



Special Executive Report

S-4697

April 1, 2008

EXCHANGE APPROVES REVISIONS TO CME RULE 135 (“GEM DIVISION”) AND RELATED RULES IN CONNECTION WITH RELOCATION OF CME TRADING PITS TO CBOT BUILDING

The Exchange has approved revisions to CME Rule 135 (“GEM Division”) and related rules in connection with the upcoming move of CME trading pits to the CBOT building. The changes eliminate the restriction on the entry of orders by GEM members in products of other divisions while on the consolidated trading floor. The revisions were made in connection with the adoption of harmonized order entry policies which will be applicable on the consolidated trading floor. Information concerning these policies is provided in today’s release of CME & CBOT Market Regulation Advisory Notice RA0807-3.

The changes allow GEM members on the consolidated trading floor to place orders for pit execution in any CME or CBOT product with members eligible to execute such orders, and also allow GEM members to trade or place orders in any electronically traded CME or CBOT product via an approved trading application. **Non-member fees will apply to these transactions.**

The changes do not alter the restriction in Rule 135.A. (“Trading Privileges of GEM Members”) that prohibits GEM members from soliciting business in non-GEM CME products, other than specified spreads involving a GEM product. As was previously communicated in Special Executive Report S-4665 issued on January 30, 2008, GEM members are also prohibited from soliciting business in any CBOT product from the consolidated trading floor. No changes have been made to the restriction in Rule 135.B. (“Restriction on Trading Floor Access”) which prohibits a person who relinquishes trading privileges as a CME, IMM or IOM member from exercising trading floor privileges as a GEM member for two years after relinquishing such privileges in another division, except upon a demonstrable showing of financial hardship.

The Exchange has also eliminated the CME Chapter 4 Interpretation that required GEM members to be primarily engaged in the business of trading or soliciting orders for GEM Division products while on the floor and that restricted GEM members from operating in a clerical capacity with respect to non-GEM products for more than one year. The elimination of the Interpretation does not modify the existing provision in Rule 135.A. which clarifies that the time during which a GEM membership is held will not be counted toward the holding period necessary to permit lessees to become order fillers in the CME, IMM or IOM Divisions unless the holder can demonstrate that he was primarily engaged in active trading or order filling in GEM accessible products during that holding period.

The rule changes appear on the next page, with additions underscored and deletions bracketed.

135. GEM DIVISION

135.A. Trading Privileges of GEM Members

A GEM member shall have access to the trading floor to trade as principal and as broker for others ~~fill orders~~ in all products assigned to the GEM Division and all products available pursuant to Rule 194, hereinafter collectively referred to as GEM accessible products. ~~GEM members may not, while on the floor of the Exchange, enter orders for products of other Divisions except for bona fide spread transactions involving GEM accessible products. A GEM member who trades electronically or places orders for pit- or electronically-traded products in which he does not have membership privileges is not entitled to member rates for such trades.~~ GEM members may not solicit business from the floor of the Exchange except for business in GEM accessible products and bona fide spreads involving such products as set forth in the Interpretations Section at the end of this chapter. The time during which a GEM membership is held will not be counted toward satisfaction of the holding period necessary to permit lessees to become order fillers in the CME, IMM, or IOM Divisions unless the holder can demonstrate that he was primarily engaged in active trading or order filling in GEM accessible products during that holding period. Lessees in all divisions may fill orders in GEM accessible products without regard to such holding period.

[The remainder of the rule is unchanged.]

INTERPRETATION OF RULE 135.A. REGARDING ALLOWABLE SPREADS FOR GEM MEMBERS

Rule 135.A. provides that GEM members may not ~~while on the floor of the Exchange enter orders for products of other Divisions except for bona fide spread transactions involving products within the GEM Division and that GEM members may not~~ solicit business from the floor of the Exchange except for business in GEM accessible products ~~traded in the GEM Division~~ and bona fide spreads involving such products.

The only allowable spreads involving non-GEM products ~~in which that~~ GEM members may ~~enter into or~~ solicit business while on the trading floor are listed below:

GSCI	with	Live Cattle and Lean Hogs
Russell 2000	with	S&P 500, S&P Mid-Cap, E-Mini S&P 500
E-Mini Russell 1000	with	E-Mini S&P 500
S&P/Barra Growth and Value	with	S&P 500, S&P Mid-Cap, E-Mini S&P 500
East European Currencies	with	Euro FX
European style currency options	with	British pound, Canadian dollar, Euro FX, Japanese yen and Swiss franc futures or American style options on these futures
CME\$INDEX™	with	Euro FX, Japanese yen, British pound, Swiss franc, Australian dollar, Canadian dollar, Swedish krona
E-Mini NASDAQ Composite	with	E-Mini NASDAQ-100, E-Mini S&P 500, E-Mini S&P MidCap 400, E-Mini Russell 2000, S&P SmallCap 600, E-Mini Russell 1000, Financial SPCTR, Technology SPCTR.
CPI	with	Eurodollar

Yen Denominated Nikkei 225	with	Dollar Denominated Nikkei 225
HICP	with	Eurodollar, CPI

~~When such spreads are executed on a logged basis, the GEM log of the spread must always precode the non-GEM leg. Please note that these restrictions do not apply to spreads in which all of the component parts are in GEM accessible products.~~

GEM MEMBER REQUIREMENTS

~~A GEM member, while on the trading floor as a GEM member, must be primarily engaged in the business of trading or soliciting orders for GEM Division products. Shortly after the GEM Division was created, the GEM Access Committee adopted an interpretation allowing a GEM member to act as a non-member clerk in non-GEM products on the trading floor, while also acting as a GEM member with respect to GEM products, provided that the following restrictions are met:~~

- ~~• The GEM member must be registered with the Exchange as a floor clerk in order to act in that capacity.~~
- ~~• Such member cannot exceed the functions permitted to a non-member floor clerk with respect to non-GEM products—i.e., he or she cannot solicit customers in such products and cannot share in any revenues generated as a result of trades in such products.~~
- ~~• A GEM member who also acts as a clerk will not satisfy the one-year holding period to become an order filler as a lessee in another Division pursuant to Rule 106.D.10, unless he or she can demonstrate that he or she was primarily engaged in active trading or order filling in GEM Division products during that time.~~

~~Starting from September 11, 1998 [the effective date of the Interpretation], an individual may have floor access as both a GEM member and as a non-member clerk in non-GEM products for no longer than one year. After one year, the individual must relinquish either his or her floor access as a GEM member or his or her ability to act as a clerk on the trading floor. Exchange staff may grant waivers of that requirement to individuals upon a showing of financial hardship or upon a showing that the individual has made a good faith effort to increase his or her trading or solicitation of GEM products while on the trading floor.~~

Questions concerning the information contained in this Special Executive Report should be directed to Robert Sniegowski, Associate Director, Market Regulation, at 312.648.5493.