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February 5, 2004

Ms. Jean A. Webb  
Office of the Secretariat  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21<sup>st</sup> Street, N.W.  
Washington, D.C. 20581

RE: Section 5c(c) and Regulation §40.6 Submission - Exchange Certification of  
Consumer Price Index Futures Rule Changes affecting GLOBEX Trade Algorithm and GLOBEX  
Order Entry Maximum, and Policy Change regarding GLOBEX Price Banding  
CME Submission #04-15.

Dear Ms. Webb:

Chicago Mercantile Exchange Inc. ("CME" or "Exchange") hereby submits, pursuant to Section 5c(c) of the Act and Regulation §40.6 thereunder, notification of the Consumer Price Index ("CPI") futures rule changes affecting Interpretation of CME Rule 580 – GLOBEX Trade Algorithms and CME Rule 560 – Restrictions on Interest Rate Futures Traded on GLOBEX, and a policy change to GLOBEX price banding.

The rule and policy changes were approved by the CME Board of Directors at its Regular Meeting on Wednesday, February 4, 2004. Exchange members, clearing firms, and other market participants will be notified of this information via CME Special Executive Report S-4061 dated Friday, February 6, 2004 as well as CME Update 04-02, dated Monday, February 9, 2004. CME certifies that these actions neither violate nor are inconsistent with any provision of the Commodity Exchange Act or rules thereunder.

**GLOBEX Trade Algorithm:** The Exchange has designated Barclays Capital Inc. to act as a lead market maker (LMM) for CPI futures. The LMM program will be as per CME Rule 580 – GLOBEX Trade Algorithms and CME Rule 581 – GLOBEX Lead Market Maker Program. As long as the LMM posts bids and offers of the width and depth as agreed, it will be entitled to a waiver of GLOBEX system fees during the term for which the designated LMM continues to act as such. Further, the LMM will receive guaranteed allocation using the LMM matching algorithm without the "TOP" order functionality as per the Interpretation of Rule 580 – GLOBEX Trade Algorithms.

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Additions are underlined in the following INTERPRETATION OF RULE 580 - GLOBEX TRADE ALGORITHMS.

**INTERPRETATION OF RULE 580 - GLOBEX TRADE ALGORITHMS**

Pro Rata Allocation Algorithm  
(No change)

Implied Order Algorithm  
(No change)

**Lead Market Maker (LMM) Allocation Algorithms**

The Exchange may designate, per the provisions of Rule 581, GLOBEX Lead Market Maker Program, multiple Lead Market Makers (LMMs) in specified futures and option markets traded on the GLOBEX Electronic Trading System. The Exchange has determined to use either LMM Allocation Algorithm (Option A) or LMM Allocation Algorithm (Option B) as described below to match orders in such specified markets. Two-, Five- and Ten-Year Swap Rate futures shall be subject to LMM Allocation Algorithm (Option A). Weather futures and CPI futures shall be subject to LMM Allocation Algorithm (Option B). All other futures and options contracts, unless specifically referenced in this Interpretation, will continue to use the normal matching algorithm based on price and time priority.

(The remainder of the interpretation is unchanged.)

**GLOBEX Order Entry Maximum:** Size restrictions will be imposed on orders for CPI futures at levels similar to those for the Swap Rate futures contracts. Orders for outright exceeding 1,000 contracts must be entered on GLOBEX as multiple entries each of which must not exceed 1,000 contracts. The same order entry maximum will be imposed on calendar spread orders for CPI futures.

Additions are underlined in the following CME RULE 560. RESTRICTIONS ON INTEREST RATE FUTURES TRADED ON GLOBEX.

**560. RESTRICTIONS ON INTEREST RATE FUTURES TRADED ON GLOBEX**

**560.A. General**

The following provisions apply to the trading of interest rate futures contracts on GLOBEX. To the extent that this rule is inconsistent with any other rule, this rule shall control.

**560.B. Execution of Orders**

1. Orders of any quantity may be accepted for interest rate futures for entry on the GLOBEX System. However, orders for 10-Year Swap Rate, 5-Year Swap Rate and 2-Year Swap Rate futures or option contracts and CPI futures contracts exceeding 1,000 contracts must be entered on the GLOBEX System as multiple entries each of which must not exceed 1,000 contracts. Orders for Eurodollar futures contracts exceeding 2,000 contracts must be entered on the GLOBEX System as multiple entries each of which must not exceed 2,000 contracts.

2. Reserved

3. Reserve
4. Calendar spread or combination orders of any quantity may be accepted for Eurodollar futures contracts for entry on the GLOBEX System. However, calendar spread or combination orders exceeding 2,000 contracts per month must be entered on the GLOBEX System as multiple entries each of which must not exceed 2,000 contracts.
5. There shall be no post-settlement session 10-Year Swap Rate, 5-Year Swap Rate and 2-Year Swap Rate futures or option contracts.
6. Calendar spread orders of any quantity may be accepted for 10-Year Swap Rate, 5-Year Swap Rate and 2-Year Swap Rate futures or option contracts and CPI futures contracts for entry on the GLOBEX System. However, calendar spread orders exceeding 1,000 contracts per contract month must be entered on the GLOBEX System as multiple entries each of which must not exceed 1,000 contracts.
7. Cross-trades are not permitted in 10-Year Swap Rate, 5-Year Swap Rate and 2-Year Swap Rate futures or option contracts.
8. Reserved  
(The remainder of the chapter remains unchanged.)

**GLOBEX Price Banding:** There are no price limits for GLOBEX trading for CPI futures contracts, but price banding is in effect. The previous policy set the price band at ten basis points (0.10), or twenty (20) times the tick size of 0.005. The Exchange Board has approved a change in this policy that is designed to allow the price band to adjust to expected market volatility around the CPI announcement time by the U.S. Bureau of Labor Statistics (BLS).

Under the new policy, the price band will be set at twenty basis points (0.20), or forty (40) ticks, or four (4) times the no bust range of five (5) basis points, for both outright and calendar spreads.

On CPI announcement/release dates, for one (1) hour before and for one (1) hour after the scheduled announcement time (which is 7:30 am Chicago time), the price band will be widened to two hundred basis points (2.00), or four hundred (400) ticks, or forty (40) times the no bust range of five (5) basis points, for both outright and calendar spreads.

Here is the current list of CPI announcement dates for the rest of 2004. Please note that all times are Chicago times. The BLS tends to announce future release dates towards the end of the calendar year. Updated information is available at [www.bls.gov/cpi](http://www.bls.gov/cpi).

| <b>Reference Month</b> | <b>Release Date</b> | <b>Release Time (Chicago Time)</b> |
|------------------------|---------------------|------------------------------------|
| January 2004           | Feb. 20, 2004       | 7:30 am                            |
| February 2004          | Mar. 17, 2004       | 7:30 am                            |
| March 2004             | Apr. 14, 2004       | 7:30 am                            |

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|                |                |         |
|----------------|----------------|---------|
| April 2004     | May 14, 2004   | 7:30 am |
| May 2004       | Jun. 15, 2004  | 7:30 am |
| June 2004      | Jul. 16, 2004  | 7:30 am |
| July 2004      | Aug. 17, 2004  | 7:30 am |
| August 2004    | Sept. 16, 2004 | 7:30 am |
| September 2004 | Oct. 19, 2004  | 7:30 am |
| October 2004   | Nov. 17, 2004  | 7:30 am |
| November 2004  | Dec. 17, 2004  | 7:30 am |
| December 2004  | Jan. 19, 2005  | 7:30 am |

If my staff or I may assist you, please do not hesitate to contact Sayee Srinivasan of my staff at 312-454-5205 or [ssriniva@cme.com](mailto:ssriniva@cme.com), or me at 312-466-7469 or [jlab@cme.com](mailto:jlab@cme.com). Please reference our CME Submission Number 04-15 in related correspondence.

Sincerely,



John W. Labuszewski, Director  
Research & Product Development

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