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OFFICE OF THE SECRETARIAT

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December 3, 2010

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

**RE: Revisions to CME/CBOT/NYMEX Rules 587, 588 and 622  
CME/CBOT/NYMEX/COMEX Submission No. 10-362**

Dear Mr. Stawick:

Chicago Mercantile Exchange Inc. ("CME"), The Board of Trade of the City of Chicago, Inc. ("CBOT"), The New York Mercantile Exchange, Inc. ("NYMEX") and Commodity Exchange, Inc. ("COMEX") (collectively, the "Exchanges") hereby notify the Commodity Futures Trading Commission that they each have adopted amendments to Rules 587 ("Phantom Orders"), 588 ("Trade Cancellations and Price Adjustments") and 622 ("Claims Relating to Trade Cancellations or Price Adjustments").

The amendments eliminate the use of the words "bust" and "no-bust" range in the rules, which are being replaced with "cancel" or "cancellation" and "non-reviewable" range, respectively. Over the last several years, the exchanges have moved from cancelling (busting) error trades on the CME Globex electronic trading platform to adjusting trade prices pursuant to Rule 588. The changes are intended to more accurately reflect current business practices. Conforming changes have also been made to Rules 587 and 622.

The revisions to Rules 587, 588 and 622 begin on the next page, with additions underscored and deletions overstruck, and will become effective on December 7, 2010.

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

If you have any questions, please contact Robert Sniegowski, Market Regulation, at 312.341.5991 or me at 212.299.2200. Please reference CME/CBOT/NYMEX/COMEX Submission No. 10-362 in any related correspondence.

Sincerely,

/s/ Christopher Bowen  
Managing Director, Chief Regulatory Counsel

## **588. TRADE CANCELLATIONS AND PRICE ADJUSTMENTS**

### **588.A. Globex Control Center Authority Regarding Trade Cancellations and Price Adjustments**

The following shall be applied to balance the adverse effects on market integrity of executing trades and publishing trade information inconsistent with prevailing market conditions while preserving legitimate expectations of trade certainty by market participants. This rule authorizes the Globex Control Center ("GCC") to adjust trade prices or cancel ~~(bust)~~-trades when such action is necessary to mitigate market disrupting events caused by the improper or erroneous use of the electronic trading system or by system defects. Notwithstanding any other provisions of this rule, the GCC may adjust trade prices or ~~bust~~cancel any trade if the GCC determines that allowing the trade to stand as executed may have a material, adverse effect on the integrity of the market. All decisions of the GCC shall be final.

### **588.B. Review of Trades**

The GCC may determine to review a trade based on its independent analysis of market activity or upon request for review by a user of the electronic trading system. A request for review must be made within eight minutes of the execution of the trade.

The GCC shall determine whether or not a trade will be subject to review. In the absence of a timely request for review, during volatile market conditions, upon the release of significant news, or in any other circumstance in which the GCC deems it to be appropriate, the GCC may determine, in its sole discretion, that a trade shall not be subject to review.

Upon deciding to review a trade, the GCC will promptly issue an alert indicating that the trade is under review.

### **588.C. Price Adjustments and Cancellations**

Upon making a determination that a trade will be subject to review, the GCC will first determine whether the trade price is within the ~~No-Bust~~Non-Reviewable Range for futures or within the Bid/Ask Reasonability Allowance for options, as described in Section G. The Bid/Ask Reasonability Allowance for an option is the maximum width of the bid/ask range which will be considered reasonable for use in applying the parameters necessary to establish the ~~No-Bust~~Non-Reviewable Range for the option. In applying the ~~No-Bust~~Non-Reviewable Range, the GCC shall determine the fair value market price for that contract at the time the trade under review occurred. The GCC may consider any relevant information, including, but not limited to, the last trade price in the contract or a better bid or offer price on the electronic trading system, a more recent price in a different contract month, the price of the same or related contract established in another venue or another market, the market conditions at the time of the trade, the theoretical value of an option based on the most recent implied volatility and responses to a Request for Quote (RFQ).

#### **1. Trade Price Inside the ~~No-Bust~~Non-Reviewable Range**

If the GCC determines that the price of the trade is inside the ~~No-Bust~~Non-Reviewable Range, the GCC will issue an alert indicating that the trade shall stand.

#### **2. Trade Price Outside the ~~No-Bust~~Non-Reviewable Range**

##### **a. Futures Contracts**

If the GCC determines that a trade price is outside the ~~No-Bust~~Non-Reviewable Range for a futures contract (including futures spreads), the trade price shall be adjusted to a price that equals the fair value market price for that contract at the time the trade under review occurred, plus or minus the ~~No-Bust~~Non-Reviewable Range. In the event there are multiple parties, prices and/or contracts involved in the transactions at issue, the GCC has the authority, but not the obligation, to ~~bust~~cancel rather than price adjust such transactions. The GCC will issue an alert regarding its decision.

##### **b. Option Contracts**

If the GCC determines that a trade price is outside the applicable ~~No-Bust~~Non-Reviewable Range for an option contract, the trade price shall be adjusted. In the case of a buy (sell) error, the price will be adjusted to the determined ask (bid) price set forth in the Bid/Ask Reasonability Allowance in Section G. plus (minus) the ~~No-Bust~~Non-Reviewable Range. In the event there are multiple parties, prices and/or contracts involved in the transactions at issue, the GCC has the authority, but not the obligation, to ~~bust~~cancel rather than price adjust such transactions. The GCC will issue an alert regarding its decision.

~~Cancelled~~Busted trade prices and any prices that have been adjusted shall be cancelled in the Exchange's official record of time and sales. Trades that are price adjusted shall be inserted in the time and sales record at the adjusted trade price.

### **588.D. Alternative Resolution by Agreement of Parties**

With the approval of the GCC, parties to a trade that is price adjusted may instead mutually agree to ~~bust~~cancel the trade. With the approval of the GCC, parties to a trade that is ~~busted~~cancelled may instead mutually agree to price adjust the trade to a price consistent with the adjustment provisions of Section C.

Parties to a trade that is ~~busted~~cancelled or price adjusted may mutually agree to a cash adjustment provided that such adjustments are reported to the GCC and the parties maintain a record of the adjustment.

An executed trade may not be reversed via transfer except where such trade is determined by GCC to be outside of the ~~No-Bust~~Non-Reviewable Range but not reported timely, subject to agreement of the parties and approval of the GCC. Any such transfer must occur at the original trade price and quantity; however the parties may mutually agree to a cash adjustment.

A trade that is not ~~busted~~cancelled may not be reversed via a prearranged offsetting transaction unless such transactions are permitted and effected in accordance with Rule 539.C.

### **588.E. Liability for Losses Resulting from Price Adjustments or Cancellations**

A party entering an order that results in a price adjustment or trade ~~bust~~cancellation shall be responsible for demonstrated claims of realized losses incurred by persons whose trade prices were adjusted or ~~busted~~cancelled provided, however, that a claimant shall not be entitled to compensation for losses incurred as a result of the claimant's failure to take reasonable actions to mitigate the loss.

A claim for a loss pursuant to this section must be submitted to the Exchange on an Exchange claim form within five business days of the event giving rise to the claim. The Exchange shall reject any claim that is not filed in a timely manner or is not permitted by this section and such decisions shall be final. Eligible claims shall be forwarded by the Exchange to the party responsible for the order(s) that resulted in a trade ~~bust~~cancellation or a price adjustment and to the clearing member through which the trade was placed. Such party, or the clearing member on behalf of the party, shall, within ten business days of receipt of the claim, admit or deny responsibility in whole or in part. Failure to respond to the claim within ten business days shall be considered a denial of liability.

To the extent that liability is admitted, payment shall be made within ten business days. Unless otherwise agreed upon in writing by the parties, failure to make the payment within ten business days shall be considered a denial of liability for purposes of this rule. A copy of any such written agreement must be provided to the Exchange.

To the extent that liability is denied, the party making the claim may submit the claim to arbitration in accordance with Rule 622. Such claims must be submitted to the Market Regulation Department within ten business days of the date the party was issued notification that liability was denied.

**588.F. Schedule of Administrative Fees**

When GCC ~~bust~~cancels or price adjusts a trade, the party responsible for entering the order into the electronic trading system that gave rise to the trade ~~bust~~cancellation or price adjustment shall pay an administrative fee to the Exchange in the amount of \$500 for each such occurrence. If the party is not deemed a Member as defined in Rule 400 and fails to pay the fee, the clearing member through which the trade was placed shall be responsible for payment of the fee.

**588.G. ~~No-Bust~~Non-Reviewable Trading Ranges**

Futures Contract

~~No-Bust~~Non-Reviewable Range

[The Futures Non-Reviewable Trading Ranges are unchanged.]

**Futures Combinations**

Eurodollar Combinations	2.5 basis points
Non-Eurodollar, Non-Implied Eligible, Intra-Commodity Futures Spreads	5 ticks
Implied Eligible Inter- and Intra-Commodity Futures Spreads	Same as the <del>no-bust</del> <u>non-reviewable</u> range of the individual legs
Inter-Commodity Futures Spreads	The wider of the <del>no-bust</del> <u>non-reviewable</u> ranges of the two individual legs

Option Contract

Bid/Ask Reasonability

~~No-Bust~~Non-Reviewable Range

Eurodollars/Euroyen	The greater of the delta times the underlying futures <del>no-bust</del> <u>non-reviewable</u> range or 20% of the fair value premium up to the underlying futures <del>no-bust</del> <u>non-reviewable</u> range with a minimum reasonability of 1 basis point	2 minimum ticks
30 Year Bond	The greater of the delta times 12/64ths or 20% of the fair value premium up to 12/64ths with a minimum reasonability of 2/64ths	20% of the premium up to 2/64ths
U.S. Treasuries (2, 5, 10 Year Notes)	The greater of the delta times 10/64ths or 20% of the fair value premium up to 10/64ths with a minimum reasonability of 2/64ths	20% of the premium up to 2/64ths
30-Day Fed Funds	The greater of the delta times the underlying futures <del>no-bust</del> <u>non-reviewable</u> range or 20% of the fair value premium up to the underlying futures <del>no-bust</del> <u>non-reviewable</u> range with a minimum reasonability of 2 basis points	20% of the premium up to ¼ of the underlying futures <del>no-bust</del> <u>non-reviewable</u> range

Interest Rate Swaps (5, 7, 10, 30)	The greater of the delta times the underlying futures <del>no-bust</del> <u>non-reviewable</u> range or 20% of the fair value premium up to the underlying futures <del>no-bust</del> <u>non-reviewable</u> range with a minimum reasonability of 5/64ths	20% of the premium up to ¼ of the underlying futures <del>no-bust</del> <u>non-reviewable</u> range
3 Month Overnight Index Swaps	The greater of the delta times the underlying futures <del>no-bust</del> <u>non-reviewable</u> range or 20% of the fair value premium up to the underlying futures <del>no-bust</del> <u>non-reviewable</u> range with a minimum reasonability of 3 basis points	20% of premium up to ¼ of the underlying futures <del>no-bust</del> <u>non-reviewable</u> range
Equities (excluding DJIA)	The greater of the delta times the underlying futures <del>no-bust</del> <u>non-reviewable</u> range or 20% of the fair value premium up to the underlying futures <del>no-bust</del> <u>non-reviewable</u> range with a minimum reasonability of 1.00 index point	20% of premium up to ¼ of the underlying futures <del>no-bust</del> <u>non-reviewable</u> range
DJIA	The greater of the delta times the underlying futures <del>no-bust</del> <u>non-reviewable</u> range or 20% of the fair value premium up to the underlying futures <del>no-bust</del> <u>non-reviewable</u> range with a minimum reasonability of 10 index points	20% of premium up to ¼ of the underlying futures <del>no-bust</del> <u>non-reviewable</u> range
FX	The greater of the delta times the underlying futures <del>no-bust</del> <u>non-reviewable</u> range or 5% of the fair value premium up to the underlying futures <del>no-bust</del> <u>non-reviewable</u> range with a minimum reasonability of 10 ticks	20% of premium up to ¼ of the underlying futures <del>no-bust</del> <u>non-reviewable</u> range
Agricultural (excluding Grains, Oil & Meal)	The greater of the delta times the underlying futures <del>no-bust</del> <u>non-reviewable</u> range or 20% of the fair value premium up to the underlying futures <del>no-bust</del> <u>non-reviewable</u> range with a minimum reasonability of \$.005	20% of premium up to ¼ of the underlying futures <del>no-bust</del> <u>non-reviewable</u> range
Grains	The greater of the delta times the underlying futures <del>no-bust</del> <u>non-reviewable</u> range or 20% of the fair value premium up to the underlying futures <del>no-bust</del> <u>non-reviewable</u> range with a minimum reasonability of \$.01	20% of premium up to ¼ of the underlying futures <del>no-bust</del> <u>non-reviewable</u> range
Soybean Oil	The greater of the delta times the underlying futures <del>no-bust</del> <u>non-reviewable</u> range or 20% of the fair value premium up to the underlying futures <del>no-bust</del> <u>non-reviewable</u> range with a minimum reasonability of \$.0005	20% of premium up to ¼ of the underlying futures <del>no-bust</del> <u>non-reviewable</u> range
Soybean Meal	The greater of the delta times the underlying futures <del>no-bust</del> <u>non-reviewable</u> range or 20% of the fair value premium up to the underlying futures <del>no-bust</del> <u>non-reviewable</u> range with a minimum reasonability of \$.50	20% of premium up to ¼ of the underlying futures <del>no-bust</del> <u>non-reviewable</u> range
Non-Farm Payroll	None	None

Ethanol	The greater of the delta times the underlying futures <del>no-bustnon-reviewable</del> range or 20% of the fair value premium up to the underlying futures <del>no-bustnon-reviewable</del> range with a minimum reasonability of \$.02	20% of premium up to ¼ of the underlying futures <del>no-bustnon-reviewable</del> range
MGEX Options	The greater of the delta times the underlying futures <del>no-bustnon-reviewable</del> range or 20% of the fair value premium up to the underlying futures <del>no-bustnon-reviewable</del> range with a minimum reasonability of \$.01	20% of premium up to ¼ of the underlying futures <del>no-bustnon-reviewable</del> range
KCBT Options	The greater of the delta times the underlying futures <del>no-bustnon-reviewable</del> range or 20% of the fair value premium up to the underlying futures <del>no-bustnon-reviewable</del> range with a minimum reasonability of \$.01	20% of premium up to ¼ of the underlying futures <del>no-bustnon-reviewable</del> range
Random Length Lumber	The greater of the delta times the underlying futures <del>no-bustnon-reviewable</del> range or 20% of the fair value premium up to the underlying futures <del>no-bustnon-reviewable</del> range with a minimum reasonability of \$2.00	20% of premium up to ¼ of the underlying futures <del>no-bustnon-reviewable</del> range
NYMEX Crude Oil, Cracks	The greater of the delta times the underlying futures <del>no-bustnon-reviewable</del> range or 20% of the fair value premium up to the underlying futures <del>no-bustnon-reviewable</del> range with a minimum reasonability of \$.10	20% of premium up to ¼ of the underlying futures <del>no-bustnon-reviewable</del> range
NYMEX Heating Oil	The greater of the delta times the underlying futures <del>no-bustnon-reviewable</del> range or 20% of the fair value premium up to the underlying futures <del>no-bustnon-reviewable</del> range with a minimum reasonability of \$.0076	20% of premium up to ¼ of the underlying futures <del>no-bustnon-reviewable</del> range
NYMEX RBOB	The greater of the delta times the underlying futures <del>no-bustnon-reviewable</del> range or 20% of the fair value premium up to the underlying futures <del>no-bustnon-reviewable</del> range with a minimum reasonability of \$.0076	20% of premium up to ¼ of the underlying futures <del>no-bustnon-reviewable</del> range
NYMEX Natural Gas	The greater of the delta times the underlying futures <del>no-bustnon-reviewable</del> range or 20% of the fair value premium up to the underlying futures <del>no-bustnon-reviewable</del> range with a minimum reasonability of \$.05	20% of premium up to ¼ of the underlying futures <del>no-bustnon-reviewable</del> range
COMEX Gold	The greater of the delta times the underlying futures <del>no-bustnon-reviewable</del> range or 20% of the fair value premium up to the underlying futures <del>no-bustnon-reviewable</del> range with a minimum reasonability of \$2.00	20% of premium up to ¼ of the underlying futures <del>no-bustnon-reviewable</del> range

COMEX Silver

The greater of the delta times the underlying futures ~~no-bustnon-reviewable~~ range or 20% of the fair value premium up to the underlying futures ~~no-bustnon-reviewable~~ range with a minimum reasonability of \$.05

20% of premium up to ¼ of the underlying futures ~~no-bustnon-reviewable~~ range

COMEX Copper

The greater of the delta times the underlying futures ~~no-bustnon-reviewable~~ range or 20% of the fair value premium up to the underlying futures ~~no-bustnon-reviewable~~ range with a minimum reasonability of \$.01

20% of premium up to ¼ of the underlying futures ~~no-bustnon-reviewable~~ range

[The remainder of the Rule is unchanged.]

#### **587. PHANTOM ORDERS**

##### **587.A. Definition**

[Section A. is unchanged.]

##### **587.B. Permissible Responses**

If the Exchange has reason to believe that phantom orders have been or are being entered into and/or executed on any Exchange system, service or facility, the Exchange shall be empowered to take appropriate action with respect to any affected market, including without limitation, closing the market, deleting bids and offers, and/or suspending new bids and offers.

The Exchange shall promptly give notice that all Globex transactions that were directly or indirectly caused by the execution of phantom orders and were executed at prices outside of the ~~no-bustnon-reviewable~~ range, as determined in accordance with Rule 588, shall be voided. The Exchange shall have no liability or responsibility to the parties to any transactions that are voided pursuant to this paragraph.

The Exchange shall also be empowered to void Globex transactions that were directly or indirectly caused by the execution of phantom orders and were executed at prices within the ~~no-bustnon-reviewable~~ range or phantom orders that were executed in the pit if the Exchange concludes that such transactions impair the integrity of the market. The Exchange's liability for voiding transactions within the ~~no-bustnon-reviewable~~ range or voiding transactions executed in the pit is limited as provided in paragraph C.

##### **587.C. Limitation of Liability**

Any liability of the Exchange for transactions voided by the Exchange that are within the ~~no-bustnon-reviewable~~ range shall be subject to the limitations and conditions of Rule 578.

[The remainder of the Rule is unchanged.]

#### **622. CLAIMS RELATING TO TRADE CANCELLATIONS OR PRICE ADJUSTMENTS**

##### **622.A. General**

All claims relating to price adjustments or trade ~~bustcancellations~~ pursuant to Rule 588 shall be arbitrated in accordance with the specific requirements of this Rule 622 and, to the extent not inconsistent with such requirements, the rules of this Chapter.

##### **622.B. Initiation of Claim**

Any claim for loss under Rule 588 must first be submitted to the Exchange as described in Rule 588.E. Following a denial of liability by a party responsible for a trade ~~bustcancellation~~ or price adjustment and by the clearing firm through which the trade was placed, the claimant may file an arbitration claim with the Market Regulation Department. The Market Regulation Department shall administer the arbitration and provide notice to all parties.

The party alleged to have made the trade that caused the trade ~~bustcancellation~~ or price adjustment and the clearing firm through which that trade was placed both may be respondents in the arbitration. Any party responsible for a trade ~~bustcancellation~~ or price adjustment who is not otherwise subject to arbitration under these rules may voluntarily submit to such arbitration by filing a submission agreement with the Market Regulation Department within 21 days of that party's receipt of notice of the referral to arbitration. In the absence of the voluntary submission to arbitration by such party, the arbitration shall proceed solely against the clearing firm through which the trade was placed, and that firm shall be liable for any damages awarded by the panel.

##### **622.C. Related Claims**

All claims arbitrable under this rule that arise out of a trade ~~bustcancellation~~ or price adjustment that was caused by the same incident shall, to the extent practicable in the determination of the chairman, be consolidated for a single hearing.

[The remainder of the Rule is unchanged.]