Chicago Mercantile Exchange

CME Clearing360™
Frequently Asked Questions (FAQ)

1. What is CME Clearing360?
CME Clearing360 is an extension of CME's clearing services to the over-the-counter ("OTC") markets in complementary product areas.

2. Why is CME launching this service?
OTC market users have asked CME to bring the benefits and efficiencies of its existing clearing services to the OTC marketplace.

CME Clearing360 will bring OTC participants the following benefits:

- Central counterparty clearing, which offers greater capital and operational efficiencies, including risk offsets against related futures and options positions;
- World-class risk management of the credit, operational, and legal risks that customers face in OTC trading;
- Regulated market protections that institutions have come to expect with CME products.

3. Who will benefit from CME Clearing360?
Firms that act as a principal or agent for OTC transactions such as:
- Hedge funds;
- Proprietary trading firms;
- Financial firms;
- Global and regional banks; and
- Prime brokers and their clients.

4. What are the advantages of clearing trades through the CME Clearing360 service?
With the service, OTC market participants can take advantage of existing systems and infrastructure offered by CME and its clearing member firms, along with the risk management, financial management, and performance guarantee offered with exchange traded products. Moreover, customer collateral deposited with CME for cleared futures is segregated and protected from a bankruptcy in the carrying clearing member's proprietary origin.

5. What products can be cleared through CME Clearing360?
In the initial phase, CME will offer clients the ability to "substitute" CME Eurodollar futures for similar OTC interest rate products such as swaps and FRAs. Substitutions on CME Euroyen and CME LIBOR futures are also available. Over time, CME plans to offer additional products and services associated with CME Clearing360.

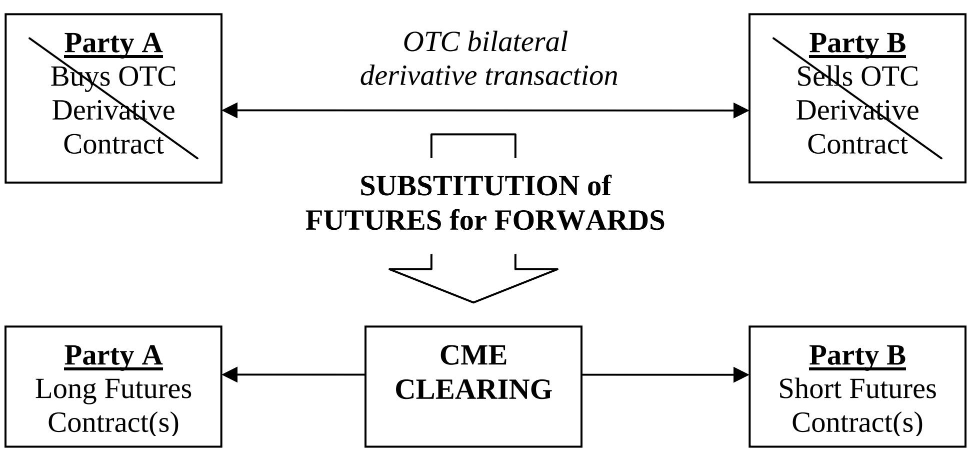
6. When will the service be operational?
The service will be rolled out in phases, beginning with “Substitutions” for CME Eurodollar futures, which will launch April 3, 2006.

7. What are “Substitutions?”
Substitutions or “Subs” allow clients to substitute futures contracts for an OTC transaction, such as an Interest Rate Swap or Forward Rate Agreement (FRA). In the case of dollar denominated 3-month interest rate Subs, clients will be able to substitute their OTC trades for CME Eurodollar futures “to the date” as well as standard IMM expirations. At launch, there will be futures to the date for up to six calendar months. In subsequent updates, maturities that are “to the date” will be extended.

Subs offer a high degree of operational efficiencies, with all the advantages of CME Clearing, including: straight-through-processing (STP), segregated customer funds, intraday margining and transparent settlement prices.

8. How does a Subs transaction differ from a block transaction or an Exchange for-Physical (EFP) transaction?
In a Subs transaction, the original bilateral contracts between the two counterparties are extinguished by the counterparties to the OTC derivative transaction and replaced by futures contracts (see below). By comparison, an EFP involves the simultaneous exchange of a futures position for a corresponding cash position (*i.e.*, a basis trade). One of the parties is the buyer of the "spot" and the seller of the futures contract, and the other party is the seller of the "spot" and the buyer of the futures contract. A block transaction involves only futures, or options on futures. A block transaction may be executed privately on or off the trading floor and is subject to minimum transaction quantity requirements.

Substitution of Futures for Forwards (Subs) Process



9. What are the regulations for CME Substitutions?
Only matched transactions between two Eligible Contract Participants (ECPs, see below for definition) that are executed in a manner appropriate to any OTC transaction may be presented to CME for purposes of clearing as a Substitution. In the process, the original bilateral contracts between the two counterparties will be extinguished by the counterparties to the OTC derivative transaction and replaced by futures contracts in a substitution of futures for forwards process.

The CME Rulebook paragraph defining Substitutions is listed below:

CME Rulebook, Rule 537
SUBSTITUTION OF FUTURES FOR FORWARDS (Sub)
(Ex-Pit or Ex-CME Globex® Transactions). A Substitution of futures contracts for over-the-counter (OTC) forward instruments shall be permitted by arrangement between eligible contract participants and comprised of two discrete transactions, where, the buyer and seller of the futures contract must be, respectively, the buyer and seller of the forward instrument. The forward instrument component shall involve the commodity underlying the futures contract (or a derivative, by-product or related product of such commodity). The quantity covered by the forward instrument must be approximately equivalent to the quantity covered by the futures contract. The parties to the transaction shall maintain a record of the transaction together with all pertinent memoranda. The forward instrument component of a Sub transaction must comply with applicable CFTC forward regulatory requirements, if any. CME shall determine eligible futures contracts and over-the-counter instruments.

10. What is an Eligible Contract Participant?
Eligible Contract Participants (ECPs), as defined by the Commodity Futures Trading Commission (CFTC), generally include sophisticated parties such as financial institutions; insurance companies and investment companies subject to regulation; commodity pools and employee benefit plans subject to regulation and asset requirements; other entities subject to asset requirements or whose obligations are guaranteed by an ECP that meets certain net worth requirements; government entities; brokers, dealers, and futures commission merchants (FCMs) subject to regulation and organized as other than natural persons or proprietorships subject to total asset requirements or whose obligations are guaranteed by an ECP that meets certain net worth requirements; floor brokers or floor traders subject to regulation in connection with transactions that take place on or through the facilities of a registered entity or an exempt board of trade; individuals subject to total asset requirements; an investment advisor or commodity trading advisor acting as an investment manager or fiduciary for another ECP, and any other person that the Commission deems eligible in light of the financial or other qualifications of the person.

11. What supporting documentation does CME require for the OTC transaction?
Documentation maintained by the parties to the transaction should include:

- Documents relevant to the futures side of the trade (e.g., cards, orders, and customer account statements); and

- Cash confirmations, invoices, bills of sale, or other documents evidencing terms of the cash side of the transaction, including evidence of payment/settlement of the cash transaction.

Documentation evidencing the cash side of the transaction consists of those documents customarily generated in accordance with cash market practices that demonstrate the existence and nature of the cash transactions, including, but not limited to, contracts, confirmation statements, telex printouts, invoices, warehouse receipts or other documents of title.

12. What other functionality does CME intend to roll out over the next year?
CME will work with customers to build out the CME Clearing360 capabilities to expand beyond interest rates into additional product areas. Current plans include adding the ability to clear futures with flexible notional amounts as well as cleared forwards.

13. How much will the service cost to use?
Rates for Subs will vary by product. CME Interest Rate futures Subs will have a surcharge of $1 per contract in addition to applicable clearing fees.

Please refer to www.cme.com/clearing for the current CME Clearing fee schedule.

14. Do I have to be a member of CME to use the service?
No. You do not have to be a member of CME to use the CME Clearing360 service. however, you must have a relationship with a CME clearing member firm.

15. How will the service be regulated?
CME is registered with the Commodity Futures Trading Commission as a Derivatives Clearing Organization. While the OTC markets are not regulated by the CFTC, futures positions resulting from the Substitution process on OTC transactions are regulated by the CFTC for clearing and processing in the CME Clearing360 service.

16. Will OTC transactions submitted into the CME Clearing360 service be fungible with CME listed futures products?
Yes. A Sub cleared through CME Clearing360 is fungible and can be offset with a CME listed contract if it shares the listed contract's expiration date. Subs expiring on dates other than standard IMM dates may only be offset through a Sub transaction for the same expiry.

17. Will Subs cleared through CME Clearing360 be margined with CME listed futures products?
Yes. Firms and customers will receive a single margin requirement for both listed futures and Subs.

18. How do I satisfy the CME Clearing360 margin requirements – do I need to establish a counterparty credit facility with CME Clearing?
No counterparty credit facility is required to transact with counterparties. Collateral for CME Clearing360 margin requirements are held at CME through your clearing firm. The CME Clearing360 margin requirements are identical to CME Clearing's current list of approved collateral. A list of approved collateral may be found at: www.cme.com/clearing/set/ac/accepcoll1365.html

19. How do I submit my Substitutions to CME?
Subs must be submitted through your clearing firm's back office using the CME front-end clearing screen. This process is similar to current procedures for submitting EFPs.

Please check with your FCM compliance officer for procedures on documenting OTC transactions that involve futures. In the event your clearing member firm does not provide you with a form, a sample OTC Transaction Confirmation Form is available on the CME Web site at www.cme.com.

20. Will the Sub appear on my futures statement once accepted into clearing?
Yes. Once accepted for clearing by CME Clearing, your cleared only futures contract will appear on your trading statement.

21. Do I need to establish and maintain ISDA documentation with CME to document the OTC transaction?
No. CME will not require additional documentation above and beyond the usual and customary manner of documentation for OTC transactions.

22. May I substitute a seasoned or dated OTC transaction on my books?
Yes. The CME Clearing360 service will accept for clearing dated or seasoned OTC transactions substituted into a cleared only future.

23. How are prices of a Subs transaction reported and disseminated?
Similar to an EFP, a Subs transaction is submitted to the clearing firm by the eligible participant and then the clearing firm's back office uses the CME front-end clearing (FEC) screen to enter the transaction information into the CME Clearing system. The information entered into FEC includes the prices at which the transaction took place. These prices will then be disseminated to quote vendors and other data providers real time over the ticker.

24. What are futures to the date?
CME permits the creation of futures in specified futures markets with maturity dates that do not conform to standard CME expirations ("futures to the date"). These contracts are tradable only through the Subs process. This means that they may be traded in an OTC environment and assigned to CME Clearing for purposes of clearing, at which point they achieve the status of futures contracts and may be held in segregated futures accounts. Initially, "futures to the date" will only be available for contracts expiring within six months of the trade date.

For example, CME Eurodollar futures mature in March 2006 with a standard International Monetary Market ("IMM") maturity date of 3/13/06; April 2006 on 4/13/06; May 2006 on 5/15/06; June 2006 on 6/19/06; September 2006 on 9/18/06; December 2006 on 12/18/06, etc. Using the Subs process, CME may create a "to the date" CME Eurodollar contract that matures on an alternate date that is mutually agreed by the two counterparties to the bilateral transaction, *e.g.,* 3/29/06. In the case of CME Eurodollar futures, this date is restricted to normal Exchange and London bank business days.

25. What OTC derivative transactions are eligible to be substituted into CME cleared only futures?
CME will determine the nature and character of the initiating OTC derivative transactions. In particular, the OTC instrument must parallel the futures contract in terms of the underlying instrument, term and transaction quantity.

For example, an OTC Forward Rate Agreement (FRA) with a 3-month term with a $1 million face value may be deemed an acceptable substitutable for a CME Eurodollar futures contract. Or, an OTC interest rate swap may be deemed substitutable for a strip or bundle of CME Eurodollar futures of similar term. The Exchange will, from time to time, specify acceptable OTC derivative instruments.

26. How is the settlement price determined for non-standard expiration dates?
"Futures to the Date" will be settled on a daily basis per CME Rule 813, which provides for settlement per observed spread relationships. This procedure is adequate and appropriate to the extent that CME offers "traded and cleared" contracts in the eligible contracts settled on standard IMM dates. CME intends to apply standard margining levels to all cleared-only futures.

27. How will position limits and position accountability be applied?
CME will apply position limit, position accountability, and reporting requirements to eligible products per normal and customary practices. Once accepted by CME and cleared, these contracts are considered CME futures contracts subject to standard position limit, position accountability and reporting requirements and are aggregated for such purposes with standard traded and cleared contracts in the subject market.

For example, CME Rule 45202.D., Position Accountability, establishes that "a person owning or controlling more than 10,000 (Three-Month CME Eurodollar Futures) contracts net long or net short in all contract months, combined shall provide, in a timely fashion, upon request by the Exchange, information regarding the nature of the position, trading strategy, and hedging information if applicable." For purposes of this Rule, positions established in cleared-only CME Eurodollar futures are accumulated along with all other Eurodollar futures and option positions.

28. Are there trade submission requirements for Substitutions?
No. Unlike EFP and Block trades, CME does not have trade submission requirements linked to the transaction time. Substitutions are considered executed on the same trade day until 7:00 p.m. CT, which is the cut-off time for submissions to the clearing system for a particular business day. Transactions that are executed after the cut-off time will have a trade date corresponding to the following business day. For example, a Substitution into CME Eurodollars that took place on a Tuesday at 7:05 p.m. would reflect the next day's (Wednesday) trade date.

For more information, please call CME Customer Service at 1-800-331-3332. Outside the United States, please call 312-930-2316.