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Advisory Notice

Clearing House

TO: All Firm Personnel
Service Bureau Representatives
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FROM: Clearing House Department

ADVISORY #: 05-217

DATE: September 20, 2005

SUBJECT: Tick Size Change on LIBOR Futures, Implied LIBOR Spreads on CME® Globex® and Application of CME Globex Trade Algorithm to One-Month LIBOR Futures -- **Effective Sunday, October 9, 2005**

Below please find details of three upcoming changes which will affect LIBOR futures traded on CME Globex:

Implied LIBOR Spreads on CME Globex

Effective **Sunday, October 9, 2005**, implied spread pricing for LIBOR futures will be available on CME® Globex®. Implied spread pricing enhances trading and risk management opportunities on this product. To understand how implied spread pricing works, please refer to our "Implied Pricing for Eurodollar Futures On Globex®" document, located at: <http://www.cme.com/files/EUImpliedPrice.pdf>, which explains the concept thoroughly. The same concept will be applied to LIBOR futures.

Please refer to the tables on the following pages that detail the various implied spreads, both calendar spreads and butterflies) that will be available in CME Globex.

LIBOR Tick Size Change

Additionally, to facilitate implied spread pricing for LIBOR futures, the minimum tick increment will decrease from ½ tick currently, **to ¼ tick**, for all futures contract months, effective on **Sunday, October 9, 2005**.

Application of CME Globex Trade Algorithm to One-Month LIBOR Futures Pro Rata Allocation Algorithm

CME has chosen to apply the Pro Rata Allocation Algorithm currently used to match Eurodollar futures orders entered in the CME Globex system to LIBOR futures. The amended language from the Interpretation of Rule 580. – Globex Trade Algorithms follows:

CME has determined to use a Pro Rata Allocation Algorithm to match orders in Eurodollar futures and One-Month LIBOR futures contracts entered in the CME Globex Electronic Trading System. Unless specifically referenced in this Interpretation, all other futures and options contracts, including Eurodollar options, will continue to use the default matching algorithm based on price and time priority. Eurodollar futures contracts were chosen to use the Pro Rata Allocation Algorithm because they usually trade in a narrow price range, and each price level is represented by size. The Pro Rata Allocation Algorithm operates as follows:

- After the opening, Time Priority is assigned to the first order at a price that betters the market when the order is received (the "TOP order"). Only one buy order and one sell order can have Time Priority at any given time. Orders with Time Priority (TOP orders) are matched first regardless of size.
- An order will lose Time Priority when an order at a better price is entered. Example: An order to buy 50 contracts is entered at 105. This order is the first order in at this price level. Another order comes in and betters the market, buy 25 contracts at 106. The order at the 106 level has Time Priority now and is the TOP order. The market sells off and the bid for 25 contracts at 106 is hit. The bid for 50 contracts at 105 does not regain its Time Priority and will be allocated according to size along with all the other 105 bids.
- After the Time Priority or TOP order is filled, the Pro Rata Allocation Algorithm is applied to the remainder of the resting orders at that price level. The Algorithm will attempt to match quantities to orders in proportion to the size of each order. Example: There are orders to buy 10 and 20 contracts at the same price, and neither order has Time Priority. A sell order for 15 contracts at that price is entered. The Algorithm will match the sell order against the buy orders so that 50% of each buy order is matched. The minimum quantity the Pro Rata Allocation Algorithm will allocate is two contracts.
- If the "Initial Allocation" results in a fraction, the Algorithm will "Round Down" or drop the fractional amount. Any contracts still to be allocated after the "Initial Allocation" has run will be allocated on a first in, first out basis.

Implied Order Algorithm

The Exchange has determined to use an Implied Order Algorithm to create orders for selected individual contracts, calendar spreads, and butterfly spreads in Eurodollar futures and One-Month LIBOR futures contracts entered in the CME Globex Electronic Trading System. For the purpose of this rule interpretation, buying one butterfly spread (butterfly) means simultaneously buying and selling contracts with three different expirations in the following proportion: buying one contract with the most nearby of the three expirations, selling two contracts with the second of the three expirations and buying one contract with the most deferred of the three expirations. Unless specifically referenced in this Interpretation, all other futures and options contracts, will continue to use the Pro Rata Allocation Algorithm. This implied Order Algorithm operates as follows:

[The remainder of Chapter 5 remains unchanged.]

If you have any questions regarding this notice, please contact Laura Sutor at 312.648.5480, email lsutor@cme.com, or Lisa Amato at 312.338.2654, email lamato@cme.com. Thank you.

LIBOR Implied Spreads:

LIBOR one-month calendar spreads						
GLBV5-GLBX5	GLBX5-GLBZ5	GLBZ5-GLBF6	GLBF6-GLBG6	GLBG6-GLBH6	GLBH6-GLBJ6	GLBJ6-GLBK6
GLBV5-GLBZ5	GLBX5-GLBF6	GLBZ5-GLBG6	GLBF6-GLBH6	GLBG6-GLBJ6	GLBH6-GLBK6	GLBJ6-GLBM6
GLBV5-GLBF5	GLBX5-GLBG6	GLBZ5-GLBH6	GLBF6-GLBJ6	GLBG6-GLBK6	GLBH6-GLBM6	GLBJ6-GLBN6
GLBV5-GLBG5	GLBX5-GLBH6	GLBZ5-GLBJ6				
GLBV5-GLBH5	GLBX5-GLBJ6					
LIBOR one-month butterflies						
GLB:BF V5-X5-Z5						
GLB:BF X5-Z5-F6						
GLB:BF Z5-F6-G6						
LIBOR three-month butterflies						
GLB:BF V5-F6-J6						
GLB:BF X5-G6-K6						
GLB:BF Z5-H6-M6						
GLB:BF F6-J6-N6						