

CME Clearing

## Guide to CME Group Collateral Management Programs





## Table of Contents

	PAGE
INTRODUCTION	1
ABOUT CME GROUP COLLATERAL MANAGEMENT PROGRAMS	2
CME GROUP PLATFORM OF INSTITUTIONAL MONEY FUNDS (IEF2)	3
CME GROUP SECURITIES ADMINISTRATION PROGRAMS (IEF3 AND IEF4)	4
CME GROUP CASH WITH INTEREST PROGRAM (IEF5)	5



## Introduction

In a world of increasing volatility, customers around the globe rely on CME Group as their premier source for managing risk. Formed by the 2007 merger of the Chicago Mercantile Exchange and the Chicago Board of Trade, CME Group is the largest and most diverse exchange in the world. We offer the widest range of benchmark products available on any exchange – providing you with the tools you need to meet your business objectives, achieve your financial goals and, ultimately, reach your vision.

Specifically, we offer futures and options based on interest rates, equity indexes, foreign exchange, commodities, and alternative investment products such as weather and real estate. In 2006 our combined volume exceeded 2.2 billion contracts — worth more than \$1,000 trillion — with three-quarters of our trades executed electronically.

CME Clearing — the largest derivatives clearing facility in the world — protects the financial integrity of our markets by serving as the counterparty to every transaction and virtually eliminating credit risk. It is responsible for settling trading accounts, clearing trades, collecting and maintaining performance bond funds, regulating delivery and reporting trading data. CME Clearing limits accumulation of losses or debt with twice daily mark-to-market settlements.

## About CME Group Collateral Management Programs

Collateral management is a function of ever-growing importance to the futures industry. With operating margins coming under increasing scrutiny, clearing firms are continually seeking more efficient, cost-effective ways to manage collateral.

At CME Group, we are committed to working with our client clearing firms to provide innovative, superior solutions for their evolving collateral management needs. By choosing CME Group Collateral Management Programs, our client clearing firms have access to the following benefits:

- » **Choice.** With four IEF\* programs to choose from, clearing firms have an opportunity to select the collateral management program(s) best suited to their individual needs. Available features include single-point access to a wide variety of institutional money market mutual funds ( MMMFs); zero capital charge through the CME Group Cash with Interest Program; and more.
- » **Cost-efficient solutions.** CME Group offers a variety of innovative, low-cost collateral management programs. Each program is designed to enable clearing firms to make optimal use of the demand deposit cash accounts and security accounts required to facilitate performance bond movements.
- » **Convenience.** All of these programs are designed to offer the operational ease of straight-through processing and give clearing firms the ability to achieve competitive investment returns in any interest-rate environment.
- » **Flexibility.** Clearing firms can elect to participate in one or more of these programs, and may opt in or out as different solutions are needed.
- » **Quality customer service.** It is a high priority of the CME Clearing staff to develop and maintain a fundamental understanding of all collateral types and client needs, so that we can continue to deliver innovative client solutions.

This guide describes the four IEF programs currently offered at CME Group. To learn more about these programs, please visit [www.cme.com/clearing/fm/ief/](http://www.cme.com/clearing/fm/ief/) or call 312-207-2594.

\*IEF originally stood for Interest Earning Facility. CME Group still refers to its collateral management programs as IEF programs, although not all programs are "interest" earning.

## CME Group Platform of Institutional Money Funds (IEF2)

A program enabling participation in approved money market mutual funds (MMMFs) for use as performance bond collateral.

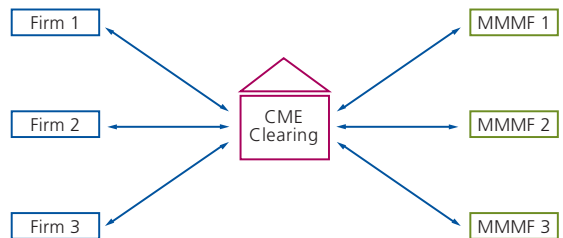
- » Launched in July 2001
- » Acceptance of approved classes of rated and non-rated MMMFs
- » Each fund is registered under SEC Rule 2a-7
- » Offers cash transfer without the need to purchase or deliver securities
- » Offers flexibility, liquidity, and ease of use
- » Can be used to meet all margin requirements and in certain cases, security deposit requirements subject to CME Group diversification rules
- » CME Group applies a 1% haircut on all IEF2 holdings; the CFTC applies SEC Rule 15c3-1 and requires a 2% capital haircut on shares and accrued dividends
- » Limits vary by fund

Income is accrued daily and credited to the clearing firm's performance bond account on the first calendar day of the following month. Clearing firms may elect month-end payouts of interest in the form of:

1. Additional MMMF shares
2. Cash deposited as performance bond
3. Cash released automatically to the clearing firms

For a link of the current funds and their prospectuses, please visit [www.cme.com/clearing/fm/ief/ief2report.html](http://www.cme.com/clearing/fm/ief/ief2report.html)

### CME Group as a Single Access Point for Approved Mutual Funds



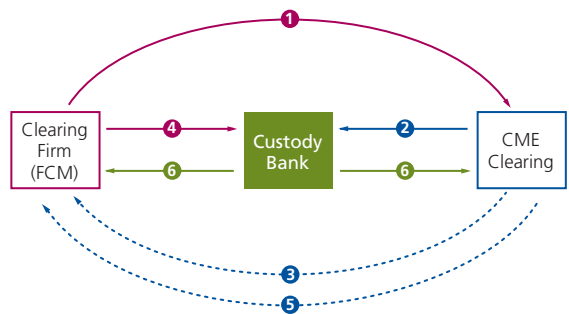
## CME Group Securities Administration Programs (IEF3 and IEF4)

CME Group offers specialized securities programs that enable clearing firms to transfer securities into a tri-party account, controlled by CME Group at designated custody banks. These programs permit the pledge of specific CFTC Reg. 1.25 collateral that CME Group does not accept directly.

### With both of these programs:

- » Custody banks price and administer securities processing
- » Transaction mechanics are similar to tri-party repo
- » Substitutions may occur as long as the “deal” amount is not violated
- » Firms may deliver collateral as defined by CFTC Reg 1.25, and approved by CME Group
- » Haircuts are set by security type.
- » Can be used to meet all margin requirements, but only in certain percentages and with an aggregate limit

The diagram below outlines the flows of cash and securities for the CME Group Securities Administration Programs.



- |                                     |                             |
|-------------------------------------|-----------------------------|
| 1. Notification of lockup amount    | 4. Securities as collateral |
| 2. Required value (= lockup amount) | 5. Credit cash amount*      |
| 3. Debit cash amount*               | 6. Valuation report         |

\* Not required with IEF4

### The Overnight Pledge of Securities Program (IEF3)

- » Launched in May 2003
- » Involves an “overnight” pledge of securities with a cash component

### The Term Pledge of Securities Program (IEF4)

- » Launched in October 2004
- » Involves a “term” pledge of securities with the “term” defined by the clearing firm
- » Enables clearing firms to pledge specific CFTC Reg. 1.25 securities to an approved tri-party account
- » The amount allocated in Clearing 21 is the “Lockup Amount” and the market value of the securities, less a specified haircut, must equal or exceed the Lockup Amount

## CME Group Cash with Interest (IEF5)

A bank account that pays a monthly “hard dollar” benefit for clearing firms’ cash on the books of a bank’s trust ledger.

- » Launched in July 2004
- » Cash is 100% liquid
- » Offers cash transfer without the need to purchase or deliver securities
- » No capital haircut
- » Linked to rates based on overnight benchmarks and broadcast on Bloomberg and other financial news sources
- » Has been reviewed by the CFTC
- » Can meet 50% of a firm’s core requirement with no restrictions on reserve or concentration requirements

As the industry evolves over time, CME Group continues to work on innovative new ways to help clearing clients manage their collateral, easily and affordably.

For more information on CME Group Collateral Management Programs, please visit [www.cme.com/clearing/fm/ief/ief.html](http://www.cme.com/clearing/fm/ief/ief.html) or call 312-207-2594.

Futures trading is not suitable for all investors, and involves the risk of loss. Futures are a leveraged investment, and because only a percentage of a contract’s value is required to trade, it is possible to lose more than the amount of money deposited for a futures position. Therefore, traders should only use funds that they can afford to lose without affecting their lifestyles. And only a portion of those funds should be devoted to any one trade because they cannot expect to profit on every trade.

The Globe Logo, CME®, Chicago Mercantile Exchange®, Globex® and IEF® are trademarks of Chicago Mercantile Exchange Inc. CBOT® and the Chicago Board of Trade® are trademarks of the Board of Trade of the City of Chicago. CME Group is a trademark of CME Group Inc. All other trademarks are the property of their respective owners.

The information within this brochure has been compiled by CME Group for general purposes only. CME Group assumes no responsibility for any errors or omissions. Although every attempt has been made to ensure the accuracy of the information within this brochure, CME Group assumes no responsibility for any errors or omissions. Additionally, all examples in this brochure are hypothetical situations, used for explanation purposes only, and should not be considered investment advice or the results of actual market experience.

All matters pertaining to rules and specifications herein are made subject to and are superseded by official CME, CBOT and CME Group rules. Current rules should be consulted in all cases concerning contract specifications.

Copyright © 2007 CME Group. All rights reserved.



IDEAS THAT CHANGE THE WORLD®

**CME Group Headquarters**  
20 South Wacker Drive  
Chicago, Illinois 60606  
[cmegroup.com](http://cmegroup.com)

**CME Group Global Offices**

---

**Chicago**  
312 930 1000  
[info@cmegroup.com](mailto:info@cmegroup.com)

**Hong Kong**  
852 3101 7696  
[asiateam@cmegroup.com](mailto:asiateam@cmegroup.com)

**London**  
44 20 7796 7100  
[europa@cmegroup.com](mailto:europa@cmegroup.com)

**Sydney**  
61 2 9231 7475  
[asiateam@cmegroup.com](mailto:asiateam@cmegroup.com)

**Tokyo**  
81 3 5403 4828  
[asiateam@cmegroup.com](mailto:asiateam@cmegroup.com)

**Washington D.C.**  
312 930 1000  
[info@cmegroup.com](mailto:info@cmegroup.com)