

Special Executive Report

S-4947

July 28, 2009

Closing Times of Expiring CBOT Interest Rate Options on Their Last Trading Day

Effective **July 28, 2009**, several changes will be made to CBOT rules governing the trading hours and termination of trading in expiring CBOT interest rate options. These changes will modify the closing times of expiring CBOT interest rate options on their last trading day so that they are the same as the closing times of the corresponding CBOT interest rate futures contracts on that trading day. CBOT will implement these changes for all contract months beginning with the September 2009 expiries in U.S. Treasury Bond and Note options and the August 2009 expiries in 30-Day Fed Funds and Interest Rate Swap options. Attachments 1-9 summarize the rule changes that will take effect on July 28, 2009.

The proposed changes will make all CBOT and CME Interest Rate options uniform in regard to the termination of trading. The harmonization of the trading rules for the closing times of expiring CBOT and CME interest rate options on their last trading day is expected to benefit market participants in at least two ways. First, it will simplify expiration day procedures for traders, sales desks, and back offices. Second, by enabling contract users to trade expiring CBOT interest rate options until the CME Globex close, the Exchange will facilitate participants' management of pin risks that frequently arise at option expiries.

Futures prices fluctuate during the late-day interval between 2 p.m. and 4 p.m., frequently by a sufficient degree to exert an impact upon option owners' decisions as to whether to exercise. Because current trading hours prevent option traders from adjusting their positions during this interval, they often avoid trading on option expiry day. By giving market practitioners more latitude in their management of expiring option positions, the proposed extension of trading hours should serve to promote more trading activity and broader participation on option expiry days.

Expiring CBOT interest rate options will continue to be struck against the daily futures settlement price, as set by the Exchange at 2 p.m. Chicago time, for option exercise purposes.

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Attachment 1

Chapter 18A – Standard Options on U.S. Treasury Bond Futures

(Additions are underlined; deletions are ~~struck through~~.)

18A01.D. Trading Hours

The hours of trading for options on U.S. Treasury Bond futures contracts shall be determined by the Exchange. U.S. Treasury Bond futures options shall be opened and closed for all months and strike prices simultaneously or in such other manner as the Exchange shall direct.

On ~~the~~ its last day of trading ~~in an expiring option~~, an ~~the~~ expiring U.S. Treasury Bond futures option shall cease trading at the same time ~~as of the close of the open outcry trading session~~ for the corresponding futures contract on that trading day.

18A01.I. Termination of Trading

Subject to the provisions of Rule 18A01.D., no trades in U.S. Treasury Bond futures options expiring in the current month shall be made after the close of trading ~~of the open outcry trading session~~ for the corresponding U.S. Treasury Bond futures contract on the last Friday which precedes by at least two business days, the last business day of the month preceding the option month. If such Friday is not a business day, or there is a Friday which is not a business day which precedes by one business day the last business day of the month preceding the option month, the last day of trading shall be the business day prior to such Friday.

Attachment 2

Chapter 19A – Standard Options on Long-Term U.S. Treasury Note Futures

(Additions are underlined; deletions are ~~struck through~~.)

19A01.D. Trading Hours

The hours of trading for options on Long-Term U.S. Treasury Note futures shall be determined by the Exchange. Long-Term U.S. Treasury Note futures options shall be opened and closed for all months and strike prices simultaneously or in such other manner as the Exchange shall direct.

On ~~the~~ its last day of trading ~~in an expiring option, an~~ the expiring Long-Term U.S. Treasury Note futures options shall cease trading at the same time ~~as of~~ as the close of ~~the open-outcry trading session~~ for the corresponding futures contract on that trading day.

19A01.I. Termination of Trading

Subject to the provisions of Rule 19A01.D, no trades in Long-Term U.S. Treasury Note futures options expiring in the current month shall be made after the close of trading ~~of the open-outcry trading session~~ for the corresponding Long-Term U.S. Treasury Note futures contract on the last Friday which precedes by at least two business days, the last business day of the month preceding the option month. If such Friday is not a business day, or there is a Friday which is not a business day which precedes by one business day the last business day of the month preceding the option month, the last day of trading shall be the business day prior to such Friday.

Attachment 3

Chapter 20A – Standard Options on Medium-Term U.S. Treasury Note Futures

(Additions are underlined; deletions are ~~struck through~~.)

20A01.D. Trading Hours

The hours of trading for options on Medium-Term U.S. Treasury Note futures contracts shall be determined by the Exchange. Medium-Term U.S. Treasury Note futures options shall be opened and closed for all months and strike prices simultaneously or in such other manner as the Exchange shall direct.

On ~~the~~ its last day of trading ~~in an expiring option~~, an ~~the~~ expiring Medium-Term U.S. Treasury Note futures option shall cease trading at the same time ~~as of~~ the close of ~~the open outcry trading session~~ for the corresponding futures contract on that trading day.

20A01.I. Termination of Trading

Subject to the provisions of 20A01.D., no trades in Medium-Term U.S. Treasury Note futures options expiring in the current month shall be made after the close of trading ~~of the open outcry trading session~~ for the corresponding Medium-Term U.S. Treasury Note futures contract on the last Friday which precedes by at least two business days, the last business day of the month preceding the option month. If such Friday is not a business day, or there is a Friday which is not a business day which precedes by one business day the last business day of the month preceding the option month, the last day of trading shall be the business day prior to such Friday.

Attachment 4

Chapter 21A – Standard Options on Short-Term U.S. Treasury Note Futures

(Additions are underlined; deletions are ~~struck through~~.)

21A01.D. Trading Hours

The hours of trading for options on Short-Term U.S. Treasury Note futures contracts shall be determined by the Exchange. Short-Term U.S. Treasury Note futures options shall be opened and closed for all months and strike prices simultaneously or in such other manner as the Exchange shall direct.

On ~~the~~ its last day of trading ~~in an expiring option~~, an ~~the~~ expiring Short-Term U.S. Treasury Note futures option shall cease trading at the same time ~~as of~~ the close of ~~the open outcry trading session~~ for the corresponding futures contract on that trading day.

21A01.I. Termination of Trading

Subject to the provisions of 21A01.D., no trades in Short-Term U.S. Treasury Note futures options expiring in the current month shall be made after the close of trading ~~of the open outcry trading session~~ for the corresponding Short-Term U.S. Treasury Note futures contract on the last Friday which precedes by at least two business days, the last business day of the month preceding the option month. If such Friday is not a business day, or there is a Friday which is not a business day which precedes by one business day the last business day of the month preceding the option month, the last day of trading shall be the business day prior to such Friday.

Attachment 5

Chapter 22A – Standard Options on 30-Day Federal Funds Futures

(Additions are underlined; deletions are ~~struck through~~.)

22A01.D. Trading Hours

The hours of trading for options on 30-Day Fed Fund futures contracts shall be determined by the Exchange. Options shall be opened and closed for all months and strike prices simultaneously or in such other manner as determined by the Exchange.

On its last day of trading, an expiring 30-Day Fed Fund futures option shall cease trading at the same time as the close termination of open outcry trading for ~~in~~ the corresponding ~~30-Day Fed Fund~~ futures contract on that trading day.

22A01.I. Termination of Trading

Trading in an expiring 30-Day Fed Fund futures option ~~contract~~ shall terminate on the same date and at the same time as ~~the termination of open outcry trading in the corresponding 30-Day Fed Fund futures contract~~ (Rule 22102.F.).

Attachment 6

Chapter 23A – Options on 10-Year Interest Rate Swap Futures

(Additions are underlined; deletions are ~~struck through~~.)

23A01.D. Trading Hours

Trading hours shall be determined by the Exchange. Options shall be opened and closed for all expiration months and strike prices simultaneously, or in such other manner as determined by the Exchange.

On its last day of trading (Rule 23A01.I.), an expiring option shall cease trading at the same time as ~~of the close of the open outcry trading session or for the~~ corresponding 10-Year Interest Rate Swap futures contract on that trading day (Rule 23102.A.).

23A01.I. Termination of Trading

1. Options in the March Quarterly Cycle
For any option that expires in any month within the March Quarterly Cycle (Rule 23A00.A.1.), trading in such expiring option shall terminate on the same date and at the same time as the corresponding 10-Year Interest Rate Swap futures (Rules 23102.A. and 23102.F.).
2. Options Not in the March Quarterly Cycle
For any option that expires in any month not within the March Quarterly Cycle (Rule 23A00.A.2.), trading in such expiring option shall terminate on the Friday preceding the third Wednesday of the option's named month of expiration, at the same time as ~~of the close of the open outcry trading session~~ for the corresponding 10-Year Interest Rate Swap futures contract on that trading day (Rule 23A01.D.). If such Friday is a scheduled Exchange holiday, trading in such expiring option shall terminate on the last preceding Exchange business day. In the event that the market in the corresponding 10-Year Interest Rate Swap futures does not open on the scheduled option expiration day, option expiration shall occur on the next following Exchange business day on which such futures market is open for trading.

Attachment 7

Chapter 24A – Options on 5-Year Interest Rate Swap Futures

(Additions are underlined; deletions are ~~struck through~~.)

24A01.D. Trading Hours

Trading hours shall be determined by the Exchange. Options shall be opened and closed for all expiration months and strike prices simultaneously, or in such other manner as determined by the Exchange.

On its last day of trading (Rule 24A01.I.), an expiring option shall cease trading at the same time as ~~of the close of the open outcry trading session or for the~~ corresponding 5-Year Interest Rate Swap futures contract on that trading day (Rule 24102.A.).

24A01.I. Termination of Trading

1. Options in the March Quarterly Cycle
For any option that expires in any month within the March Quarterly Cycle (Rule 24A00.A.1.), trading in such expiring option shall terminate on the same date and at the same time as the corresponding 5-Year Interest Rate Swap futures (Rules 24102.A. and 24102.F.).
2. Options Not in the March Quarterly Cycle
For any option that expires in any month not within the March Quarterly Cycle (Rule 24A00.A.2.), trading in such expiring option shall terminate on the Friday preceding the third Wednesday of the option's named month of expiration, at the same time as ~~of the close of the open outcry trading session~~ for the corresponding 5-Year Interest Rate Swap futures contract on that trading day (Rule 24A01.D.). If such Friday is a scheduled Exchange holiday, trading in such expiring option shall terminate on the last preceding Exchange business day. In the event that the market in the corresponding 5-Year Interest Rate Swap futures does not open on the scheduled option expiration day, option expiration shall occur on the next following Exchange business day on which such futures market is open for trading.

Attachment 8

Chapter 25A – Options on 30-Year Interest Rate Swap Futures

(Additions are underlined; deletions are ~~struck through~~.)

25A01.D. Trading Hours

Trading hours shall be determined by the Exchange. Options shall be opened and closed for all expiration months and strike prices simultaneously, or in such other manner as determined by the Exchange.

On its last day of trading (Rule 25A01.I.), an expiring option shall cease trading at the same time as ~~of the close of the open outcry trading session or for the~~ corresponding 30-Year Interest Rate Swap futures contract on that trading day (Rule 25102.A.).

25A01.I. Termination of Trading

1. Options in the March Quarterly Cycle
For any option that expires in any month within the March Quarterly Cycle (Rule 25A00.A.1.), trading in such expiring option shall terminate on the same date and at the same time as the corresponding 30-Year Interest Rate Swap futures (Rules 25102.A. and 25102.F.).
2. Options Not in the March Quarterly Cycle
For any option that expires in any month not within the March Quarterly Cycle (Rule 25A00.A.2.), trading in such expiring option shall terminate on the Friday preceding the third Wednesday of the option's named month of expiration, at the same time as ~~of the close of the open outcry trading session~~ for the corresponding 30-Year Interest Rate Swap futures contract on that trading day (Rule 25A01.D.). If such Friday is a scheduled Exchange holiday, trading in such expiring option shall terminate on the last preceding Exchange business day. In the event that the market in the corresponding 30-Year Interest Rate Swap futures does not open on the scheduled option expiration day, option expiration shall occur on the next following Exchange business day on which such futures market is open for trading.

Attachment 9

Chapter 38A – Options on 7-Year Interest Rate Swap Futures

(Additions are underlined; deletions are ~~struck through~~.)

38A01.D. Trading Hours

Trading hours shall be determined by the Exchange. Options shall be opened and closed for all expiration months and strike prices simultaneously, or in such other manner as determined by the Exchange.

On its last day of trading (Rule 38A01.I.), an expiring option shall cease trading at the same time as the close of trading for the corresponding 7-Year Interest Rate Swap futures contract on that trading day (Rules 38102.A.).

- ~~1. Options in the March Quarterly Cycle
On the last day of trading (Rule 38A01.I.) in any option that expires in any month within the March Quarterly Cycle (Rule 38A00.A.1.), trading in such expiring option shall cease at the same time as the corresponding 7-Year Interest Rate Swap futures (Rules 38102.A. and 38102.F.).~~
- ~~2. Options Not in the March Quarterly Cycle
On the last day of trading (Rule 38A01.I.) in any option that expires in any month not within the March Quarterly Cycle (Rule 38A00.A.2.), trading in such expiring option shall cease at 2:00 p.m. Chicago time.~~

38A01.I. Termination of Trading

1. Options in the March Quarterly Cycle
For any option that expires in any month within the March Quarterly Cycle (Rule 38A00.A.1.), trading in such expiring option shall terminate on the same date and at the same time as the corresponding 7-Year Interest Rate Swap futures (Rules 38102.A. and 38102.F.).
2. Options Not in the March Quarterly Cycle
For any option that expires in any month not within the March Quarterly Cycle (Rule 38A00.A.2.), trading in such expiring option shall terminate ~~at 2:00 p.m. Chicago time (Rule 38A01.D.2.)~~ on the Friday preceding the third Wednesday of the option's named month of expiration, at the same time as the close of trading for the corresponding 7-Year Interest Rate Swap futures contract on that trading day (Rule 38A01.D.). If such Friday is a scheduled Exchange holiday, trading in such expiring option shall terminate on the last preceding Exchange business day. In the event that the market in the corresponding 7-Year Interest Rate Swap futures does not open on the scheduled option expiration day, option expiration shall occur on the next following Exchange business day on which such futures market is open for trading.