

Special Executive Report

S-5179

July 12, 2010

Modifications to Rule 588.G. (“Globex No Bust Ranges”)

Effective on Sunday, July 18, for trade date Monday, July 19, CME, CBOT, NYMEX and COMEX will adopt amendments to Rule 588.G. (“Trade Cancellations and Price Adjustments – Globex No Bust Ranges”) modifying the manner in which the Bid/Ask Reasonability Allowance will be calculated by the Globex Control Center (“GCC”) when reviewing options trades on CME Globex. The Bid/Ask Reasonability Allowance is the maximum width of the bid/ask range considered reasonable for use in applying the parameters necessary to establish the no bust range for an option.

The amendments eliminate static bid/ask reasonability allowances in favor of variable bid/ask reasonability allowances based upon the option’s delta. The new Bid/Ask Reasonability Allowances are intended to be more reflective of the risk inherent in the option, and are designed to allow for more accurate determinations of when and to what price an option should be adjusted under the rule. Under the new process, the bid/ask reasonability allowance will be the greater of the delta risk (calculated as the delta of the option times the no bust range of the underlying futures contract) or the premium risk (calculated as 20% of the theoretical Fair Value premium of the option).

The new Bid/Ask Reasonability Allowances appear on pages 2 - 5 of this Special Executive Report and will become effective on Sunday, July 18.

The two examples set forth below illustrate the difference between the current method of determining an option’s no bust range and the new method that will be employed under the revised rule.

Example 1

\$6.20 August Wheat call options trade at 1 6/8th cents. The buyer reports the trade to GCC as an error. GCC determines that fair value for the call options is 3/8ths.

CURRENT METHOD

The current bid/ask reasonability range in Wheat options is a static 2 cents (+/- 1 cent from the GCC-determined fair value). For a buy error, the price will be adjusted to the GCC-determined ask price plus the no bust range (20% of the premium up to 1 cent with a minimum of 1 tick).

Applying the current reasonability range, the reasonable market would be a bid @ 1 3/8th. Applying the no bust range would result in an adjustment level to 1 6/8th – calculated as (1 3/8th + (1 3/8th * .20)) rounded up to the next tradable tick. Given that the trade took place at 1 6/8th, the trade would stand at 1 6/8th.

NEW METHOD

Under the new method, the bid/ask reasonability allowance is the greater of:

- 1) the option’s delta times the underlying futures no bust range: delta of .03 * 10 cents (rounded up to the next tradable tick) = 3/8th; or
- 2) 20% of the GCC determined fair value premium of the option up to the underlying futures no bust range, with a minimum of 1 cent: 20% * 3/8th cents (rounded up to the next tradable tick) = 1/8th cent

In this example, 1 cent is the bid/ask reasonability range (+/- ½ cent from fair value) and the reasonable market becomes cab bid @ 7/8th. Applying the new no bust range (20% of the reasonable offer premium up to ¼ of the Wheat futures 10 cent no bust range) would result in a price adjustment level of 1 1/8th – calculated as (7/8th + (7/8th * .20)), rounded to the next tradable tick. Given that the trade took place at 1 6/8th, the price of the trade would be adjusted to 1 1/8th.

Example 2

1780 July NASDAQ-100 call options trade at 18.00. The buyer reports the trade to GCC as an error. GCC determines that fair value for the call options is 13.50.

CURRENT METHOD

The current bid/ask reasonability range in NASDAQ-100 options is a static 2.00 index points (+/- 1.00 index point from the GCC-determined fair value). For a buy error, the price will be adjusted to the GCC-determined ask price plus the no bust range (20% of premium up to 1.00 index point with a minimum of 1 tick).

Applying the current reasonability range, the reasonable market would be 12.50 @ 14.50. Applying the no bust range would result in an adjustment level to 15.50 – calculated as (14.50 + (14.50 * .20)), up to 1.00 index point. Since the calculation exceeds 1.00 index point, the maximum 1.00 index point would be added to the GCC-determined ask price of 14.50. Given that the trade took place at 18.00, the trade would be adjusted to 15.50.

NEW METHOD

Under the new method, the bid/ask reasonability allowance is the greater of:

- 1) the option's delta times the underlying futures no bust range: delta of .28 * 12.00 index points (rounded up to the next tradable tick) = 3.35; or
- 2) 20% of the GCC determined fair value premium of the option up to the underlying futures no bust range, with a minimum of 1.00 index point: 20% * 13.50 (rounded up to the next tradable tick) = 2.75

In this example, the upper reasonable offer is 15.25 (13.50 + 1.675 rounded to the next tradable tick). Applying the new no bust range (20% of the reasonable offer premium up to ¼ of the NASDAQ-100 futures 12.00 index point no bust range) would result in a price adjustment level of 18.25 – calculated as (15.25 + (15.25 * .20)), rounded to the next tradable tick. Given that the trade took place at 18.00, the trade would stand.

Questions regarding these changes may be directed to Giuseppe Scimeca, Associate Director, Globex Control Center, at 312.456.2391 or Paul Millhuff, Director, Globex Control Center at 312.715.6837.

| Option Contract | Bid/Ask Reasonability | No Bust Range |
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| Eurodollars/Euroyen | The greater of the delta times the underlying futures no bust range or 20% of the premium up to the underlying futures no bust range with a minimum reasonability of 1 basis point | 2 minimum ticks |
| U.S. Treasuries (2, 5, 10 Year Notes) | The greater of the delta times 10/64ths or 20% of the premium up to 10/64ths with a minimum reasonability of 2/64ths | 20% of the premium up to 2/64ths |
| 30 Year Bond | The greater of the delta times 12/64ths or 20% of the premium up to 12/64ths with a minimum reasonability of 2/64ths | 20% of the premium up to 2/64ths |
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| 30-Day Fed Funds | The greater of the delta times the underlying futures no bust range or 20% of the premium up to the underlying futures no bust range with a minimum reasonability of 2 basis points | 20% of the premium up to ¼ of the underlying futures no bust range |
| Interest Rate Swaps (5, 7, 10, 30) | The greater of the delta times the underlying futures no bust range or 20% of the premium up to the underlying futures no bust range with a minimum reasonability of 5/64ths | 20% of the premium up to ¼ of the underlying futures no bust range |
| 3 Month Overnight Index Swaps | The greater of the delta times the underlying futures no bust range or 20% of the premium up to the underlying futures no bust range with a minimum reasonability of 3 basis points | 20% of premium up to ¼ of the underlying futures no bust range |
| Equities (excluding DJIA) | The greater of the delta times the underlying futures no bust range or 20% of the premium up to the underlying futures no bust range with a minimum reasonability of 1.00 index point | 20% of premium up to ¼ of the underlying futures no bust range |
| DJIA | The greater of the delta times the underlying futures no bust range or 20% of the premium up to the underlying futures no bust range with a minimum reasonability of 10 index points | 20% of premium up to ¼ of the underlying futures no bust range |
| FX | The greater of the delta times the underlying futures no bust range or 5% of the premium up to the underlying futures no bust range with a minimum reasonability of 10 ticks | 20% of premium up to ¼ of the underlying futures no bust range |
| Agricultural (excluding Grains, Oil & Meal) | The greater of the delta times the underlying futures no bust range or 20% of the premium up to the underlying futures no bust range with a minimum reasonability of \$.005 | 20% of premium up to ¼ of the underlying futures no bust range |
| Grains | The greater of the delta times the underlying futures no bust range or 20% of the premium up to the underlying futures no bust range with a minimum reasonability of \$.01 | 20% of premium up to ¼ of the underlying futures no bust range |
| Soybean Oil | The greater of the delta times the underlying futures no bust range or 20% of the premium up to the underlying futures no bust range with a minimum reasonability of \$.0005 | 20% of premium up to ¼ of the underlying futures no bust range |
| Soybean Meal | The greater of the delta times the underlying futures no bust range or 20% of the premium up to the underlying futures no bust range with a minimum reasonability of \$.50 | 20% of premium up to ¼ of the underlying futures no bust range |
| Non-Farm Payroll | None | None |

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| Ethanol | The greater of the delta times the underlying futures no bust range or 20% of the premium up to the underlying futures no bust range with a minimum reasonability of \$.02 | 20% of premium up to ¼ of the underlying futures no bust range |
| MGEX Options | The greater of the delta times the underlying futures no bust range or 20% of the premium up to the underlying futures no bust range with a minimum reasonability of \$.01 | 20% of premium up to ¼ of the underlying futures no bust range |
| KCBT Options | The greater of the delta times the underlying futures no bust range or 20% of the premium up to the underlying futures no bust range with a minimum reasonability of \$.01 | 20% of premium up to ¼ of the underlying futures no bust range |
| Random Length Lumber | The greater of the delta times the underlying futures no bust range or 20% of the premium up to the underlying futures no bust range with a minimum reasonability of \$2.00 | 20% of premium up to ¼ of the underlying futures no bust range |
| NYMEX Crude Oil, Cracks | The greater of the delta times the underlying futures no bust range or 20% of the premium up to the underlying futures no bust range with a minimum reasonability of \$.10 | 20% of premium up to ¼ of the underlying futures no bust range |
| NYMEX Heating Oil | The greater of the delta time the underlying futures no bust range or 20% of the premium up to the underlying futures no bust range with a minimum reasonability of \$.0076 | 20% of premium up to ¼ of the underlying futures no bust range |
| NYMEX RBOB | The greater of the delta times the underlying futures no bust range or 20% of the premium up to the underlying futures no bust range with a minimum reasonability of \$.0076 | 20% of premium up to ¼ of the underlying futures no bust range |
| NYMEX Natural Gas | The greater of the delta of the underlying futures no bust range or 20% of the premium up to the underlying futures no bust range with a minimum reasonability of \$.05 | 20% of premium up to ¼ of the underlying futures no bust range |
| COMEX Gold | The greater of the delta times the underlying futures no bust range or 20% of the premium up to the underlying futures no bust range with a minimum reasonability of \$2.00 | 20% of premium up to ¼ of the underlying futures no bust range |
| COMEX Silver | The greater of the delta times the underlying futures no bust range or 20% of the premium up to the underlying futures no bust range with a minimum reasonability of \$.05 | 20% of premium up to ¼ of the underlying futures no bust range |

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| COMEX Copper | The greater of the delta times the underlying futures no bust range or 20% of the premium up to the underlying futures no bust range with a minimum reasonability of \$.01 | 20% of premium up to ¼ of the underlying futures no bust range |
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