CME Group

Special Executive Report

S-5985 **October 21, 2011**

NEW LAUNCH DATE FOR CLEARING SERVICES FOR OTC U.S. DOLLAR / BRAZILIAN REAL AND U.S. DOLLAR / CHINESE RENMINBI CASH SETTLEMENT NDF TRANSACTIONS, EFFECTIVE MONDAY, OCTOBER 31, 2011

Effective Sunday, October 30, 2011, for the trade date of Monday, October 31, 2011, Chicago Mercantile Exchange Inc. will offer clearing services for two new foreign exchange ("FX") pairs for traditional over-the-counter ("OTC") cash settlement non-deliverable forward ("NDF") transactions: U.S. Dollar ("USD") / Brazilian Real ("BRL") and U.S. Dollar / Chinese Renminbi ("RMB" or "CNY") spot, forward and swap contracts, also known as non-deliverable forwards (NDFs). CME already introduced clearing services for traditional OTC U.S. Dollar / Chilean Peso (USD/CLP) NDF transactions, beginning on Monday, April 18, 2011, as the first step of a broad product suite. Analogous to the OTC USD/CLP product that CME already offers for clearing, the new OTC USD/BRL and USD/CNY products are two more of the original list of 11 new OTC NDF-style products described in CME Group Special Executive Report, S-5954, dated Tuesday, September 27, 2011. The other nine cash settlement NDF products to be introduced at a later date are USD/Russian ruble (RUB), USD/Colombian peso (COP), USD/Peruvian sol (PEN), USD/Korean won (KRW), USD/Indian rupee (INR), USD/Malaysian ringgit (MYR), USD/Indonesian rupiah (IDR), USD/Taiwan dollar (TWD) and USD/Philippines peso (PHP).

Another part of CME Group's broad product suite includes 26 FX pairs of OTC CME WM/Reuters (branded) spot, forward and swap products which are also cash settled in major currencies (mostly USD) to the OTC FX benchmark WM/Reuters London FX Closing Spot Rate (4 PM London time). OTC FX transactions that are executed bilaterally directly between counterparties, through brokers, ECNs or other FX trading platforms, when submitted to the CME Clearing House, are novated for purposes of clearing and application of financial safeguards, bookkeeping, trade processing, and final delivery or cash settlement. These contracts will be carried in the new OTC sequestered account class.

A summary of the new OTC USD/BRL and USD/CNY products follows with eight appendices of associated rules, definitions and the individual CME Rulebook chapters, which cover the contracts' details. These two new OTC NDF FX pairs each have their own dedicated CME Rulebook Chapter. Fact sheet summaries of contract specifications for the new OTC USD/BRL and USD/CNY product offerings, respectively, appear as Appendices 1 and 2, starting on page 5.

For further information, please contact Craig LeVeille, Director, FX Products at 312-454-5301; or Steve Youngren, Associate Director, Research & Product Development at 312-930-4583.

New Contracts Summary – NDF-style transactions for U.S. dollar (USD) versus BRL and CNY; where original trades can be submitted for clearing that were conducted, for example, in the standard "USD/BRL" or "USD/CNY" interbank terms of Brazilian reais per U.S. dollar or Chinese renminbi per U.S. dollar, respectively. At termination, only U.S. dollars are paid from or to the counterparties depending upon the final settlement price and notional amounts of the trade. The final settlement prices are based upon OTC NDF standard settlement rate options published, respectively, by the Central Bank of Brazil (Banco Central do Brasil) as the BRL per USD PTAX offered rate and the People's Bank of China ("PBOC") by its agent the China Foreign Exchange Trading System ("CFETS") as the spot benchmark CNY per USD "SAEC" (=Reuters code) rate. CME Clearing systems are flexible to accommodate any style of quoted trade with any size notional amounts down to the precision of $0.01 and any valid value date. Some notable contract details are highlighted as follows.

- **Sequestered Accounts:** The contracts are carried as OTC instruments in the clearing system. These positions will be carried in the OTC sequestered account class.

- **Held as True OTC FX Spot & Forwards in Clearing:** Positions shall remain open until the final cash settlement date, except that participants may request that offsetting positions be compressed prior to contract maturity.

- **Cash Settlement, NDF-Style:** Like the initial CME OTC FX products for USD/CLP, which are currently offered, the USD versus BRL and CNY products are offered NDF-style contracts financially or cash settled in U.S. dollars with positions held in clearing at the original trade price marked to the applicable standard OTC NDF settlement rate option (central bank determined/sanctioned rates described above). For example, final settlements for USD/BRL spot transactions are concluded based on the difference between (1) the spot exchange rate of Brazilian real per U.S. dollar, "Central Bank of Brazil PTAX offered rate" as reported for the valid value date for cash settlement by Banco Central do Brasil for the formal exchange market, and (2) the original trade price for each transaction, and (3) the result divided by the BRL per USD spot exchange rate to convert notional BRLs to USDs. Cash settlement of cleared only transactions occurs on a net basis at the customer account level.

- **Allowable Maturities:** CME Clearing will accept spot and forward transactions into clearing with delivery or cash settlement dates starting with the next business day for spot and extending outward into the future two years initially for forwards. At a later date, CME Clearing expects to expand maturity dates out an additional three years for a total maturity out five years.

- **Swaps:** Swap transactions accepted into clearing are a combination (spread) of a spot or forward position and another deferred date forward.

- **CME Clearing Set Up Structures for Cleared OTC FX:** CME Clearing operational infrastructure defines FX pair products by the price nomenclature of the trade. For example, USD/BRL OTC transactions, where the normal quotation mechanism is "BRL per USD," will be processed in the clearing structure for transactions quoted in "BRL per USD."

- **Normalization Rule:** CME Rule 856 – NORMALIZATION OF OTC FX SPOT, FORWARD, SWAP AND OPTIONS TRANSACTIONS, enables CME Clearing to accept OTC FX transactions negotiated in notional amounts of either currency. OTC FX conventions imply deals to be struck in notional amounts of a specific currency for a given currency pair. For example, the USD/BRL or "Dollar/Real" transaction described above defines price in numbers of BRL per USD with the notional amount given in U.S. dollars. The normalization rule explains CME Clearing procedures for taking non-standard notional amounts in the contra-currency (here BRL) and "normalizing" it into standard amounts of base currency (here USD). See Appendix 3 for the Normalization rule.

- **Definitions:** New DEFINITIONS have been added to the CME Rulebook to support the Cleared OTC FX initiative. Appendix 4 provides the definitions for the OTC FX initiative.

- **Position Accountability & Position Limits:** Individual rule chapters for each FX pair for cleared OTC FX will specify either Position Accountability (PA) or Position Limits (PL) or a combination of both (*e.g.,* PA with spot month PL) depending generally on the liquidity in the underlying OTC instruments and coordinating with existing and similar FX futures and options on futures contracts. Highly liquid underlying FX pair activity enable Position Accountability trigger levels as opposed to finite limits, and less liquid underlying FX pair activity require the more restrictive Position Limits. Since FX futures, options on FX futures, cleared OTC FX spot, forwards and swaps; and OTC FX options on spot and forwards, are essentially extensions of the same market, CME rules will aggregate positions for an account holder across all of these product lines per FX pair. Notional level equivalents for the existing FX pair futures contracts for Position Accountability and/or Position Limits are carried over to the Cleared OTC FX rules. Also carried over to the Cleared OTC FX rules is a new provision for an exemption from finite position limits, where the account holder demonstrates a bona fide hedging strategy meeting the requirements of Regulation 1.3(z)(1) of the CFTC and other exchange rules. See Appendices 6 and 7 for the CME Rules 257H01.F.5 and 270H01.F.6, providing for the exemptions.

  Please note, for both of the new OTC FX products, namely, OTC USD/BRL and USD/CNY NDFs, CME has underlying FX pair futures and options on futures contract for these same FX pairs that will be listed for cleared OTC transactions. As noted above, CME considers FX futures, options on FX futures, cleared OTC FX spot, forwards and swaps; and OTC FX options on spot and forwards, as essentially extensions of the same market, and CME rules will aggregate positions for an account holder across all of these product lines per FX pair. In instances where there are existing underlying futures and options on futures contracts for the same FX pair, CME is basing the new OTC contract Position Accountability and Position Limits rules on these underlying, existing futures and options on futures. That is, for purposes of aggregation, positions in the new cleared OTC products will be rolled up in equivalent amounts of currency specified in the corresponding FX pair futures and options on futures Position Accountability and/or Position Limits rules, based upon a conversion of the unit of clearing currency into the minimum price increments currency, using the prior day's Regular Trading Hours settlement price. See Appendix 5 for additions to the Chapter 5 interpretation table summarizing Position Accountability and Position Limits rules for the newly listed contracts.

  For example, if the notional amount for a cleared OTC USD/CNY spot, forward or swap position was 100,000 U.S. dollars, and the daily Regular Trading Hours settlement used for conversion purposes was 6.3800 CNY per USD (also equal to 0.15674 USD per CNY), then 638,000 CNY (100,000 USD x 6.3800 CNY per USD) would be charged against the 6 billion CNY Position Accountability trigger level (6,000 contracts x 1 million CNY per futures contract). This calculation method is more obvious to market participants with an OTC background.

  This also can be calculated in terms of converting the notional OTC transaction into equivalent standard sizes of futures contracts and charging that amount against the 6,000 futures contract Position Accountability trigger level. For example, a 100,000 USD notional OTC transaction would equal 0.638 standard futures size contracts against the 6,000 futures contract Position Accountability trigger level (100,000 USD x 6.3800 CNY per USD = 638,000 CNY divided by 1,000,000 CNY per standard size contract = 0.638 standard size contracts charged against the 6,000 contract Position Accountability trigger level, thus leaving 5,999.362 standard size contracts available before the trigger level is reached). This calculation method is more obvious to market participants with a futures product background. However, both calculation methods illustrated represent the same relationship.

Also, CME is continuing its Position Limits and Position Accountability rule structure for the Cleared OTC USD/CNY Spot, Forward and Swap Transactions in an analogous manner to the existing Cleared OTC USD/CLP Spot, Forward and Swap Transactions, where positions are aggregated for a given FX pair that settle between the second and third Wednesdays (inclusive) of March, June, September and December. However, in the case of the OTC USD/CNY product, the Position Limit is applicable to a 2,000 contract (2 billion CNY notional amount) “Spot Position Limit” during this time period only. The OTC portion of such cross-currency swaps will roll up into the Spot Position Limit rule, but will be in effect during the week preceding CME FX futures terminations. See Appendices 6 and 7 for the amendments to the Position Limits and Position Accountability rules in each contract chapter and the 5.C. Position Limit and Reportable Level Table in the Interpretations section of Chapter 5 (Appendix 5).

- **Reportable Positions:** As with the USD/CLP product, service bureaus used by clearing firms do not have the capability to aggregate cleared OTC FX positions of clearing firm customers for subsequent reporting of the information by the clearing firms to the CFTC and CME. Therefore, CME has not set reportable level requirements characteristic of FX futures and options contracts at this time for the cleared OTC FX spot, forward and swap products. However, as noted in the section above, CME will aggregate cleared OTC spot, forward and swap positions by account holder for Position Accountability and Position Limits purposes.

- **Rule Chapters:** Appendices 6 and 7, respectively, for the OTC USD/BRL and USD/CNY products, illustrate the format for the new traditional OTC NDF, cash settlement products (analogous to current OTC USD/CLP NDF contract).

- **Cleared Only Transactions:** CME Group does not intend at this time to provide a trading platform for such transactions. Rather, such transactions will be executed on a bi-lateral, privately negotiated basis amongst the two counterparties. These transactions are submitted to the CME Clearing House on a post-trade basis. Once submitted and accepted (“novated”) to the CME Clearing House, these transactions are assigned the trade type “OPNT” which acronym stands for Over-the-counter Privately Negotiated Trade.

Performance Bonds & Daily Mark-to-Market – Effective Sunday, October 30, 2011, CME is moving from a “collateralization” method of valuing open positions in cleared only OTC FX spot, forward and swap transactions, to a daily mark-to-market in cash method. Hence, in CME Group Special Executive Report, S-5982, dated Tuesday, October 18, 2011, CME announced plans to implement a revised clearing method for its USD/CLP NDF products (there is no open interest to date). Currently, CME Clearing has deployed the SPAN system to establish performance bond or “margin” requirements for FX spot, forwards and swaps. Initial performance bond requirements are established at levels that are consistent with observed levels of volatility in the particular currency pairing and generally aligned with initial margin levels applied to current CME FX futures and option contracts, where applicable. These components of the clearing system are unchanged. However, the administration of the new margin regime will require a daily mark-to-market (MTM) on a cash basis, similar to traded FX futures. Variation margins may be satisfied with the posting of appropriate amounts of collateral, where CME Clearing collects and pays in cash between the counterparties each day.

CME Clearing will accept as collateral cash or any other instruments currently designated as approved collateral for posting for performance bonds. In order to calculate variation requirements, settlement prices will be established for each contract and for each delivery date referencing data collected from a variety of market sources. Appendix 8 is a detailed description of the “cash mark-to-market” method of performance bond administration. The difference between current “collateralization mark-to-market” and “cash mark-to-market” is explained.

Appendix 1

Cleared Only CME U.S. Dollar / Brazilian Real Transactions

OTC FX NDF-Style, Cash Mark-to-Market Model

	USD / BRL Spot, Forwards and Swaps
Unit of Clearing	Units of 1 U.S. Dollar in any amount down to a precision of 0.01 U.S. Dollar.
Sample Quotes	**Spot:** **1.761100** Brazilian real (BRL) per U.S. dollar (USD) for buy or sell **Forward:** Spot =1.761100 + Forward Points= 0.046477 = **1.807577** BRL per USD for buy or sell **Swap:** Spot =**1.761100** BRL per USD for buy (sell) Frwd =**1.807577** BRL per USD for sell (buy)
Tick Size	0.000001 Brazilian real per U.S. dollar, equivalent to 0.000001 Brazilian real for spot, forward and swap FX OTC cleared transactions.
Performance Bonds	Performance bonds denominated in USD. CME Clearing will calculate daily pays & collects in BRL, translate these into USD using a daily BRL per USD market rate, and "bank" them with daily pays and collects in USD.
Clearing Hours	Sundays through Fridays: ClearPort® clearing hours are 6:00 p.m. (Eastern Time) Sundays through 5:15 p.m. (Eastern Time) Fridays (5:00 p.m. Central time on Sundays through 4:15 p.m. Central Time on Fridays), with a 45-minute halt in trading each day between 5:15 p.m. ET for the current trade date and 6:00 p.m. ET for the next trade date (4:15 p.m. CT for the current trade date and 5:00 p.m. CT for the next trade date).
Valid Value Dates for Cash Settlement	Cleared only USD/BRL spot, forwards, and swaps contracts shall be cash settled for any valid value date(s) mutually agreed to by buyer and seller, and accepted by the Exchange for the applicable currency pair as a valid value date(s) for cash settlement and clearing. In general, for any currency pair, a valid value date shall be any business day that is a banking business day in the countries of issue for both currencies. "Cleared only" spot, forward and swap transactions may be submitted for clearing on any Exchange business day.
Cash Settlement OTC NDF-Style	Each USD/BRL spot contract, for the valid value date for cash settlement in two business days, is liquidated by cash settlement at a price equal to the daily Final Settlement Price for that day. The daily Final Settlement Price shall be equal to the Commercial exchange rate for Brazilian Reais per U.S. Dollar for cash delivery, according to the provisions of Resolution no. 1690/'90 of the National Monetary Council, defined as the average offered rate calculated by the Central Bank of Brazil for that business day, according to its criteria, broadcast by SISBACEN, transaction PTAX800, option 5-L (closing quotation), to 6 decimal places ("Central Bank of Brazil BRL PTAX" rate). This rate is the same Brazilian real per U.S. Dollar spot exchange rate calculated by the Central Bank of Brazil and used by the Bolsa de Mercadorias & Futuros (BM&F) to cash settle its U.S. Dollar futures contract. This rate is used widely by the interbank foreign exchange market to cash settle non-deliverable forward contracts for BRL versus USD. All open positions for that valid value date for cash settlement will be cash settled in USD based upon the difference between the Final Settlement Price for the valid value date for cash settlement and the original trade price as submitted for clearing times the notional value of the transaction in USDs divided by Final Settlement Price. In the event, this USD amount is positive, then the Clearing House shall debit the seller's clearing member account and credit the buyer's clearing member account for this amount in USD. In the event, this USD amount is negative, then the Clearing House shall debit the buyer's clearing member account and credit the seller's clearing member account for this amount in USD. For example, if the "PTAX Closing Quotations Offer" also known as "BRL PTAX (BRL09)" for the valid value date for cash settlement in two business days, is as follows: 1.761100 BRL per USD, and the original trade price submitted for clearing by clearing firms of the buyer and seller was 1.758821 BRL per USD for a notional amount of 100,000 USD, then the Clearing House on the business day following the valid value date for cash settlement shall credit the clearing member account for the buyer with US$227.90 (*i.e.*, 1.761100 BRL per USD – 1.758821 BRL per USD = (+0.002279 BRL per USD x 100,000 USD) / 1.761100 BRL per USD) = $227.90.). Similarly, the Clearing House on the business day following the valid value date for cash settlement shall debit the clearing member account for the seller with US$227.90.

Cleared Only CME U.S. Dollar / Brazilian Real Transactions (continued)

OTC FX NDF-Style, Cash Mark-to-Market Model

	USD / BRL Spot, Forwards and Swaps
Position Accountability & Spot Limits	For purposes of cleared only positions, the applicable position limit level shall be in notional terms of 4 billion Brazilian reais for all contract months and expiration dates (40,000 net contract equivalents at 100,000 BRL notional per synthetic contract). Also, for purposes of position limits in any single contract month, cleared only positions shall not exceed 2.4 billion Brazilian reais (24,000 net contract equivalents at 100,000 BRL notional per synthetic contract). Hedge exemptions from position limits are available for bona fide hedgers.
Venues	Cleared only via CME ClearPort®

Appendix 2

Cleared Only CME U.S. Dollar / Chinese Renminbi Transactions

OTC FX NDF-Style, Cash Mark-to-Market Model

	USD / CNY Spot, Forwards and Swaps
Unit of Clearing	Units of 1 U.S. Dollar in any amount down to a precision of 0.01 U.S. Dollar.
Sample Quotes	**Spot:** **6.3805** Chinese renminbi (CNY) per U.S. dollar (USD) for buy or sell **Forward:** Spot =6.3805 + Forward Points= 0.0103 = 6.3908 CNY per USD for buy or sell **Swap:** Spot =**6.3805** CNY per USD for buy (sell) Frwd =**6.3908** CNY per USD for sell (buy)
Tick Size	0.0001 Chinese renminbi per U.S. dollar, equivalent to 0.0001 Chinese renminbi for spot, forward and swap FX OTC cleared transactions.
Performance Bonds	Performance bonds denominated in USD. CME Clearing will calculate daily pays & collects in CNY, translate these into USD using a daily CNY per USD market rate, and "bank" them with daily pays and collects in USD.
Clearing Hours	Sundays through Fridays: ClearPort® clearing hours are 6:00 p.m. (Eastern Time) Sundays through 5:15 p.m. (Eastern Time) Fridays (5:00 p.m. Central time on Sundays through 4:15 p.m. Central Time on Fridays), with a 45-minute halt in trading each day between 5:15 p.m. ET for the current trade date and 6:00 p.m. ET for the next trade date (4:15 p.m. CT for the current trade date and 5:00 p.m. CT for the next trade date).
Valid Value Dates for Cash Settlement	Cleared only USD/CNY spot, forwards, and swaps contracts shall be cash settled for any valid value date(s) mutually agreed to by buyer and seller, and accepted by the Exchange for the applicable currency pair as a valid value date(s) for cash settlement and clearing. In general, for any currency pair, a valid value date shall be any business day that is a banking business day in the countries of issue for both currencies. "Cleared only" spot, forward and swap transactions may be submitted for clearing on any Exchange business day.
Cash Settlement OTC NDF-Style	Each USD/CNY spot contract, for the valid value date for cash settlement in two business days, is liquidated by cash settlement at a price equal to the daily Final Settlement Price for that day. The daily Final Settlement Price shall be equal to the "Chinese renminbi per U.S. dollar" fixing (or "midpoint") rate published by the People's Bank of China (PBC) and representing spot trading of Chinese renminbi per U.S. dollar on that day. Normally, this fixing rate is published at 9:15 a.m. Beijing time (7:15 p.m. CST or 8:15 p.m. CDT) on each Beijing business day for foreign exchange trading. The fixing rate may be found on the Reuters SAEC page opposite symbol "USDCNY=". The Final Settlement Price shall be expressed to four (4) decimal places. This rate is used widely by the interbank foreign exchange market to cash settle non-deliverable forward contracts for CNY versus USD. All open positions for that valid value date for cash settlement will be cash settled in USD based upon the difference between the Final Settlement Price for the valid value date for cash settlement and the original trade price as submitted for clearing times the notional value of the transaction in USDs divided by Final Settlement Price. In the event, this USD amount is positive, then the Clearing House shall debit the seller's clearing member account and credit the buyer's clearing member account for this amount in USD. In the event, this USD amount is negative, then the Clearing House shall debit the buyer's clearing member account and credit the seller's clearing member account for this amount in USD. For example, if the "SAEC" Chinese renminbi per U.S. dollar rate also known as "CNY SAEC (CNY01)" for the valid value date for cash settlement in two business days, is as follows: 6.3805 CNY per USD, and the original trade price submitted for clearing by clearing firms of the buyer and seller was 6.3522 CNY per USD for a notional amount of 100,000 USD, then the Clearing House on the business day following the valid value date for cash settlement shall credit the clearing member account for the buyer with US$443.54 (*i.e.*, 6.3805 CNY per USD – 6.3522 CNY per USD = (+0.0283 CNY per USD x 100,000 USD) / 6.3805 CNY per USD) = $443.54.). Similarly, the Clearing House on the business day following the valid value date for cash settlement shall debit the clearing member account for the seller with US$443.54.

Cleared Only CME U.S. Dollar / Chinese Renminbi Transactions (continued)

OTC FX NDF-Style, Cash Mark-to-Market Model

	USD / CNY Spot, Forwards and Swaps
Position Accountability & Spot Limits	For purposes of cleared only positions, the applicable position accountability level shall be in notional terms of 6 billion Chinese renminbi (6,000 net contract equivalents at 1,000,000 CNY notional per synthetic contract). Also, for purposes of spot limits, cleared only positions shall not exceed 2 billion Chinese renminbi (2,000 net contract equivalents at 1,000,000 CNY notional per synthetic contract) which are settled in the spot period between the 2nd and 3rd Wednesdays (inclusive) during the months of March, June, September and December. Hedge exemptions from spot limits are available for bona fide hedgers.
Venues	Cleared only via CME ClearPort®

Appendix 3
[Current rules for reference purposes only.]
CME GROUP OTC FX NORMALIZATION RULE

856. NORMALIZATION OF OTC FX SPOT, FORWARD, SWAP AND OPTIONS TRANSACTIONS FOR CLEARING.

For over-the-counter (OTC) foreign exchange (FX) transactions submitted for clearing and any non-standard specification of the transaction as defined by the price format shall be normalized by CME Group Clearing to standard or normal specifications by the following "normalization process."

Instrument: Currency 1/Currency 2 (CCY1/CCY2)

Generically, for spot and forward OTC FX transactions…
Standard or Normal: Buy (B)/Sell (S) CCY1 notional amount at CCY2 per CCY1 rate.

Non-standard or Non-normal: B/S CCY2 notional amount at CCY2 per CCY1 rate.

To normalize:

1. Convert B to S, or S to B
2. Convert CCY2 notional to CCY1: CCY2 amount divided by CCY2 per CCY1 rate to obtain CCY1 amount.

For example, for Instrument: EUR/USD …
Standard: EUR/USD- Quote USD per EUR; notional amount in EUR
Trade comes in as SELL €15 million at 1.350000 USD per EUR →BUY $20,250,000 (€15 million x 1.350000 USD/EUR)

Non-standard: EUR/USD- Notional amount in USD, but quote still in USD per EUR.
Trade comes in as buy $20 million at 1.350000 USD per EUR →SELL €14,814,814.81 ($20 million / 1.350000 USD/EUR).

To normalize the non-standard EUR/USD transaction, CME Clearing shall:

3. Convert Buy to Sell, or Sell to Buy
4. Convert USD notional to EUR: USD amount divided by USD per EUR rate.

Example: The trade "BUY $20 million at 1.350000 ⇨SELL €14,814,814.81 ($20/1.350000) at 1.350000 USD per EUR" shall be normalized and held in CME Clearing as:

The trade "SELL €14,814,814.81 ($20/1.350000) at 1.350000 USD per EUR⇨ BUY $20 million at 1.350000."

For swap OTC FX transactions, …
Standard or Normal: Leg 1 B/S CCY1 notional amount at $CCY2_t$ per CCY1 rate.

Leg 2 S/B CCY1 notional amount at $CCY2_{t+n}$ per CCY1 rate.

Non-standard or Non-normal:

Leg 1 B/S CCY2 notional amount at $CCY2_t$ per CCY1 rate.

Leg 2 S/B CCY2 notional amount at $CCY2_{t+n}$ per CCY1 rate.

To normalize:

1. Convert B to S, or S to B
2. Convert CCY2 notional to CCY1: CCY2 amount divided by CCY2 per CCY1 rate to obtain CCY1 amount.

For example, for instrument: EUR/USD…

Standard: Leg 1 EUR/USD- Quote USD per EUR; notional amount in EUR
Leg 2 EUR/USD- Quote USD per EUR; notional amount in EUR

Trade comes in as "Leg 1 BUY €20 million at 1.305000 ⇨SELL $26,100,000 ($20 million x 1.305000) at 1.305000 USD per EUR; Leg 2 SELL €20 million at 1.315000 USD per EUR (1.3050 + 0.0100 swap points)"

Non-Standard: Leg 1 EUR/USD- Notional amount in USD, but quote still in USD per EUR.
Leg 2 EUR/USD- Notional amount in USD, but quote still in USD per EUR.

Trade comes in as "Leg 1 SELL $26.1 million at 1.305000 ⇨BUY €20 million ($26.1 million / 1.305000) at 1.305000 USD per EUR; Leg 2 BUY $26.3 million at 1.315000 USD per EUR (1.3050 + 0.0100 swap points)."

To normalize the non-standard EUR/USD transaction, CME Clearing shall:

3. Convert Buy to Sell, or Sell to Buy
4. Convert USD notional to EUR: USD amount divided by USD per EUR rate.

Example: The trade "Leg 1 SELL $26.1 million at 1.305000 ⇨BUY €20 million ($26.1 million / 1.305000) at 1.305000 USD per EUR; Leg 2 BUY $26.3 million at 1.315000 USD per EUR (1.3050 + 0.0100 swap points)" shall be normalized and held in CME Clearing as:

The trade "Leg 1 BUY €20 million at 1.305000 ⇨SELL $26,100,000 ($20 million x 1.305000) at 1.305000 USD per EUR; Leg 2 SELL €20 million at 1.315000 USD per EUR (1.3050 + 0.0100 swap points)"

For option OTC FX transactions, …

Standard or Normal: B/S CCY1/CCY2 CALL (PUT) at STRIKE PRICE in units of CCY2 per CCY1 for a notional amount of CCY1 for a premium in CCY2 (CCY1 amount x premium price in CCY2 per CCY1, that is, CCY2 pips) or % of CCY1 (CCY1 premium / CCY1 notional amount).

Non-standard or Non-normal: B/S CCY1/CCY2 CALL (PUT) at STRIKE PRICE in units of CCY2 per CCY1 for a notional amount of CCY2 for a premium in CCY1 (CCY2 amount / premium price in CCY2 per CCY1, that is, CCY1 pips) or % of CCY2 (CCY2 premium / CCY2 notional amount).

To normalize:

1. Retain B/S direction
2. Convert CCY2 Put to CCY1 Call, CCY2 Call to CCY1 Put
3. Convert CCY2 notional to CCY1: CCY2 amount divided by Strike Price expressed in CCY2 per CCY1.
4. Process original premium amount and currency.
5. Take premium amount and divide by CCY1 notional to express price in CCY1 terms for reference purposes.

For example, for Instrument: EUR/USD …

Standard: EUR/USD- Quote USD per EUR; notional amount in EUR, premium in either % of EUR notional (EUR premium) or USD pips (USD premium)

Trade comes in as BUY EUR/USD PUT at 1.350000 USD per EUR for a notional amount of €20 million with premium of $100,000 (€20 million x option price of 0.0050 USD per EUR, that is, USD pips) or 1.0% of €20 million (€200,000 premium / €20 million) → SELL EUR/USD PUT at 1.350000 USD per EUR for a notional amount of €20 million with premium of $100,000 (€20 million x option price of 0.0050 USD per EUR, that is, USD pips) or 1.0% of €20 million (€200,000 premium / €20 million).

Non-standard: EUR/USD- Notional amount in USD, but quote still in USD per EUR, premium in either % of USD notional (USD premium) or EUR pips (EUR premium).

Trade comes in as BUY EUR/USD PUT at 1.350000 USD per EUR for a notional amount of $20 million with premium of €170,100 ($20 million x option price of 0.008505 EUR per USD, that is, EUR pips) or 1.0% of $20 million ($200,000 premium / $20 million) → SELL EUR/USD PUT at 1.350000 USD per EUR for a notional amount of $20 million with premium of €170,100

($20 million x option price of 0.008505 USD per EUR, that is, EUR pips) or 1.0% of $20 million ($200,000 premium / $20 million).

To normalize the non-standard EUR/USD transaction, CME Clearing shall:

6. Retain B/S direction
7. Convert USD Put to EUR Call, USD Call to EUR Put
8. Convert USD notional to EUR: USD amount divided by Strike Price expressed in USD per EUR.
9. Process original premium amount and currency.
10. Take premium amount and divide by EUR notional to express price in EUR terms for reference purposes.

Example: Trade comes in as BUY EUR/USD PUT at 1.350000 USD per EUR for a notional amount of $20 million with premium of €170,100 ($20 million x option price of 0.008505 EUR per USD, that is, EUR pips) or 1.0% of $20 million ($200,000 premium / $20 million) → SELL EUR/USD PUT at 1.350000 USD per EUR for a notional amount of $20 million with premium of €170,100 ($20 million x option price of 0.008505 USD per EUR, that is, EUR pips) or 1.0% of $20 million ($200,000 premium / $20 million) shall be normalized and held in CME Clearing as:

BUY EUR/USD CALL at 1.350000 USD per EUR for a notional amount of €14,814,814.81 ($20 million/1.350000 USD per EUR) with a premium of €170,100 ($20 million x option price of 0.008505 EUR per USD, that is, EUR pips) or 1.148% of €14,814,814.81 (€170,100 / €14,814,814.81).

Appendix 4
[Current rules for reference purposes only.]

ADDITIONS TO "DEFINITIONS" SECTION OF CME RULEBOOK

CLASS B STOCKHOLDER

The registered owner of one or more Class B Shares.

CLEAR DATE OF THE FX OTC CLEARED TRANSACTION

For purposes of these rules, the "clear date of the foreign exchange (FX) over-the-counter (OTC) cleared transaction" is the date on which an original spot, forward and swap FX OTC transaction clears at CME Clearing as a substituted, cleared transaction.

CLEARING HOUSE

The department of the Exchange through which all trades on the Exchange are adjusted and cleared.
…

FORMS

All forms referred to herein; *e.g.*, "Buyer Delivery Commitment," shall be forms prescribed by the Exchange.

FORWARD FX OTC CLEARED TRANSACTION

For purposes of these rules, a "forward" foreign exchange (FX) over-the-counter (OTC) cleared transaction shall be an agreement between counterparties to exchange ("delivery") of the associated currency pairs at a maturity date greater than one or two business days in the future. A forward FX transaction may be for standard delivery maturities from the original trade date, such as TOM Next (tomorrow next or day after tomorrow), 1-week, 2-weeks, 3-weeks, 1-month, 2-months, 3-months, …, 6-months, …, 1-year, 18-months, 2-years, etc. Also, a forward FX transaction may be for broken date maturities, that is, for delivery on any good business day in both the issuing countries of the associated currency pair that is not one of the standard delivery dates.

FUTURES CONTRACT

A contract made on the Exchange for the purpose or sale of any commodity which may be satisfied by offset or delivery during such specified months pursuant to these rules.
…
ORDERS

(Note that not all order types are eligible to be entered into the GLOBEX System…

ORIGINAL TRADE DATE OF AN FX OTC TRANSACTION

For purposes of these rules, an “original trade date of a foreign exchange (FX) over-the-counter (OTC) cleared transaction,” is the date on which the two counterparties agreed to the OTC transaction that is being replaced with the FX OTC cleared transaction.

PANEL

A subcommittee elected in accordance with committee procedure to adjudicate or make a particular determination. A decision of a panel shall be deemed a decision of the committee.
…

SPOT

The actual or physical commodity, also called “cash” commodity.

SPOT FX OTC CLEARED TRANSACTION

For purposes of these rules, a “spot” foreign exchange (FX) over-the-counter (OTC) cleared transaction shall be a very short-dated forward transaction with counterparties agreeing to exchange (“delivery”) of the associated currency pairs in one or two business days, whichever is the standard OTC market convention for the particular currency pairs.

SPOT MONTH

The contract month of a futures contract which is also the current calendar month.
…

STRADDLE

The assumption of a long and short position on different business days in the same or related commodities for the same account.

SWAP FX OTC CLEARED TRANSACTION

For purposes of these rules, a “swap” foreign exchange (FX) over-the-counter (OTC) cleared transaction shall be an agreement between counterparties to execute the combination of a spot or forward FX OTC cleared transaction and a subsequent-dated forward FX OTC cleared transaction, where the buyer of the spot or forward currency pair becomes the seller of the subsequent-dated forward currency pair and the seller of the spot or forward currency pair becomes the buyer of the subsequent-dated forward currency pair. In other words, the counterparties are agreeing to the prices on the original trade date to exchange currency pairs for immediate (or nearby forward) delivery, and reverse the same transaction on some mutually agreed to subsequent “forward date,” which according to the definition above for a “forward” may be a standard delivery date or a broken delivery date.

TIME

Except as otherwise specifically provided, any reference to time shall mean local Chicago time.
…

TRADE DATE OF AN FX OTC CLEARED TRANSACTION

The trade date of a foreign exchange (FX) over-the-counter (OTC) cleared transaction” is the date on which counterparties to the OTC transaction submit the FX OTC transaction to clearing as a cleared contract. Although in most instances counterparties may submit an FX OTC cleared transaction for clearing on the same date as the original trade for the FX OTC spot, forward and swap transaction, there is no requirement that it is submitted on the same date. Therefore, an FX OTC cleared transaction may be submitted on any date for clearing on the exchange.

TRADING SESSION

A trading session will mean either the pit trading session (the hours designated for open outcry trading for a product) and/or the GLOBEX session (the hours on a particular trading day when a product can be traded on the GLOBEX system.

VALID VALUE DATE FOR DELIVERY OR CASH SETTLEMENT OF AN FX OTC CLEARED TRANSACTION

“Cleared only” foreign exchange (FX) over-the-counter (OTC) cleared transactions shall be delivered or cash settled for any valid value date mutually agreed to by buyer and seller, including all applicable standard valid value dates for delivery or cash settlement in futures offered for "trading and clearing." In general, for any currency pair, a valid value date shall be any business day that is a banking business day in the countries of issue for both currencies.

VOLATILITY QUOTE

An alternative means of quoting options, or combinations involving options, by bidding or offering the implied volatility. Any transactions quoted in volatility terms will be translated into price terms for clearing purposes by means of a standard options pricing model maintained and disseminated by the Exchange.

(End Definitions)

Appendix 5

5.C. POSITION LIMIT AND REPORTABLE LEVEL TABLE
POSITION LIMIT, POSITION ACCOUNTABILITY AND REPORTABLE LEVEL TABLE

CONTRACT NAME	OPTIONS	FIRST SCALE -DOWN SPOT MONTH	SECOND SCALE-DOWN SPOT MONTH	SPOT MONTH	SINGLE MONTH	ALL MONTHS COMBINED	POSITION ACCOUNT-ABILITY	REPORT-ABLE FUT LEVEL	REPORT-ABLE OPT LEVEL
CME Foreign Exchange									
Canadian Dollar/Japanese Yen							6,000	25	
U.S. Dollar/Chilean Peso (Cleared OTC Equivalents)				20,000			6,000	NA	
U.S. Dollar/Brazilian Real (Cleared OTC Equivalents)					24,000	40,000		NA	
U.S. Dollar /Chinese Renminbi (Cleared OTC Equivalents)				2,000			6,000	NA	
Chinese Renminbi/Euro FX	Y			2,000			6,000	25	25

****For purposes of Position Accountability and Position Limits, notional value in the cleared only product will be converted to contract units, whereby, notional 100,000 U.S. dollars will equal one contract equivalent. Spot month position limits will be calculated based upon contract equivalents for cleared transactions which are settled in the spot period between the second and third Wednesdays (inclusive) during the months of March, June, September and December.

Appendix 6

Chapter 257H
Cleared OTC U.S. Dollar/ Brazilian Real (USD/BRL)
Spot, Forwards and Swaps

257H.00. SCOPE OF CHAPTER

This chapter is limited in application to U.S. dollar/ Brazilian real Spot, Forwards, and Swaps that are executed between two counterparties on an Over-the-Counter ("OTC") basis and subsequently novated to the CME Clearing House for purposes of clearance ("Cleared OTC Contracts"). Parties to transactions in Cleared OTC Contracts shall be limited to "eligible contract participants" as defined in Section 1a(12) of the Commodity Exchange Act. Cleared OTC Contracts are listed by CME for clearing-only. Transactions in Cleared OTC Contracts shall also be subject to the general rules of the Exchange insofar as applicable. The clearing and settlement of transactions in Cleared OTC Contracts shall also be subject to the provisions of Chapter 8-F of the CME Rulebook (Over-the-Counter Derivative Clearing). For purposes of these Rules, the minimum-fluctuation currency is the Brazilian real and the clearing-unit currency is the U.S. dollar.

257H.01. CONTRACT SPECIFICATIONS

257H.01.A. Unit of Clearing

The unit of clearing shall be 1 U.S. dollar in any amount to a precision of 0.01 U.S. dollar.

257H.01.B. Hours for Clearing Entry

The Exchange shall determine the hours during which Cleared OTC Contracts may be submitted to the Clearing House. Positions shall be initiated or closed out using off-exchange transactions.

257H.01.C. Minimum Price Increments

Minimum price fluctuations shall be in multiples of 0.000001 Brazilian real per U.S. dollar for transactions in Cleared OTC Contracts.

257H.01.D. Valid Value Dates for Cash Settlement

Cleared OTC Contracts shall be cash settled for any valid value date mutually agreed to by buyer and seller, and accepted by the Exchange for the applicable currency pair as a valid value date(s) for cash settlement and clearing. In general, for any currency pair, a valid value date shall be any business day that is a banking business day in the countries of issue for both currencies.

257H.01.E. Delivery Price and Delivery Value

Delivery for Cleared OTC Contracts assigned pursuant to Chapter 257H shall be by cash settlement according to Rule 257H.02.

257H.01.F. Position Limits and Position Accountability

1. Authority - Position Limits and Position Accountability may be applicable, as defined by Rule 560, and as per the following.
2. Aggregation - For purposes of this Rule, where applicable:
- futures,
- options on futures,
- E-mini futures,
- E-micro futures,
- cleared only spot, forward and swaps (combinations of spot and forwards or two maturity forwards),
- cleared only options on spot and forwards; and
- in addition, where applicable, the analogous reciprocal versions of the aforementioned contracts for the respective foreign exchange pairs, shall be aggregated with all products utilizing that foreign exchange (FX) pair regardless of quoting conventions. The baseline for this aggregation shall be the denomination of the underlying full-size CME futures contract. Contract equivalents shall be determined through the conversion of the notional value (or contract size times the number of contracts in standardized products) to the CME base currency using the prior day's Regular Trading Hours (RTH) settlement, and dividing the result by the contract size or notional of the full-size CME futures contract.

3. Contract Equivalent - For purposes of this Rule, a contract shall be deemed to be the equivalent of 100,000 Brazilian reais in notional value.
4. Position Limit - A participant may not own or control more than the aggregated equivalent across all contract months of 40,000 contracts, or 4 billion Brazilian reais in notional value, or 24,000 contracts in any single contract month or 2.4 billion Brazilian reais, net long or net short.
5. Exemptions - The foregoing position limits shall not apply to bona fide hedge positions meeting the requirements of Regulation 1.3(z)(1) of the CFTC and the rules of the Exchange, and shall not apply to other positions exempted pursuant to Rule 559.
6. Reserved
7. Reserved

257H.01.G. Last Day of Clearing

The last day on which a transaction in a Cleared OTC Contract may be submitted for clearing in respect of a specified cash settlement date shall be one (1) valid business day prior to the cash settlement date.

257H.01.H. Liquidation and Delivery Standards

(1) At Maturity. After clearing of Cleared OTC Contracts in respect of a specified cash settlement date has ceased, in accordance with Rule 257H.01.G. of this chapter, outstanding contracts for such cash settlement date shall be liquidated by cash settlement through procedures as prescribed in Rule 257H.02 and in a manner prescribed by the Clearing House.

(2) Prior to Maturity. Standard offsets of futures and options on futures shall not apply to positions in Cleared OTC Contracts. Prior to the Cash Settlement Date, positions may be closed out upon the request of the clearing firm to the Clearing House, and in the manner prescribed by the Clearing House.

257H.01.I. Contract Modifications

Specifications shall be fixed as of the first day of clearing of a contract, except that all final settlements via cash settlement must conform to government regulations in force at the time of final settlement. If any national or international government agency or body issues an order, ruling, directive or law that conflicts with the requirements of these rules, such order, ruling, directive or law shall be construed to take precedence and become part of these rules and all open and new contracts shall be subject to such government orders.

257H.02. CASH SETTLEMENT

257H.02.A. Day of Cash Settlement

Each Cleared OTC Contract, for a valid value date for cash settlement in one business day, shall be liquidated by cash settlement at a price equal to the daily Final Settlement Price for that day. The daily Final Settlement Price shall be determined as the reciprocal of the Final Settlement Price determined per the procedures set forth in Rule 25702.B., Cash Settlement, rounded to the nearest integral multiple of the minimum price increment as identified per Rule 257H.01.C., Minimum Price Increments.

All open positions for that valid value date for cash settlement will be cash settled in the minimum fluctuation currency based upon the difference between the Final Settlement Price for the valid value date for cash settlement and the original trade price as submitted for clearing, times the notional value of the transaction in the clearing unit currency, and divided by the Final Settlement Price for the valid value date for cash settlement.

257H.02.B. Procedures if No Cash Settlement Price is Available

In the event that the Final Settlement Price for a valid value date for cash settlement cannot be published on a given day by CME, and in order to minimize basis risk, the Exchange shall determine a Final Settlement Price as the reciprocal of the Final Settlement Price determined per procedures set forth in the INTERPRETATION TO CHAPTER 257.

257H.02.C. Amendments to Timings

The Exchange may amend the timings of notifications, deliveries, and transfers under this Rule 257H.02 to reflect as appropriate the adoption of daylight savings time in the relevant countries of delivery.

257H.03. DISPUTES

All disputes between interested parties may be settled by arbitration as provided in the Rules.

(End Chapter 257H)

Appendix 7

Chapter 270H
Cleared OTC U.S. Dollar/ Chinese Renminbi (USD/RMB)
Spot, Forwards and Swaps

270H.00. SCOPE OF CHAPTER

This chapter is limited in application to U.S. dollar/ Chinese renminbi Spot, Forwards, and Swaps that are executed between two counterparties on an Over-the-Counter ("OTC") basis and subsequently novated to the CME Clearing House for purposes of clearance ("Cleared OTC Contracts"). Parties to transactions in Cleared OTC Contracts shall be limited to "eligible contract participants" as defined in Section 1a(12) of the Commodity Exchange Act. Cleared OTC Contracts are listed by CME for clearing-only. Transactions in Cleared OTC Contracts shall also be subject to the general rules of the Exchange insofar as applicable. The clearing and settlement of transactions in Cleared OTC Contracts shall also be subject to the provisions of Chapter 8-F of the CME Rulebook (Over-the-Counter Derivative Clearing). For purposes of these Rules, the minimum-fluctuation currency is the Chinese renminbi and the clearing-unit currency is the U.S. dollar.

270H.01. CONTRACT SPECIFICATIONS

270H.01.A. Unit of Clearing

The unit of clearing shall be 1 U.S. dollar in any amount to a precision of 0.01 U.S. dollar.

270H.01.B. Hours for Clearing Entry

The Exchange shall determine the hours during which Cleared OTC Contracts may be submitted to the Clearing House. Positions shall be initiated or closed out using off-exchange transactions.

270H.01.C. Minimum Price Increments

Minimum price fluctuations shall be in multiples of 0.0001 Chinese renminbi per U.S. dollar for transactions in Cleared OTC Contracts.

270H.01.D. Valid Value Dates for Cash Settlement

Cleared OTC Contracts shall be cash settled for any valid value date mutually agreed to by buyer and seller, and accepted by the Exchange for the applicable currency pair as a valid value date(s) for cash settlement and clearing. In general, for any currency pair, a valid value date shall be any business day that is a banking business day in the countries of issue for both currencies.

270H.01.E. Delivery Price and Delivery Value

Delivery for Cleared OTC Contracts assigned pursuant to Chapter 270H shall be by cash settlement according to Rule 270H.02.

270H.01.F. Position Limits and Position Accountability

1. Authority - Position Limits and Position Accountability may be applicable, as defined by Rule 560, and as per the following.
2. Aggregation - For purposes of this Rule, where applicable:
- futures,
- options on futures,
- E-mini futures,
- E-micro futures,
- cleared only spot, forward and swaps (combinations of spot and forwards or two maturity forwards),
- cleared only options on spot and forwards; and
- in addition, where applicable, the analogous reciprocal versions of the aforementioned contracts for the respective foreign exchange pairs, shall be aggregated with all products utilizing that foreign exchange (FX) pair regardless of quoting conventions. The baseline for this aggregation shall be the denomination of the underlying full-size CME futures contract. Contract equivalents shall be determined through the conversion of the notional value (or contract size times the number of contracts in standardized products) to the CME base currency using the prior day's Regular Trading Hours (RTH) settlement, and dividing the result by the contract size or notional of the full-size CME futures contract.

3. Contract Equivalent - For purposes of this Rule, a contract shall be deemed to be the equivalent of 1,000,000 Chinese renminbi in notional value.
4. Position Accountability - A participant owning or controlling more than the aggregated equivalent of 6,000 contracts, or 6 billion Chinese renminbi in notional value, net long or net short, 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.
5. Spot Position Limit – A participant shall not own or control more than the equivalent of 2,000 contracts, or 2 billion Chinese renminbi, which are settled in the spot period between the second and third Wednesdays (inclusive) during the months of March, June, September and December.
6. Exemptions - The foregoing position limits shall not apply to bona fide hedge positions meeting the requirements of Regulation 1.3(z)(1) of the CFTC and the rules of the Exchange, and shall not apply to other positions exempted pursuant to Rule 559.
7. Reserved

270H.01.G. Last Day of Clearing

The last day on which a transaction in a Cleared OTC Contract may be submitted for clearing in respect of a specified cash settlement date shall be one (1) valid business day prior to the cash settlement date.

270H.01.H. Liquidation and Delivery Standards

(1) At Maturity. After clearing of Cleared OTC Contracts in respect of a specified cash settlement date has ceased, in accordance with Rule 270H.01.G. of this chapter, outstanding contracts for such cash settlement date shall be liquidated by cash settlement through procedures as prescribed in Rule 270H.02 and in a manner prescribed by the Clearing House.

(2) Prior to Maturity. Standard offsets of futures and options on futures shall not apply to positions in Cleared OTC Contracts. Prior to the Cash Settlement Date, positions may be closed out upon the request of the clearing firm to the Clearing House, and in the manner prescribed by the Clearing House.

270H.01.I. Contract Modifications

Specifications shall be fixed as of the first day of clearing of a contract, except that all final settlements via cash settlement must conform to government regulations in force at the time of final settlement. If any national or international government agency or body issues an order, ruling, directive or law that conflicts with the requirements of these rules, such order, ruling, directive or law shall be construed to take precedence and become part of these rules and all open and new contracts shall be subject to such government orders.

270H.02. CASH SETTLEMENT

270H.02.A. Day of Cash Settlement

Each Cleared OTC Contract, for a valid value date for cash settlement in one business day, shall be liquidated by cash settlement at a price equal to the daily Final Settlement Price for that day. The daily Final Settlement Price shall be determined as the reciprocal of the Final Settlement Price determined per the procedures set forth in Rule 27002.B., Cash Settlement, rounded to the nearest integral multiple of the minimum price increment as identified per Rule 270H.01.C., Minimum Price Increments.

All open positions for that valid value date for cash settlement will be cash settled in the clearing-unit currency based upon the difference between the Final Settlement Price for the valid value date for cash settlement and the original trade price as submitted for clearing, times the notional value of the transaction in the clearing unit currency, and divided by the Final Settlement Price for the valid value date for cash settlement.

270H.02.B. Procedures if No Cash Settlement Price is Available

In the event that the Final Settlement Price for a valid value date for cash settlement cannot be published on a given day by CME, and in order to minimize basis risk, the Exchange shall determine a Final Settlement Price as the reciprocal of the Final Settlement Price determined per procedures set forth in the INTERPRETATION TO CHAPTER 270.

270H.02.C. Amendments to Timings

The Exchange may amend the timings of notifications, deliveries, and transfers under this Rule 270H.02 to reflect as appropriate the adoption of daylight savings time in the relevant countries of delivery.

270H.03. DISPUTES

All disputes between interested parties may be settled by arbitration as provided in the Rules.

(End Chapter 270H)

Appendix 8
CME Introducing Forwards with Cash Mark-To-Market

In accordance with customer demand CME will begin clearing privately-negotiated transactions in forwards with cash mark-to-market.

Currently, all forwards cleared by CME have a collateralized mark-to-market. Each day, for each open forward trade, mark-to-market is calculated, from original trade price to the current end-of-day settlement price. These amounts are netted together and “collateralized”. In other words, if a negative number (a loss), they increase the initial margin (performance bond) requirement, thereby increasing the amount of collateral that must be posted to meet that margin requirement. If a positive number (a gain), they decrease the initial margin requirement.

With cash mark-to-market, the mark-to-market value for the previous clearing business date is subtracted from the mark-to-market amount for the current clearing date. These amounts are netted down and become part of the total banked cash flow for the currency in which they are denominated. It's a very simple change.

There is one additional feature for FX forwards, and in particular for non-deliverable forwards (NDF's) – forwards where one currency of the pair is not bankable. We call this a forward where the cash mark-to-market is flipped, or inverted.

Take for example a forward on the exchange rate between the US Dollar (USD) and the Chilean Peso (CLP). The quantity is specified in USD, and the price is quoted as a specified amount of CLP per one USD. Normally, the mark-to-market amount would be denominated in CLP, also referred to as the contra currency. But with the flipped mark-to-market, the amount is converted to USD by dividing by today's end-of-day settlement price for the contract.

Calculating Mark-to-Market and change in Mark-to-Market

In the normal case, the mark-to-market amount for a forward is calculated as:

- Subtract the original trade price from the end-of-day settlement price.
- Express the trade quantity as a positive number for a buy or a negative number for a sell.
- Take the product of the price difference, the trade quantity, the contract value factor, and the discount factor.
- Round normally to the normal precision of the currency in which the mark-to-market amount is denominated. (the contra currency for an FX forward)

In other words:

$$(S - T) * Q * CVF * DF$$

Where:

S is the end-of-day settlement price
T is the original trade price
Q is the trade quantity
CVF is the contract value factor
DF is the discount factor

In the inverse case, the mark-to-market amount is calculated in the exact same way, except that it includes a division by the daily settlement price:

- Subtract the original trade price from the end-of-day settlement price.
- Express the trade quantity as a positive number for a buy or a negative number for a sell.
- Take the product of the price difference, the trade quantity, the contract value factor, and the discount factor.
- Divide this result by the end-of-day settlement price.
- Round normally to the normal precision of the currency in which the mark-to-market amount is denominated. (the primary currency for an FX forward)

In other words:

$$[(S - T) * Q * CVF * DF] / S$$

In either case, the settlement variation amount to be banked is calculated by subtracting the mark-to-market amount for the previous clearing business date from the amount for the current business date.

Cash-Settled and Physically-Delivered Forwards

At maturity, forwards with cash mark-to-market can be either cash-settled or physically-delivered, exactly as for forwards with collateralized mark-to-market.

For a cash-settled forward, at contract maturity (end-of-day on the "clearing settlement date"):

- The mark-to-market amount is set to zero.
- We then calculate the settlement variation amount to be banked exactly as on any other day – by subtracting the previous day's value for mark-to-market from the current day's (zero) value.
- The mark-to-market amount is then calculated one final time – from original trade price to the final settlement price and banked as part of the final settlement of the contract.
- The initial margin requirement is also set to zero, exactly as for any other cash-settled forward or future.
- The next morning the cash moves at the bank, and any collateral deposited to meet the initial margin requirement may be withdrawn.

For a physically-delivered forward, at contract maturity (end-of-day on the clearing settlement date):

- The mark-to-market amount is set to zero.
- We then calculate the settlement variation amount to be banked exactly as on any other day – by subtracting the previous day's value for mark-to-market from the current day's (zero) value.
- The invoice amount, calculated at original trade price, is included in the total amount to be banked.
- On the value date for physical delivery, the position is removed. This causes the initial margin requirement to be set to zero, and any collateral deposited to meet it may be withdrawn.

Data formats

Exactly as before, a forward is denoted with a product type code of **FWD**, and the settlement method is denoted as either **CASH** (for cash-settled) or **DELIV** (for physically-delivered).

There are now three possible values for the "valuation method" for forwards:

- The existing value **FWD** will continue to mean that mark-to-market amounts are collateralized.
- A new value **FWDB** ("forward banked") means a forward with cash mark-to-market.
- A second new value **FWDBI** ("forward banked inverse") will be used for FX forwards with cash mark-to-market where the value is flipped from the contra currency to the primary currency.

Exactly as before, the **FinalSettlCcy** attribute denotes the currency in which the mark-to-market amount is denominated, and the **Ccy** attribute on **Amt** elements also specifies the currency.

Exactly as before, the **FMTM** amount type will denote mark-to-market. For forwards with cash mark-to-market, a new **IMTM** amount type – "incremental mark-to-market" – denotes the change in mark-to-market from the previous clearing business date – in other words, the settlement variation amount.

Exactly as before, the **DLV** amount type represents either the final mark-to-market amount to be banked (for cash settled contracts) or the invoice amount (for physically-delivered contracts.)

To simplify bookkeeping system processing, a new **BANK** amount element represents the total cash to be banked, and a new **COLAT** amount element represents the total amount to be collateralized. (For forwards with cash mark-to-market, the **COLAT** element will always have a value of zero.)

Margining in SPAN

There are no changes to how performance bond (initial margin) requirements are calculated in SPAN for portfolios including forwards with cash mark-to-market. Simply divide the true notional position by the equivalent position factor for the product, round the result up (away from zero) to the nearest integer, and feed the resulting "marginable positions" to SPAN, exactly as before.

Testing opportunities

Forwards with cash mark-to-market are now available for testing in CME's "New Release" environment. For more information please contact CME Clearing at 312-207-2525.