



## **Electronic Corporate Membership Questions & Answers**

September 13, 2006

### **1. What is Electronic Corporate Membership?**

Electronic Corporate Membership is a class of Exchange membership that allows proprietary trading firms to receive discounted fees for their electronic proprietary trades that are done by qualified registered traders in accordance with CME policies. Electronic Corporate Members will not be eligible for discounted fees on their open outcry trades, nor will they be allowed to access CME's trading floors.

### **Membership Requirements**

### **2. Are there membership holding requirements for Electronic Corporate Members?**

Yes. Electronic Corporate Members will be required either to purchase one membership or lease two memberships in the division in which they wish to receive discounted rates. This requirement is **waived through December 2007** for Electronic Corporate Members satisfying a quarterly minimum volume requirement (See questions 21-29).

However, beginning January 1, 2007, an Electronic Corporate Member holding the necessary membership(s) (denoted "ECM Holding Member or ECM-H") will generally pay lower fees than Electronic Corporate Members that do not hold membership(s) and satisfy minimum quarterly volume requirements (denoted "ECM Volume Incentive Program" or "ECM-W"). See questions 37-41 for fee information.

### **3. What is the difference between an ECM-H and an ECM-W?**

For the purposes of this Q&A document,

- An "ECM-H" is an Electronic Corporate Member holding the required membership(s).
- An "ECM-W" is an Electronic Corporate Member that does not hold the required membership(s) under the volume incentive program membership waiver. The membership waiver of ECM-Ws expires December 31, 2007.
- An "ECM" is an Electronic Corporate Member and includes both ECM-Hs and ECM-Ws.

All ECMs will pay the same fees through December 31, 2006. However, beginning January 1, 2007, ECM-Hs will pay less than ECM-Ws for trades made within division during Regular Trading Hours (See questions 37-39).

**4. If my ECM purchases a membership prior to December 2006, are we allowed to lease that membership to another individual in the interim period?**

Yes. The firm will continue to be eligible for the ECM discounted rates until December 31, 2006. To meet the membership requirements of ECM-H, the membership must then be transferred to and held in the name of the ECM-H as of January 1, 2007.

**Firm eligibility**

**5. What types of firms are eligible for Electronic Corporate Membership? What types of firms are not eligible?**

Eligible Firms: Proprietary trading groups are eligible for Electronic Corporate Membership. They will receive discounted fees for all electronic trading in the accounts of the proprietary trading firm conducted in accordance with CME policies.

Ineligible Firms: Hedge Funds, Commodity Pools, Banks, FCMs, Foreign Brokers, Broker/Dealers, Commodity Trading Advisors, Introducing Brokers and other firms that hold and/or manage third party funds are not eligible for Electronic Corporate Membership.

**6. What firms qualify as Proprietary Trading Firms?**

A proprietary trading firm is a legal entity that trades its own capital. Trading funds must be exclusively firm funds and all trading must be done in the firm's accounts. Traders must be owners of, employees of, or contractors to the firm.

**7. What guidelines are used to determine if trading is proprietary?**

A proprietary account is evidenced through:

- All profits and losses of the account are included in the income of the firm.
- All profits and losses of the account are taxed to the firm.
- The trader (non-owner) does not make any capital contribution to the account.
- Only the firm's capital is at risk of loss; no traders may make any contributions or payments to the firm nor have any capital at risk.
- All trading activity must be solely for the benefit of the ECM. No other individuals or entities can have any ownership interest in the ECM's proprietary accounts.
- All funds contributed to and traded under the ECM are subject to loss from any and all trading activity of the ECM.

**8. Can an existing ECM-H convert to an ECM-W?**

No. ECM-Hs which have met the membership requirement cannot step down to an ECM-W.

**9. Can an existing ECM-H change to a lower division of membership held?**

No. ECM-Hs cannot step down to a lower division of membership held.

**10. Can an existing ECM-H change to a higher division of membership held?**

Yes. ECM-Hs may acquire a higher division of membership to meet the membership requirements of Rule 106.R. As an ECM-H only the trades conducted in the division of membership held will be entitled to the lower rates during RTH.

**11. Can existing Rule 106.H. corporate members convert to an ECM-W?**

No.

**12. Can existing Rule 106.H. corporate members convert to ECM-H?**

Yes. The firm must hold the required memberships, retaining at least the membership division of the Rule 106.H. The firm must meet all other requirements for ECM-H including the prohibition on current and former members from trading an ECM-H account.

**13. Can existing active or inactive clearing members convert to an ECM-W?**

No.

**14. Can existing active or inactive clearing members convert to ECM-H?**

Yes. The firm must hold the required memberships. Upon conversion the firm will be subject to all ECM-H policies, including the prohibition on current and former members from trading an ECM-H account.

**15. If I am or have been a CME member within the past two years, as either an equity owner or lessee, am I allowed to establish an ECM in order to train new traders?**

Yes. Exchange members, whether equity owners or lessees, are allowed to own ECMs and share in the trading results of the ECM. However, any trader who owns, holds, or has owned or held a membership in any of CME's divisions within the past two years cannot trade the ECM's account electronically.

There are no restrictions prohibiting equity members who own such ECMs from subsequently selling their memberships or giving up their leases. However, they will continue to be prohibited from trading the ECM's account electronically for two years following the disposition of those memberships or leases.

**Who can trade**

**16. Are there any restrictions on who may trade an ECM's trading accounts?**

Yes. To receive discounted transaction fees, trades must be done by registered traders. In general, trades done by any owner of, employee of, or contractor to the trading firm may receive discounted fees. However, traders, including owners of the trading firm, who currently own, hold, or have owned or held trading privileges in any CME division during the two years immediately preceding their registration as a trader of the firm's accounts cannot trade the accounts electronically.

While there are no restrictions prohibiting equity members who own such ECMs from subsequently selling their memberships or giving up their leases, they will, however, continue to be prohibited from trading the ECM account electronically for two years following the disposition of their memberships or leases.

CME will conduct periodic reviews of ECM traders to ensure no current or previous (within the past two years) individual members are trading the accounts electronically. Any violations of this policy may result in disciplinary action and any previously discounted fees paid may be re-assessed at higher rates.

**17. Is there a W-2 requirement for traders trading a proprietary trading firm's ECM accounts?**

No. However, the terms of any contractual agreement between the trading firm and its traders must support the classification of the trading activity as proprietary.

**18. Can a member or former member trade the ECM account?**

No. Individuals who own, hold, or have owned or held memberships in any division in the past two years cannot trade the ECM's account electronically. This prohibition applies equally to ECM-Hs and ECM-Ws.

**19. Can a former member lease a membership and trade the ECM account?**

No. Individuals who own, hold, or have owned or held memberships in any division in the past two years cannot trade the ECM's account electronically. This prohibition applies equally to ECM-Hs and ECM-Ws.

**20. Can I trade the ECM's account if I am or have been a GEM member? What if I have held a membership pursuant to Rules 106.F., H., or I.?**

No. As noted above, traders of the ECM who own, hold, or have owned or held a membership in any of CME's divisions within the past two years can not trade the ECM's account electronically. This includes the GEM division as well as trading rights held via any corporate membership category. This prohibition applies equally to ECM-Hs and ECM-Ws.

**Minimum Volume**

**21. What are the minimum volume requirements for the membership waiver?**

Beginning January 1, 2007, ECM-Ws that traded on average 50 contracts (sides) a day in the previous quarter (October 1, 2006-December 31, 2006) will be eligible for the waiver of the membership requirement. Eligibility for the waiver of the membership requirement will be re-evaluated on a calendar quarter basis (March, June, September and December) for the previous 3-months of trading.

ECM-Ws that do not satisfy the membership requirements and that fail the minimum quarterly volume requirement will no longer be ECM-Ws and will receive non-member/customer rates on all future trades.

**22. Must an ECM-H satisfy the trading volume requirement?**

No. Only ECM-Ws (ECMs not holding memberships) are subject to the minimum quarterly volume requirement.

**23. How is an ECM-W's average daily volume calculated for the purposes of the minimum quarterly volume requirement?**

For each quarter, CME sums the (non-TRAKRs) sides traded through accounts held by the ECM-W and registered in CME's Exchange Fee System as such. To be included in the sum the contract side must trade and clear on a day within the quarter. CME calculates the average daily volume by dividing that sum by the number of business days in the quarter. Exchange holidays where only Globex was open are excluded from the business day count for the quarter.

**24. How is an ECM-W's average daily volume calculated if the ECM-W was approved midway through the quarter?**

The average daily volume will be based on the sides traded while the firm was an ECM-W and the number of business days that the entity was an ECM-W during the quarter.

**25. When does the minimum quarterly volume requirement go into effect?**

January 1, 2007. An ECM must have traded at least 50 contracts (sides) a day on average for the period of October 1, 2006 through December 31, 2006 to qualify as an ECM-W for the first quarter of 2007.

**26. For an ECM-W failing the minimum quarterly volume requirement, when will the membership status and fee changes go into effect?**

On the 15<sup>th</sup> of the review month (or first business day thereafter).

For instance, if an ECM-W averages below 50 contracts (sides) a day for the first quarter of 2007, the ECM-W membership and fee status will change effective April 15, 2007. For the period April 1 through April 14, the firm will retain Electronic Corporate Membership and receive the rates of an ECM-W. On and after April 15, the firm's Electronic Corporate membership will be expired and the firm will receive non-member/customer rates on all future trades.

**27. Will CME notify the ECM-W or the clearing firm of its failure to meet the minimum quarterly volume requirement?**

Yes. CME will notify an ECM-W failing the average minimum quarterly volume requirement. Additionally, CME will publish this expiration in the Special Executive Report and will do its best to notify an ECM-W's clearing member firms through direct communication (e.g. e-mail) that the Electronic Corporate Membership of the ECM-W is expiring. However, the expiring ECM-W is responsible for communicating with its clearing member firms the change in its membership status.

**28. Can a former ECM-W that failed the minimum quarterly volume requirement re-apply to be an ECM-W?**

Yes. If the firm chooses to re-apply, the firm must follow the application process, including payment of the application fee.

**29. Can a current ECM-W or former ECM-W that failed the minimum quarterly volume threshold become an ECM-H?**

Yes.

**Process**

**30. How do firms apply for Electronic Corporate Membership?**

Firms wishing to apply for Electronic Corporate Membership should contact the Membership Department at (312) 930-3480 or Audit Department at (312) 930-3230. The application form can be found on the website at [www.cme.com](http://www.cme.com) under Memberships – Corporate Memberships. Firms should also contact their clearing firms as their support will be helpful during the application and review process.

**31. How long is the approval process?**

Once the application, all supporting documents and the application fee are received, the review process starts and generally takes 2 - 4 weeks. CME staff will consider the applicant's business reputation, financial resources and proprietary trading activity in approving the applicant and reserves the right to reject any applicant. The decision of CME staff will be final.

**32. Are there any application fees?**

Yes. A \$1,000 non-refundable application fee will be required prior to any entity being reviewed and approved to receive the discounted rates. This fee will be applied to any transfer fees associated with the future purchase or lease of a membership. The only exception to this fee will be for individual member traders on SGX.

The application fee will be raised to \$1,750 on January 1, 2007.

**33. If my firm is approved as an ECM does it still need a clearing firm?**

Yes. All trades at CME are done through Exchange-approved clearing member firms. All ECMs must maintain their own separate account on the books of a clearing member firm for their proprietary trades. ECM accounts may not be maintained in a non-disclosed omnibus account.

**34. How will my clearing member firm be notified that my firm has been approved as an ECM?**

While we will do our best to notify the appropriate staff at any clearing firms you have included in your application, the responsibility to inform your clearing firm(s) remains with the applicant. Because the ECM discounted rates will be applicable at any clearing firm you utilize, we may not know about all of your clearing relationships. As a result, you must notify your clearing firms when you receive your approval notification. Your approval will be posted in CME's weekly Special Executive Report.

**35. How does a firm register traders to receive discounted fees?**

The ECM's clearing firm must assign a unique operator ID to each trader and register both the account and operator ID in CME's Exchange Fee System. To receive discounted fees, the operator ID must be included on each Globex transaction in FIX tag 50. Once the operator ID and account number have been properly registered within EFS, all associated transactions will be eligible to receive the discounted fee.

**Fee Schedules****36. What is the fee schedule for ECMs through December 31, 2006?**

Through December 31, 2006, the following fee schedule remains in effect for all ECM entities:

<b>Product Category</b>	<b>Electronic Trading (Globex + clearing fees [per side])</b>	<b>Open Outcry Trading (clearing fees [per side])</b>
E-mini Equity Index Products	44¢	N/A
Full Size Equity Index Products	88¢	78¢
Interest Rate Products	44¢	64¢
Foreign Exchange Products	44¢	60¢
Agricultural Products	44¢	64¢

**37. What is the fee schedule for ECM-Ws and ECM-Hs effective January 1, 2007?**

Beginning January 1, 2007, the following fee schedule will apply to:

- ECM-W entities (those which do not meet the membership requirements), for trades executed during Regular Trading Hours (RTH); and
- ECM-H entities (those which do meet the membership requirements), for trades in products that are outside of the division of the membership(s) held.

<b>Product Category</b>	<b>Electronic Trading (Globex + clearing fees [per side])</b>	<b>Open Outcry Trading (clearing fees [per side])</b>
E-mini Equity Index Products	64¢	N/A
Full Size Equity Index Products	\$1.28	78¢
Interest Rate Products	59¢	64¢
Foreign Exchange Products	59¢	60¢
Agricultural Products	59¢	64¢

Beginning January 1, 2007, the following fee schedule will apply to:

- ECM-H entities (those which meet the membership requirements), for trades executed during Regular Trading Hours (RTH) within the division of the memberships held; and
- All trades executed for the accounts of ECMs (with or without memberships) during Extended Trading Hours (ETH).

<b>Product Category</b>	<b>Electronic Trading (Globex + clearing fees [per side])</b>	<b>Open Outcry Trading (clearing fees [per side])</b>
E-mini Equity Index Products	49¢	N/A
Full Size Equity Index Products	98¢	78¢
Interest Rate Products	44¢	64¢
Foreign Exchange Products	44¢	60¢
Agricultural Products	44¢	64¢

### **38. What are the volume discounts for Eurodollar Futures trades?**

The clearing fee for Eurodollar Futures trades on Globex are discounted, on a per trader basis based on total monthly volume (sides), as follows:

Account of:	First 15,000 sides	15,001 to 50,000 sides	50,001 + sides
Rule 106.R Electronic Corporate Membership	No discount	10¢ (per side)	20¢ (per side)
Rule 106.H and 106.N Firms			
Asian Incentive Program Participants			
European Incentive Program Participants			

### **39. Is an ECM eligible for Globex fee caps on E-mini trades?**

No.

### **40. Is an ECM subject to fees charged per contract by the National Futures Association (NFA)?**

No. ECM-Hs and ECM-Ws are considered members of the Exchange; thus no NFA fee will be applicable for the firms' CME trading activity. Further, as ECM-Hs receive the ECM-W discounted rate for out-of-division electronic trades, such out-of-division trades will also not be subject to NFA fees.

### **41. Who can I contact if I have additional questions?**

If you have any fee questions, please contact the EFS Hotline, (312) 648-5470. If you have specific questions regarding owning or leasing memberships or Electronic Corporate Memberships in general, please contact the Membership Department at (312) 930-3480.