



Special Executive Report

S-5408

September 27, 2010

Revisions to CME Rule 506 (“Headset Privileges on the Trading Floor”)

CME has approved a change to Rule 506 (“Headset Privileges on the Trading Floor”) that will permit all CME members and their employees on the trading floor to use headsets to speak directly to nonmember customers located off the trading floor, eliminating the former prohibition on this activity with respect to the CME interest rate quadrant and the Standard & Poor’s 500 Stock Price Index and Nasdaq futures and options pits. This change is effective immediately, and, consistent with the requirements in all other CME, CBOT, NYMEX and COMEX trading pits, all members and their employees are permitted to accept orders directly from nonmember customers located off the trading floor **provided that the customer’s clearing firm, in its sole discretion, has specifically authorized the customer to place orders directly and provided that all applicable audit trail requirements are met.**

In order to comply with Exchange audit trail requirements, nonmember customer orders received directly over a headset by a broker or his employee must be immediately reduced to writing on order tickets or otherwise entered into an approved electronic device. Members and their employees must use firm or generic order tickets to record the receipt of the order in accordance with Rule 536.A.1. **Members and their employees may not use broker fill cards to record the placement of the order.**

Additionally, if a member or his employee is using generic order tickets, those tickets must include one of the following identifiers at the top of the ticket: the member’s name and/or acronym, the name of his broker association or the name of a member firm with which he is affiliated. The top ply of the order ticket and any associated broker fill cards used to record the execution of the order must be delivered to the customer’s clearing firm for keypunching. Clearing member firms must retain these documents in accordance with Exchange and CFTC retention requirements.

The changes to CME Rule 506 are set forth below, with additions underlined and deletions overstruck.

506. HEADSET PRIVILEGES ON THE TRADING FLOOR

506.A. Access and Supervision

Members and member firms are eligible to lease headsets from the Exchange for use on the trading floor by filing an application with the Telecommunications Department unless such usage is restricted in a particular pit by Exchange policy. Where headset usage is permitted, members and member firms may authorize their nonmember employees to utilize headsets subject to their supervision. For the purposes of this rule, a telephone in, or on the perimeter of, a trading pit shall be treated in the same manner as a headset.

Members and member firms are responsible for ensuring that their nonmember employees who utilize headsets comply with all requirements set forth in this rule and are responsible for the content of their nonmember employees’ headset communications.

506.B. Use of Headsets

Nonmember employees wearing a headset may communicate order and fill information, as well as market information that has been publicly exposed to the trading pit; however, such nonmember employees may not communicate their personal opinions concerning the market or trading activity. Headsets may be used to communicate between locations on the trading floor, and between the trading floor and off-floor locations. Headsets may be used to accept, place or relay orders provided that all applicable Exchange audit trail and recordkeeping requirements are met, unless such usage is restricted in a particular pit by Exchange policy. ~~In trading pits where headset contact with nonmember customers is permitted~~ However, nonmember customers may not place orders directly to the pit, and floor brokers and their employees may not accept such orders, unless the customer's clearing firm, in its sole discretion, has specifically authorized the customer to place orders directly.

An overview of current CME headset policy is set forth in today's release of Special Executive Report S-5406.

If you have any questions concerning this matter, please contact Robert Sniegowski, Associate Director, Market Regulation, at 312.341.5991 or Erin Schwartz, Senior Rules and Regulatory Outreach Specialist, Market Regulation, at 312.341.3083.

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