**

Each clearing member, omnibus account and foreign broker submitting large trader positions in accordance with Rule 561 must submit for each reportable account the EFRP volume bought and sold in the reportable instrument, by contract month, and additionally for EOOs, by put and call strike. The information must be included in the daily Large Trader report to the Exchange. ***(For CME and CBOT, this provision will become effective on January 4, 2010.)***

Questions regarding this Advisory Notice or the attached FAQ may be directed to the following individuals in Market Surveillance in New York or Chicago:

Steven Mair, Manager, 312.341.7034

Sandra Valtierra, Manager, 312.347.4137

Chris Reinhardt, Supervisor, 212.299.2884

Jerry O'Connor, Associate Director, 312.341.7048

For media inquiries concerning this Advisory Notice, please contact CME Group Corporate Communications at 312.930.3434 or [news@cmegroup.com](mailto:news@cmegroup.com).

**FAQ Related to Rule 538**  
**Exchange for Related Positions**

**Q1: What are EFRP transactions?**

A1: EFRP is an acronym for Exchange for Related Positions. Exchange for Physical ("EFP"), Exchange for Risk ("EFR") and Exchange of Options for Options ("EOO") transactions are collectively known as EFRP transactions.

An EFP transaction is a privately negotiated and simultaneous exchange of a futures position for a corresponding cash market position in the same or a related cash instrument.

An EFR transaction is a privately negotiated and simultaneous exchange of a futures position for a corresponding OTC swap or other OTC derivative in the same or a related instrument.

An EOO transaction is a privately negotiated and simultaneous exchange of an Exchange option position for a corresponding OTC option position or other OTC contract with similar characteristics in the same or a related instrument.

**Q2: What is the difference between EFRP transactions and "Ex-Pit" transactions?**

A2: The term "Ex-Pit Transaction" refers broadly to transactions that exchange rules permit to be executed noncompetitively outside of the central market. Such transactions are also sometimes referred to as PNTs ("Privately Negotiated Transactions"). Permissible ex-pit transactions include EFRPs, block trades and transfer trades. EFRPs are addressed in Rule 538; block trades are addressed in Rule 526, and transfer trades are addressed in Rule 853.

**Q3: Is there a difference between EFP transactions and transactions commonly referred to as "Cash for Futures", "Versus Cash" or "Against Actuals"?**

A3: No. All of the referenced terms describe transactions that CME Group refers to as EFPs.

**Q4: Can an EFRP be executed in all of the CME Group exchanges' futures and options contracts?**

A4: EFRPs may be executed in all of the CME Group exchanges' futures and options contracts provided that the transaction conforms to the requirements of Rule 538 and any applicable CFTC requirements.

**Q5: Can there be more than two parties to an EFRP transaction?**

A5: Typically, there may be only two parties involved in an EFRP transaction. One party must be the buyer of (or the holder of the long market exposure associated with) the cash or OTC position and the seller of (or the holder of the short market exposure associated with) the corresponding Exchange contract. The other party must be the seller of (or the holder of the short market exposure associated with) the cash or OTC position and the buyer of (or the holder of the long market exposure associated with) the corresponding Exchange contract. Multi-party EFRPs are prohibited except as provided below.

A member firm may facilitate, as principal, the transfer of the related position component of an EFRP transaction on behalf of a customer provided that the member firm can demonstrate that the related position was passed through to the customer who received the exchange position as part of the transaction.

**Q6: Are there restrictions with respect to who may execute an EFRP transaction?**

A6: EFR and EOO Transactions – Participants to EFR and EOO transactions must comply with applicable CFTC regulatory requirements governing eligibility to transact the OTC component of the EFR or EOO.

EFP Transactions – Each EFP transaction includes a bona fide cash market transaction and these transactions therefore typically will be transacted by commercial market participants who customarily transact business in the relevant cash market. As such, EFPs conducted by non-commercial participants will be subject to additional scrutiny to validate the bona fide nature of the cash market transaction.

**Q7: Are there restrictions on the execution of EFRPs between affiliated accounts?**

A7: The accounts involved in the execution of an EFRP must be:

- a) independently controlled accounts with different beneficial ownership; or
- b) independently controlled accounts of separate legal entities with the same beneficial ownership, provided that the account controllers operate in separate business units; or
- c) independently controlled accounts within the same legal entity provided that the account controllers operate in separate business units; or
- d) commonly controlled accounts of separate legal entities provided that the separate legal entities have different beneficial ownership.

The term “same beneficial ownership” means a parent and its wholly owned subsidiaries or subsidiaries that are wholly owned by the same parent.

If the parties to a transaction involve the same legal entity, same beneficial owner, or separate legal entities under common control, the parties must be able to demonstrate that the EFRP had legitimate economic substance for each party to the trade.

**Q8: In which products are transitory EFRPs permitted?**

A8: Transitory EFRPs are EFRPs in which two parties contemporaneously execute an EFRP transaction and an additional cash or OTC transaction that offsets the cash or OTC component of the EFRP; such transactions are permitted **only** in NYMEX energy and metals products, COMEX metals products and CME foreign exchange (“FX”) products.

Transitory EFRPs are permitted in these products provided that each party to the transaction can affirmatively demonstrate that the initial cash or OTC position and the offsetting cash or OTC component of the EFRP are bona fide transactions.

For example, Party A sells an OTC swap to Party B and contemporaneously executes an EFRP whereby Party A sells futures and buys an offsetting OTC swap opposite Party B. Upon request, both parties must be able to provide documentation substantiating that the swap transactions were bona fide. As such, all documents typically generated in accordance with OTC market conventions must be generated and maintained for each of the OTC transactions. In the example where the related position component of the EFR is a swap, the master swap agreement, if such agreement exists, or the confirmation supplied by the broker must be retained to substantiate the bona fide nature of the transaction. The books of the respective parties must also reflect the execution of the OTC transactions.

With respect to transitory EFRPs in FX products, Market Regulation would expect to see documentation generated by the participating broker/dealer for each leg of the offsetting cash transactions consistent with that produced for “stand-alone” OTC transactions of the same type. This documentation should identify the counterparty to the transaction either by account number or name. However, in circumstances where the EFRP is transacted between an FX broker/dealer

and a CTA, account controller or other person acting on behalf of a third party (such as a commodity pool or fund), the documentation must, at a minimum, uniquely identify the particular EFRP transaction and allow for its subsequent association with additional documentation which contains the identification of the third party by name or account number.

All other Exchange and CFTC requirements regarding EFRP transactions must be adhered to in connection with the execution of transitory EFRP transactions.

**Q9: Can two EFRPs be utilized to facilitate inventory financing in CBOT agricultural commodities?**

A9: The following transaction is permitted provided that it is entered into for the purpose of obtaining inventory financing for an agricultural commodity. A participant may purchase the agricultural commodity and sell the equivalent quantity of futures contracts to a counterparty through the execution of an EFP and may grant to the counterparty the non-transferable right to effect a second EFP on some date certain in the future which will have the effect of reversing the original EFP.

**Q10: Can an EFRP be executed to either initiate or offset a position? If so, are there any restrictions during the delivery period for physically delivered products?**

A10: EFRP transactions generally can be used to either initiate or offset positions. The two exceptions are described below:

On or after the first day on which delivery notices can be tendered in a physically delivered contract, an EFRP cannot be executed for the purpose of offsetting concurrent long and short positions in the expiring contract when the accounts involved in the transaction are owned by the same legal entity and when the date of the futures position being offset is not the same as the date of the offsetting transaction.

Additionally, after trading has ceased in an expiring contract, EFRP transactions in certain products may be permitted for liquidating purposes only and for a defined period of time as prescribed in the applicable product chapter.

**Q11: Are there restrictions on the price at which an EFRP transaction may be executed?**

A11: An EFRP may be executed at any commercially reasonable price agreed upon by both parties, provided that the price of the contract conforms to the standard minimum tick increment as set forth in the rules of the relevant product chapter.

**Q12: What are the hours of trading for EFRP transactions?**

A12: EFRPs may be executed at any time. However, an EFRP transaction is not considered as having been accepted by the Clearing House until the transaction is matched and cleared, and the first payment of settlement variation and performance bond has been confirmed.

**Q13: If an EFRP is submitted via Front-End Clearing (FEC), how soon after execution must the EFRP be submitted?**

A13: CME and CBOT Products

For EFRPs executed between 6:00 a.m. and 6:00 p.m. **Central Time**, firms must submit the trade within one hour. For EFRPs executed between 6:00 p.m. and 6:00 a.m., **Central Time**, firms must submit the trade no later than 7:00 a.m. **Central Time**.

## NYMEX and COMEX Products

For EFRPs executed between 7:00 a.m. and 5:45 p.m. **Eastern Time**, the trades must be submitted within one hour. For EFRPs executed between 5:45 p.m. and 7:00 a.m., **Eastern Time**, firms must submit the trade no later than 8:00 a.m. **Eastern Time**.

**Q14: How do I properly record the execution time and date when submitting an EFRP via Front-End Clearing (FEC)?**

A14: For CME and CBOT products, the clearing system will automatically assign the current date as the trade date if entered prior to 4:00 p.m. **Central Time**. Entries made after 4:00 p.m. will default to the next trade date. Users may manually change the trade date to the current date if the EFRP is entered prior to 7:00 p.m. **Central Time**.

For NYMEX and COMEX products, the clearing system will automatically assign the current date as the trade date if entered prior to 2:45 p.m. **Eastern Time**. Entries made after 2:45 p.m. will default to the next trade date. Users may manually change the trade date to the current date if the EFRP is entered prior to 7:45 p.m. **Eastern Time**.

Rule 538 requires the submission of the execution time for each EFRP transaction. The execution time must be the actual time at which the transaction was concluded by the two parties, not the time at which the trade was reported by the parties to their respective firms or the Exchange. Thus, if the member or clearing member has not acted as either principal or agent in the transaction, it must ensure that the customer provides an accurate execution time.

EFRPs entered by members and their employees on the NYMEX/COMEX trading floor via the Clearing System Broker User Interface should be entered in Eastern Time.

EFRPs entered into Front-End Clearing by firm staff or from other locations should be entered in Central Time.

For additional information, please refer to the Front End Clearing Guide referenced in the answer to Question 17 on the next page.

**Q15: If the EFRP is submitted via CME ClearPort, what are the entry time requirements?**

A15: Generally, EFRPs must be submitted to CME ClearPort within one hour after the relevant terms have been determined. If the relevant terms are determined at a time when CME ClearPort is unavailable (from 5:15 p.m. – 6:00 p.m. Eastern Time and on weekends), the EFRP must be submitted within one hour of the time that CME ClearPort next becomes available. EFRPs may not, under any circumstances, be posted later than the end of the permissible posting period for EFRP transactions following the expiration of the underlying futures contract.

**Q16: What are the recordkeeping requirements with respect to EFRPs submitted via CME ClearPort?**

A16: EFRP transactions entered into CME ClearPort do not require a separate record of the transaction or time of execution provided that such transactions are entered immediately after the relevant terms have been determined. If not entered immediately, the date and the time of execution of the EFRP transaction must be denoted on the record of the transaction required to be created pursuant to Rule 536.E.



**Q17: How are EFRPs submitted to the Clearing House?**

A17: For information regarding the submission of EFRPs using Front End Clearing, please contact Clearing Services at 312.207.2525 or via email at [ccs@cmegroup.com](mailto:ccs@cmegroup.com).

To obtain a copy of the Front End Clearing (FEC) User Guide, please contact Client Management Training Services at 312.930.4523 or via email at [cmts@cmegroup.com](mailto:cmts@cmegroup.com).

For information regarding the submission of EFRPs using CME ClearPort, please contact CME ClearPort Market Operations at 1-800-438-8816 or via email at [CustCare@cmegroup.com](mailto:CustCare@cmegroup.com)

EFRP transactions designated for Average Pricing System (APS) allocation must conform to the requirements of Rules 553 and 538.

**Q18: Must a broker be specified when submitting EFRPs to the Clearing System?**

A18: Direct entry of an EFRP into Front-End Clearing does not require the entry of a broker for the transaction.

Entry of EFRPs by members and their employees on the NYMEX trading floor via the Clearing System Broker User Interface require information identifying the party entering the transaction.

Entry of EFRPs through CME ClearPort Clearing by a registered user requires that the "Broker Firm" and "Broker Name" fields be populated.

**Q19: What types of instruments are considered acceptable for use as the related position side of EFRPs and what are the equivalency requirements with respect to the quantities exchanged?**

A19: In general, the related position (i.e. cash, swap or other OTC derivative) must involve the product underlying the exchange contract or a derivative, by-product or related product that is reasonably correlated to the exchange instrument being exchanged. Market Regulation may request that the parties to an EFRP transaction demonstrate that the related position and the exchange position are reasonably correlated.

The quantity of the exchange contract being exchanged must be approximately equivalent to the quantity of the related position being exchanged. Upon request, the parties to an EFRP transaction must be able to demonstrate such equivalency.

Generally acceptable related position instruments for EFRPs for different product groups include, but are not limited to, the following:

Foreign Exchange Contracts: Instruments considered acceptable as the related position side of an FX EFRP transaction may include spot, forwards, FX or cross-currency basis swaps, OTC FX options, swaptions, non-deliverable forwards ("NDFs"), currency baskets and Exchange Traded Funds ("ETFs"). The historical correlation between the related position instrument and the corresponding currency pair or index component of an EFRP must be 80% or greater. The acceptability of instruments settled in a currency other than those comprising the underlying pair should be addressed with Market Regulation staff prior to engaging in the transaction.

Interest Rate Contracts: Fixed income instruments with risk characteristics and maturities that parallel the instrument underlying the exchange contract are acceptable. Such instruments include, but are not necessarily limited to, money market instruments, Treasuries, Agencies, investment grade corporates, forward rate agreements (FRAs), mortgage instruments including collateralized mortgage obligations (CMOs) and interest rate swaps and swaptions.

Stock Index Contracts: Stock baskets must be highly correlated to the underlying index with a historical correlation to the index of 90% or greater ( $r \geq .90$ ). Further, these stock baskets must represent at least 50% of the underlying index by weight or must include at least 50% of the stocks in the underlying index. The notional value of the basket must be approximately equal to

the value of the corresponding exchange contract. ETFs are acceptable provided that the ETF mirrors the relevant Exchange stock index product.

**Agricultural Contracts:** For Dairy Products, Live Cattle, Feeder Cattle, Lean Hogs and Pork Bellies, the acceptable related position component of an EFP is limited to the specific underlying commodity (e.g., Live Cattle for Live Cattle futures); although the related position need not be deliverable grade of the particular commodity, there must be a reasonable level of correlation with the associated futures. In the case of Random Length Lumber futures, the related position must be deliverable species dimension lumber, variances are permitted with respect to grade/size and tally. Additionally, with respect to Random Length Lumber, the buyer of the cash lumber must retain ownership of the transferred product for personal use or resale to customers and may not resell the product either directly or indirectly to the original seller.

For all other agricultural futures contracts, the related position must involve the commodity underlying the futures contract or a derivative, by-product or related product that is reasonably correlated to the futures being exchanged. The related position in an EFR or EOO may be an agricultural commodity swap or other agricultural OTC instrument, but in all cases must comply with any applicable regulatory requirements prescribed by the CFTC.

**Commodity Index Contracts:** For exchange contracts based on Commodity Indexes, (e.g., Goldman Sachs Commodity Index (GSCI), Dow UBS Index), acceptable related positions include ETFs provided that the ETF mirrors the relevant Commodity Index product traded on the Exchange.

**Energy Contracts:** For energy contracts, the acceptable related position component for an EFP is limited to the specific underlying commodity ( e.g. Natural Gas for Natural Gas Futures); although the related position need not be deliverable grade of the particular commodity, there must be a reasonable level of correlation with the associated futures. The related position in an EFR or EOO may be an energy swap or OTC swap/option instrument.

**Metals Contracts:** For metals contracts, the acceptable related position component for an EFP is limited to the specific underlying commodity ( e.g. Gold for Gold Futures); although the related position need not be deliverable grade of the particular commodity, there must be a reasonable level of correlation with the associated futures. The related position in an EFR or EOO may be a swap or OTC swap/option instrument. Exchange Traded Funds ("ETFs") are acceptable provided that the ETF mirrors the relevant Exchange metal product.

In all cases, the associated related position transactions must be comparable with respect to quantity, value or risk exposure to the exchange contract.

Questions regarding the acceptability of related position instruments may be addressed to the Market Regulation contacts listed on this Advisory Notice.

**Q20: Does a firm that executes and/or clears an EFRP on behalf of a customer have any regulatory exposure if the EFRP does not conform to the requirements of Rule 538?**

A20: A firm that executes and submits an EFRP on behalf of a customer is responsible for exercising due diligence as to the bona fide nature of the EFRP. Failure to do so may be deemed a violation of 538 by the firm. Additionally, a firm that accepts and clears a give-up EFRP may be liable for violation of Rule 538 if it accepts an EFRP that it knows, or should know, is not bona fide.

**Q21: What are the documentation requirements for EFRPs?**

A21: Parties to an EFRP must maintain all documents relevant to the exchange contract and related position transactions and must provide such documents to Market Regulation upon request. Documents that may be requested include, but are not limited to, the following:

1. All documents relevant to the exchange component of the trade including order tickets (or other electronically time-stamped record) and account statements;

2. Documentation customarily generated in accordance with cash market or other relevant market practices such as signed swap agreements, OTC contracts, cash confirmations, invoices, warehouse receipts and bills of sale, as well as documentation that demonstrates proof of payment and transfer of ownership of the related position transaction (e.g. canceled checks, bank statements, Fedwire confirms, Fixed Income Clearing Corporation documents, bills of lading etc.).

**Q22: Must transactions executed as EFRPs be reflected as such on customer account statements?**

A22: Yes, FCMs must identify EFRP transactions on confirmation and monthly account statements delivered to customers.

**Q23: Who is responsible for submitting related position documentation when a request for such documentation is made by the Market Regulation Department?**

A23: Related position documentation for an EFRP must be provided to the Market Regulation Department upon request. Market Regulation will request such information from the firm carrying the account, and the carrying firm is responsible under the rules for providing the documentation.

## MARKET REGULATION ADVISORY NOTICE

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<b>Exchange</b>	<b>CME, CBOT, NYMEX &amp; COMEX</b>
<b>Subject</b>	<b>Simultaneous Buy and Sell Orders for Different Beneficial Owners; Trading Against Customers' Orders Prohibited</b>
<b>Rule References</b>	<b>Rule 533 and Rule 531</b>
<b>Advisory Date</b>	<b>October 5, 2009</b>
<b>Advisory Number</b>	<b>CME Group RA0911-5</b>
<b>Effective Date</b>	<b>CME/CBOT as of November 2; NYMEX/COMEX Immediately</b>

This Advisory Notice supersedes Market Regulation Advisory Notice RA0703-3 issued on November 29, 2007, and clarifies the proper procedures for the handling of simultaneous buy and sell orders for different beneficial owners in open outcry and electronic markets. As a result of the amendments, all CME Group exchanges will have completely harmonized language for Rule 533 ("Simultaneous Buy and Sell Orders for Different Beneficial Owners") and Rule 531 ("Trading Against Customers' Orders Prohibited"). The complete texts of both rules begin on page 2 of this Advisory Notice.

Effective November 2, 2009, CME and CBOT will eliminate the requirement that a member executing simultaneous buy and sell orders for different beneficial owners complete a cross trade form after having executed a cross trade. As of that date, Exchange price reporting staff will begin to identify cross trades in the Price Reporting System, a process currently operational at NYMEX and COMEX, and members will be responsible for ensuring that the trades are accurately reported as cross trades. Based on the change to CME and CBOT Rule 533, conforming changes to Rule 531 ("Trading Against Customers' Orders Prohibited") have also been made.

Until November 2, 2009, CME and CBOT members executing cross trades must continue to complete a cross trade form and present it to an Exchange official.

Neither this Advisory Notice nor the rules referenced herein pertain to transactions on CME Globex that involve pre-execution communications. Pre-execution communications are addressed in each exchange's Rule 539 ("Prearranged, Pre-Negotiated and Noncompetitive Trades Prohibited") and in the Market Regulation Advisory Notice concerning Rule 539, which can be found on the Rulebook Harmonization page at the following link:  
<http://www.cmegroup.com/rulebook/rulebook-harmonization.html>

### **Open Outcry Markets**

Rule 533 ("Simultaneous Buy and Sell Orders for Different Beneficial Owners") allows for the direct crossing of buy and sell orders by a floor broker provided that the orders are for the accounts of different beneficial owners and the floor broker executing the orders first openly bids and offers the price and quantity three times in a manner that is transparent to the pit. If neither the bid nor the offer is accepted, then the floor broker may match the orders, or any remaining portion of the orders, in the presence of, and with the approval of, a Floor Operations staff member.

Market participants are reminded that pre-execution communications or any other form of prearrangement are prohibited with respect to all orders entered for execution in the open outcry venue.

A floor broker may not cross an order with a trade for his own account, an account in which he has a direct or indirect financial interest, or an account over which he has discretionary trading authority unless the customer has consented in writing within the previous 12 months to waive the application of Rule 531 ("Trading Against Customers' Orders Prohibited").

A floor broker who executes cross trades must ensure that it is reported to Exchange price reporting staff for entry into the Price Reporting System as a cross trade. Failure to identify the transaction to Exchange price reporting staff as a cross trade shall constitute a violation of the rule.

### **Electronic Markets**

In electronic markets, opposite orders for different beneficial owners that are simultaneously placed by a party with discretion over both accounts may be entered on the electronic platform provided that one order is exposed for a minimum of 5 seconds in the case of futures orders (including futures spreads) or for a minimum of 15 seconds in the case of options orders (including any spread with an option component). Similarly, an order allowing for price and/or time discretion, if not entered immediately upon receipt, may be knowingly entered opposite another order entered by the same firm only if the other order has been entered immediately upon receipt and has been exposed for a minimum of 5 seconds in the case of futures orders or for a minimum of 15 seconds in the case of options orders. Orders involving pre-execution communications are separately governed by each Exchange's Rule 539.

Questions regarding this Advisory Notice may be directed to the following individuals in Market Regulation in Chicago and New York:

Russell Cloughen, Associate Director, 212.299.2880

Robert Sniegowski, Associate Director, 312.341.5991

For media inquiries concerning this Advisory Notice, please contact CME Group Corporate Communications at 312.930.3434 or [news@cmegroup.com](mailto:news@cmegroup.com).

### **Text of Rules 533 and 531**

#### **533. SIMULTANEOUS BUY AND SELL ORDERS FOR DIFFERENT BENEFICIAL OWNERS**

A member who is in possession of both buy and sell orders for different beneficial owners for the same product and expiration month, and, for a put or call option, the same strike price, may execute such orders for and directly between such beneficial owners provided that in pit trading, a member executing such orders shall first bid and offer by open outcry three times at the same price, stating the number of contracts, and, thereafter, if neither the bid nor the offer is accepted, the orders may be matched in the presence, and with the approval, of a designated Exchange official.

The member making such transactions shall, by appropriate descriptive words or symbols, clearly identify all such transactions on his trading card or other similar record made at the time of the execution. The member executing such trade must ensure that it is reported to Exchange price

reporting staff for entry into the Exchange Price Reporting System. Failure to identify the transaction to Exchange price reporting staff as a cross trade shall constitute a violation of this rule.

On the Globex platform, opposite orders for different beneficial owners that are simultaneously placed by a party with discretion over both accounts may be entered into the Globex platform provided that one order is exposed for a minimum of 5 seconds in the case of futures orders or a minimum of 15 seconds in the case of options orders. An order allowing for price and/or time discretion, if not entered immediately upon receipt, may be knowingly entered opposite another order entered by the same firm only if this other order has been entered immediately upon receipt and has been exposed on the Globex platform for a minimum of 5 seconds for futures orders or a minimum of 15 seconds for options orders.

## **531. TRADING AGAINST CUSTOMERS' ORDERS PROHIBITED**

### **531.A. General Prohibition**

No person in possession of a customer order shall knowingly take, directly or indirectly, the opposite side of such order for his own account, an account in which he has a direct or indirect financial interest, or an account over which he has discretionary trading authority.

### **531.B. Exceptions**

The foregoing restriction shall not apply to the following:

1. Transactions executed in accordance with Rule 527 to resolve bona fide outrades or errors;
2. Transactions executed pursuant to Rule 538;
3. Block trades executed pursuant to Rule 526;
4. On the Globex platform, a person may knowingly trade against his customer order for his own account, an account in which he has a direct or indirect financial interest, an account over which he has discretionary trading authority, or a proprietary account of his employer, only if the customer order has been entered immediately upon receipt and has first been exposed on the Globex platform for a minimum of 5 seconds in the case of futures orders or for a minimum of 15 seconds in the case of options orders; and
5. Transactions where the customer has consented in writing no more than 12 months prior to the transaction to waive the application of Rule 531.A. Such transactions shall further be subject to the following requirements: (i) if the transaction was pit traded, the member complies with the requirements set forth in Rule 533; (ii) the member clearly identifies, by appropriate descriptive words, all such transactions, and (iii) if the transaction was pit traded, the member ensures that it is reported to Exchange price reporting staff for entry into the Exchange Price Reporting System as a cross trade.