



U.S. COMMODITY FUTURES TRADING COMMISSION

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January 28, 2002

Mr. Scott Early
General Counsel
Merchants' Exchange
One IBM Plaza
330 North Wabash Avenue, Suite 3300
Chicago, IL 60611-3608

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RECORDS SECTION

51-22
NC2

Re: Request by the Merchants' Exchange that the Commission approve the light sweet crude oil, Brent crude oil, European gas oil, Henry Hub natural gas, New York harbor No. 2 heating oil and New York harbor unleaded gasoline futures contracts and associated proposed new rules and rule amendments.

Dear Mr. Early:

By submissions dated and received by the Commission December 10 2001, through January 22, 2002, the Merchants' Exchange (ME or Exchange) requested that the Commission approve (1) six energy futures contracts and (2) proposed associate new Rule 422, and rule amendments to Rules 305, 403, 406, 407, 411, 412, 413, 414, 417, 418, 420, 610, 612, 613, 1103, 1106, 1108, 1203, 1206, 1208 (collectively the "proposals"), pursuant to Section 5c(c)(2) of the Commodity Exchange Act (Act) and Commission Rules 40.3 and 40.5.

The Division of Economic Analysis and the Division of Trading & Markets have reviewed the materials submitted by the Exchange and have determined that the Exchange's proposals meet the requirements of the Commodity Exchange Act and Commission rules and regulations thereunder, including Guideline No. 1. Accordingly, please be advised that, as of the close of business January 25, 2002, the Exchange's proposals were approved.

Please note that a determination by the Exchange of the appropriateness of establishing position accountability standards for individual contracts rather than position limits is considered a rule and, as such, should be submitted to the Commission, by certification or for approval, pursuant to Section 5c of the Act and sections 40.5 or 40.6 of the Commission's Regulations. In addition, proposals to designate other futures contracts for purposes of block trading or to establish or revise the minimum size of a block trade for the subject energy contracts must be submitted to the Commission, by certification or for approval, pursuant to Section 5c of the Act and sections 40.5 or 40.6 of the Commission's Regulations. Any such submission should address why the minimum block size chosen would be an appropriate minimum size for block trading in light of transaction sizes in any relevant cash and futures markets.

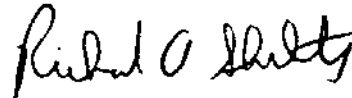
The Division of Trading and Markets notes that the Exchange's block trading proposal only permits the noncompetitive execution of block trades, and that compliance with the ME's block trading procedures does not insulate block trades from other requirements under the Act, the Commission's regulations or other applicable law. For example, each block transaction remains subject to the reporting and recordkeeping requirements and the antifraud and antimanipulation provisions under the Act and the Commission's regulations. See Sections 4b, 4o, 6(c) and 9(a)(2) of the Act.

Finally, the Division of Trading and Markets points out to ME that in approving the amendments to Rule 610(b) (reducing the time period that a Trading Privilege Holder must wait between the entry of a customer order and the entry of an opposite proprietary order) and Rule 613 (reducing the time period that a Trading Privilege Holder must wait between the entry of an order after pre-execution discussions), the Commission has determined that the rule amendments were appropriate for futures contracts, but the Commission has not made such determination for option contracts. Any amendment of rules to provide for time periods for trading against customer option orders should be submitted to the Commission, by certification or for approval, pursuant to Section 5c of the Act and sections 40.5 or 40.6 of the Commission's Regulations.

Sincerely,



David F. Van Wagner
Associate Director
Division of Trading and Markets



Richard A. Shilts
Acting Director
Division of Economic Analysis