

Special Executive Report

S-4585

June 15, 2007

CME CREDIT INDEX EVENT CONTRACTS TO LAUNCH ON SUNDAY, JUNE 17, 2007

CME Credit Index Event Contracts are scheduled to launch on Sunday, June 17, 2007. This contract is based on the CME North American Investment Grade High Volatility Index Series 2.

CME Credit Index Event Contracts operate much like a fixed recovery CDS product as available in the OTC markets. However, they are designed to dovetail with current futures practices. They require an initial performance bond deposit and are subsequently marked-to-market (MTM) on a daily basis. As the term of a CME Credit Index Event Contract draws near, the entire value of the protection will have been paid from long to short through the MTM process. Contrarily, if a credit event should occur with respect to one or more Index Reference Entities, the CME Credit Index Event Contract will reflect the present value of the payouts associated with the defaulted Index Reference Entities. Early termination of the CME Credit Index Event Contract will occur only if all Index Reference Entities experience a credit event.

A “credit event” may include bankruptcies, failures to pay, restructuring, obligation acceleration, obligation default, debt repudiations, or moratoriums. These events are defined by Article IV of 2003 International Swaps & Derivatives Association’s (ISDA) Credit Derivatives Definitions. These definitions and standards are well established and adopted for widespread use in the OTC markets.

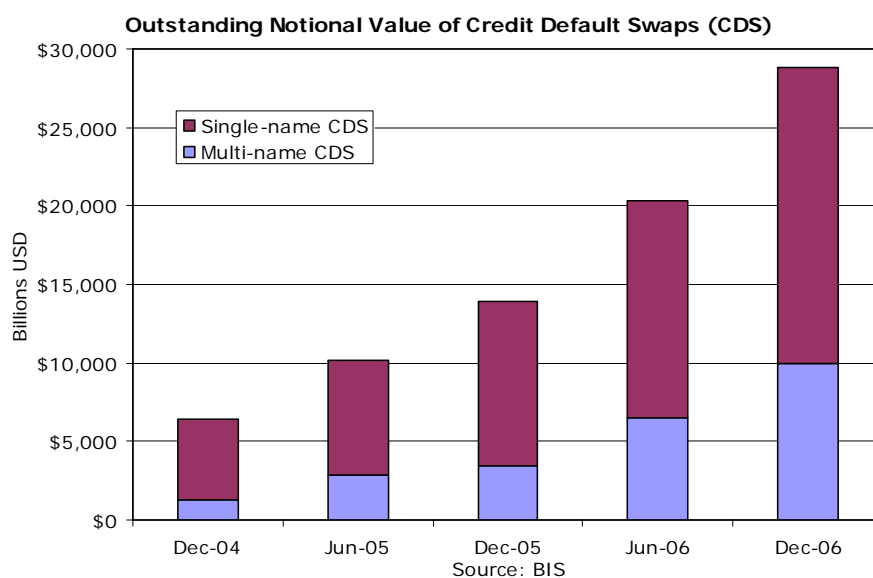
CME Credit Index Event Contracts merge the benefits of OTC credit default swaps with the benefits of trading futures. Specifically, CME Credit Index Event Contracts are cleared and guaranteed by the CME Clearing House. This promises potential capital efficiencies for institutions that may cross-margin CME Credit Index Event Contracts against other credit products that may be introduced on CME ... or against other interest rate futures cleared by CME. Further note that exchange-traded derivatives that require an initial performance bond and a daily mark-to-market are generally exempt from reserve requirements per the provisions of Basle II.

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1. About the Credit Derivative Marketplace

The credit derivatives industry has experienced remarkable growth over the past decade and now represents the fastest growing segment of the over-the-counter (OTC) derivatives market by far. While credit default swaps (CDSs) are a relatively new form of derivative product, having emerged in the mid- to late 1990s, the outstanding notional value of this marketplace has grown to approximately \$29-33 trillion by year-end 2006 according to Bank for International Settlements (BIS) and International Swap and Derivatives Association (ISDA) estimates.



Measuring Credit Risk - Rating agencies such as Moody's, S&P and Fitch have provided credit ratings for corporate names for a considerable period of time. Note that corporate debt rated BBB- or higher is considered investment grade debt. The higher the credit grade listing, the more creditworthy the reference entity is considered to be. Corporate debt rated BB+ or lower is considered to be non-investment grade debt. Non-investment grade bonds are often referred to as high yield bonds. Lower rated high yield bonds are often referred to in the vernacular as junk bonds.

Table A-1: Rating Agency Credit Descriptions

Moody's	S&P	Fitch	Description
Investment Grade Debt			
Aaa	AAA	AAA	Prime. Maximum Safety
Aa1	AA+	AA+	High Grade High Quality
Aa2	AA	AA	
Aa3	AA-	AA-	
A1	A+	A+	Upper Medium Grade
A2	A	A	
A3	A-	A-	
Baa1	BBB+	BBB+	Lower Medium Grade
Baa2	BBB	BBB	
Baa3	BBB-	BBB-	
Non Investment Grade or "High-Yield" Debt			
Ba1	BB+	BB+	
Ba2	BB	BB	Speculative
Ba3	BB-	BB-	
B1	B+	B+	Highly Speculative
B2	B	B	
B3	B-	B-	
Caa1	CCC+	CCC	Substantial Risk
Caa2	CCC	-	In Poor Standing
Caa3	CCC-	-	
Ca	-	-	Extremely Speculative
C	-	-	May be in Default
-	-	DDD	Default
-	-	DD	
-	D	D	

U.S. Treasury securities are generally viewed as the U.S. dollar benchmark for default free or risk-free fixed income securities. U.S. Treasury securities will always imply an element of market risk associated with interest rate fluctuations but are nonetheless viewed as implying zero credit risk. The basic rationale is that the U.S. Treasury cannot default, noting that the Treasury Department's Bureau of Engraving and Printing has quite a number of printing presses capable of creating additional paper currency.

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Credit ratings cited in the accompanying tables are reference points to establish a credit spread for the relative default or non-payment risk associated with corporate debt instruments. Credit spreads are a function of both credit rating and yield to maturity. A credit spread may be aggregated with the yield on a comparable maturity Treasury security yield to determine the credit-adjusted corporate bond yield. Higher (lower) corporate bond credit ratings imply smaller (larger) credit spreads. As creditworthiness decreases, credit spreads increase. *E.g.*, the buyer of a 5-year corporate bond might demand a 54 basis point credit spread premium from an AA corporate borrower. Alternatively, the buyer of a 5-year corporate bond would demand a much greater credit spread premium of perhaps 79 basis points from a BBB+ corporate borrower.

Treasury, Swap & Corporate Bond (Industrials) Yields (%)

	US Treasur y	USD Swap	AA Corporat e	A Corporat e	BBB+ Corporat e	BBB Corporat e	BBB- Corporat e	BB+ Corporat e
2-year	4.85	5.21	5.13	5.22	5.41	5.47	5.65	5.98
3-year	4.77	5.14	5.20	5.27	5.45	5.51	5.68	6.04
5-year	4.72	5.13	5.26	5.34	5.51	5.60	5.90	6.28
10-year	4.73	5.22	5.40	5.48	5.78	5.97	6.20	6.74
30-year	4.82	5.34	5.51	5.74	6.18	6.34	6.51	6.92

Source: Bloomberg as of 4 PM on Thursday, January 11, 2007

Further, borrowers will typically demand a higher credit spread premium as the term to maturity of a corporate bond increases due to the increased probability of credit default over a longer term time horizon.

Bond (Industrials) Yield Spread to U.S. Treasuries (In basis points)

	US Treasur y	USD Swap	AA Corporat e	A Corporat e	BBB+ Corporat e	BBB Corporat e	BBB- Corporat e	BB+ Corporat e
2-year	0.00	36	28	37	56	62	80	113
3-year	0.00	37	43	50	68	74	91	127
5-year	0.00	41	54	62	79	88	118	156
10-year	0.00	49	67	75	105	124	147	201
30-year	0.00	52	69	92	136	152	169	210

Source: Bloomberg as of 4 PM on Thursday, January 11, 2007

Bond (Industrials) Yield Spread to USD Swap Rates
(In basis points)

	USD Swap	AA Corporat e	A Corporat e	BBB+ Corporat e	BBB Corporat e	BBB- Corporat e	BB+ Corporat e
2-year	0	-8	1	20	26	44	77
3-year	0	6	13	31	37	54	90
5-year	0	13	21	38	47	77	115
10-year	0	18	26	56	75	98	152
30-year	0	17	40	84	100	117	158

Source: Bloomberg as of 4 PM on Thursday, January 11, 2007

Credit Default Swaps - The credit default swap (CDS) market may be divided into three sectors: (i) corporate bonds and loans; (ii) bank credits; and (iii) emerging market sovereigns. CDS can reference a single reference entity's reference obligations (a single bond or single loan) or a basket/portfolio of credits, all issued by a specific reference entity (*e.g.*, a corporation or sovereign entity). CDS Indexes may be constructed which reference a standard or customized portfolio of credits agreed upon by the buyer and seller. The most frequently traded maturity for a CDS is five years though the range of CDS maturities may extend from one to 10 years. The CDS swap premium or cost of a credit default swap attempts to capture the economic value of the credit risk associated with corporate or sovereign debt.

What constitutes a credit event? Any possible circumstance that may lead to a diminished market value for a corporate debt security may be viewed as a credit event. Under current, ISDA credit default swap definitions, a default event may be defined as: (i) bankruptcy; (ii) failure to pay; (iii) debt restructuring; (iv) obligation default or acceleration; (v) debt payment moratorium. Of course, some of these events may be applicable to a particular reference entity and included in the transaction documentation while others may be excluded.

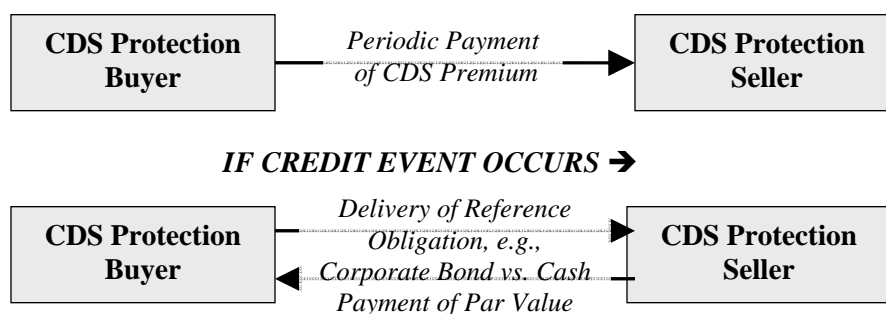
A "*Bankruptcy*" event implies that the reference entity for the CDS has become insolvent or lacks the financial capacity to meet its debt obligations. A "*Failure to Pay*" event implies that the reference entity for the CDS simply fails to make a scheduled interest or principal payment. A "*Debt Restructuring*" event is one where the seniority of a payment due to the holder of the reference entity has been degraded. An "*Obligation Default or Acceleration*" event represents one where a debt covenant(s) for the reference entity has been violated, thereby making the debt obligation come due prior to the original maturity date. A "*Debt Payment Moratorium*" event arises when the reference entity refuses to make scheduled debt service payments.

When "restructuring" is included as a default event for a CDS, it has the potential to generate controversy. Some bank purchasers of CDS protection have also been purported to have outstanding loans to the reference entity for a CDS. These banks, on the buy side of CDS protection, may be in a position to approve or accept a debt restructuring by that obligor, which would then trigger a payment (to the protection buyer) under a CDS agreement.

There may further be situations where a debt restructuring has not resulted in financial harm to the debt holder. Protection sellers sometimes object to making payment to a protection buyer under this type of circumstance. Thus, there are pros and cons of including restructuring as a default event.

CDS Structure - In a typical single name CDS the “Protection Buyer” agrees to make periodic payments over a designated period of time to the “Protection Seller.” In exchange for this “swap” payment, or premium, the Protection Buyer establishes the right to sell the reference obligation (e.g., a bond or note) issued by a reference entity (e.g., a corporation or a sovereign entity) to the Protection Seller at the agreed upon notional value frequently established at par, if a credit event should occur.

Plain Vanilla Credit Default Swap (CDS)



In effect the Protection Buyer is reducing or hedging the credit risk component of the reference bond by transferring the credit risk to the Protection Seller. The Protection Buyer's asset remains subject to non-credit related elements of market risk. At the time a CDS is created, neither the protection buyer nor the protection seller has a comparative advantage. The present value of the payments made by the protection buyer is approximately equal to the expected value of the payment to be received from the protection seller.

Credit Indexes – In addition to CDSs tied to a single Reference Entity, derivatives based upon indexes or baskets of Reference Entities have likewise emerged in the OTC markets. These products evolved from the TRACERS product line first introduced in 2001 by JP Morgan and Morgan Stanley are currently marketed under the brand names CDX and iTraxx Indexes. These Index products are designed to provide exposure to specific credit market segments such as investment grade, high-yield; or, to credit categorized by geographic origin such as North American, European, Asian. These products are typically based on a static basket of credits and are offered with a specific maturity, commonly five years.

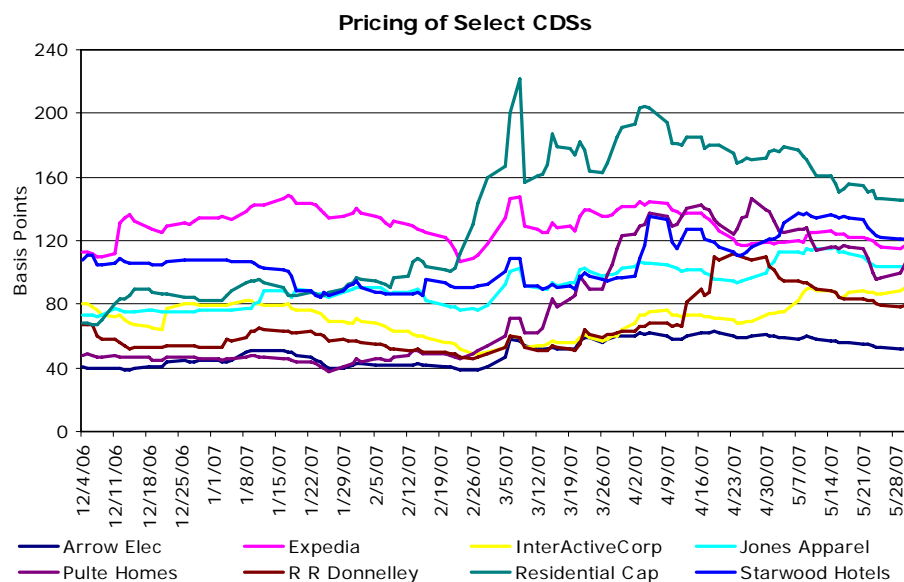
The flagship of the CDX Index product line represents a credit default swap index referencing one-hundred twenty-five (125) North American (NA) investment grade (IG) corporate bonds (reference obligations). The product is often referred to as the “CDX.NA.IG” Index. Upon original issue, these derivatives carry a 5-year term. These baskets may be reconstituted on a semi-annual basis and relaunched as the “on-the-run” index series with older series continuing to endure until their maturity. As of this writing, the 8th series of this index has been issued and dubbed CDX.NA.IG.8. Index composition is based on submissions by a consortium of 16 OTC credit dealers. Other OTC index products have been constructed based upon high-yield (HY), high-volatility (HV) and crossover (XO) corporate securities. A corporate name may fall into the crossover category where its credit rating straddles the investment grade/speculative grade (*i.e.*, BBB/BB) line as determined by different rating agencies.

CDS Pricing - Two factors play the dominant role when the time comes to evaluate the price of a credit default swap: (i) the *probability* that the reference entity will default; and (ii) the *recovery rate*, *i.e.*, the amount the protection seller expects to recover in the event a default occurs.

Changes in expected default probability and/or the recovery rate will have an impact on CDS valuation. The larger the anticipated probability of default, the larger the credit default swap premium will be. If the market perceives that a reference entity’s financial condition is improving, the CDS swap premium will tighten, *i.e.*, the CDS swap price will cheapen. If the price for CDS protection on a specific name is widening significantly, this is generally an indication that perceived credit quality is rapidly deteriorating.

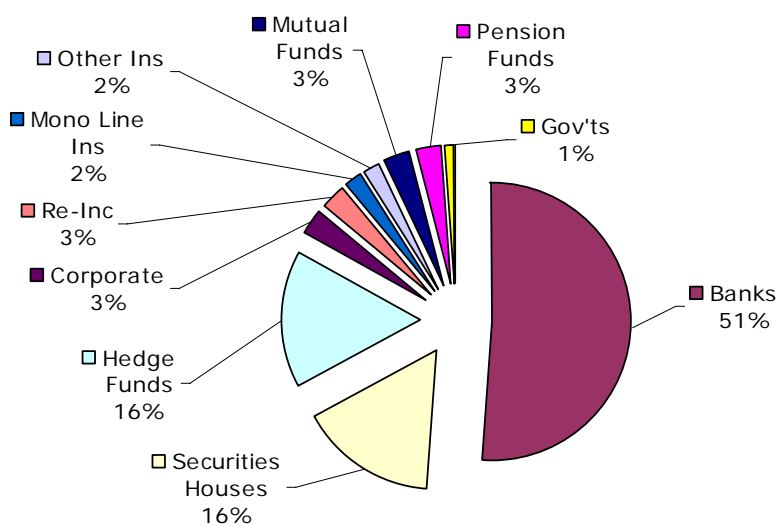
The CDS market often responds more quickly than the cash market to changes in credit perception. Hence prices in the CDS market may serve as an important leading indicator that credit spreads on a particular bond issue are likely to change.

Taking on the role of a protection seller via a CDS is akin to taking a long position in a corporate bond with the interest rate risk fully hedged. Another way of viewing this risk is that it is equivalent to purchasing a corporate bond with funds obtained by shorting an equivalent duration Treasury note. Any change in the value of this (long corporate/short Treasury) bond position would be attributable to a change in the reference entity’s credit spread, *i.e.* attributable to a change in the perceived credit quality of the corporate bond issuer. Buying CDS protection may be viewed as taking a short position on corporate credit, which in the corporate bond cash market is generally not practicable.



Credit Market Participants - Who are the major participants in the credit default swap market? Surveys reveal that commercial banks, *i.e.*, holders of large corporate loan exposure, are the largest participants in this market. Commercial banks are more active as CDS protection buyers, but they also hold very significant positions as protection sellers. Banks often attempt to minimize a portion of their credit risk in order to preserve capital.

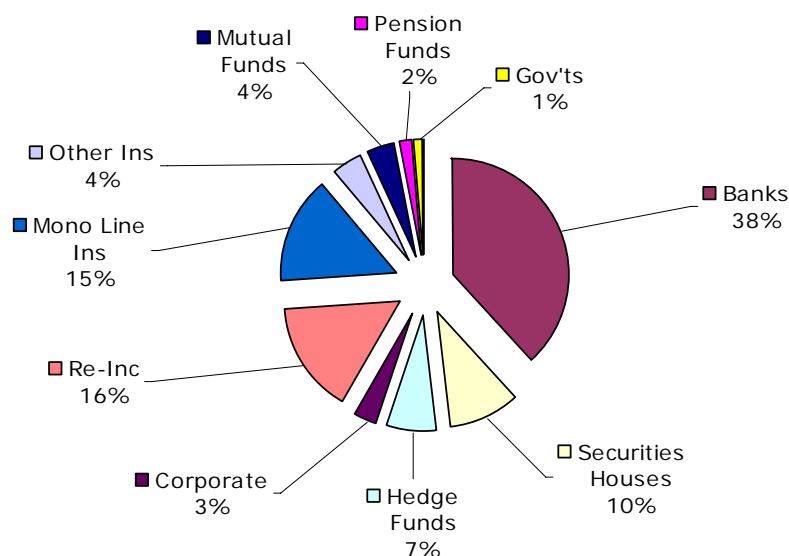
Profile of CDS Protection Buyers



Source: BBA Credit Derivatives Report 2003/2004

Insurance companies, both re-insurers and other insurers, represent a growing percentage of CDS users, especially on the protection sell side. Insurance companies more often serve as CDS protection sellers because their traditional area of expertise is in analyzing and accepting risk. Hedge funds also have taken a very active role in this segment of the OTC derivatives market. Hedge funds are about twice as active on the credit protection buy side *vis-à-vis* the protection sell side.

Profile of CDS Protection Sellers



Source: BBA Credit Derivatives Report 2003/2004

2. CME Credit Index Event Contract Design

CME Credit Index Event Contracts are intended to provide a transparent, liquid and facile means of acquiring protection against the risk of a bankruptcy of a basket of corporations or non-payment of debt. As such, CME intends to extend the benefits of exchange-traded products to the credit derivatives industry which heretofore has only been available on an OTC basis.

They are designed to dovetail with current futures practices. They require an initial performance bond deposit and are subsequently marked-to-market (MTM) on a daily basis. As the expiration date of a CME Credit Index Event Contract draws near, the entire value of the protection will have been paid from long to short through the MTM process.

Thus, CME Credit Index Event Contracts merge the benefits of OTC credit default swaps based upon an Index of obligations with the benefits of trading futures. Specifically, CME Credit Index Event Contracts are cleared and guaranteed by the CME Clearing House. This may result in capital efficiencies for institutions that may cross-margin CME Credit Index Event Contracts against other credit contracts that may be introduced on CME ... or against other interest rate futures cleared by CME.

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Index Event Futures Concept - CME Credit Index Event Contracts call for a final cash settlement which is digital or binary in character. In the absence of any credit events associated with any of the Index constituents, the Final Settlement Price of the contract will be established at zero (\$0) as of the Final Settlement Date. However, if there is a credit event associated with any of the Index constituents, the Final Settlement Price will be established at some non-zero value.

The Final Settlement Price, expressed in basis points, may be calculated by reference to the following formula. For each Index constituent, a determination is made that a credit event has or has not occurred. In the absence of a credit event associated with any particular Index constituent, that constituent will add zero value to the final settlement price. We apply a binary Credit Event Indicator (E) that is established at either 1 or 0 contingent upon the declaration of a credit event or not.

If a credit event is declared with respect to a particular Index constituent, on or before the determination of the Final Settlement Price on the Final Settlement Date, then a value equal to the Weight (W) of the constituent in the Index, multiplied by the Final Settlement Rate (F) for the Index constituent, is added to the Final Settlement Price. This process is continued across all Index constituents to arrive at a Final Settlement Price. Note that Weights and Final Settlement Rates are established for each Index constituent and may vary across constituents.

$$\text{Final Settlement Price} = \sum_{i=1}^n E_i \times W_i \times F_i$$

Where:

n = Number of constituents referenced in the Index

A binary Credit Event Indicator ...

E_i = IF credit event declared for constituent *i* THEN $E_i=1$
IF credit event is not declared for Index constituent *i* THEN $E_i=0$

W_i = Weight of Index constituent *i* as established by the Exchange

F_i = Final Settlement Rate for Index constituent *i*

The Final Settlement Price expressed in basis points may be converted to a monetary value by multiplying the Final Settlement Price by the Notional Value (NV) of the contract as established by the Exchange.

$$\text{Final Settlement Value} = \text{NV} \times \text{Final Settlement Price}$$

Where:

NV = Notional value of contract

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For example, let us consider the hypothetical Index consisting of thirty-two (32) Reference Entities and their Reference Obligations as shown below. We have assumed that each item carries a uniform Weight of 3.125% with a uniform Final Settlement Rate of 60%. Assume that a single Index constituent experiences a credit event. As such, the Final Settlement Price for this constituent is set equal to 3.125% multiplied times 0.60% which equals 1.875% or 187.5 basis points. This equates to a Final Settlement Value of \$1,875 for a contract with a notional value of \$100,000 (calculated at 187.5 basis points or 1.875% of \$100,000).

Reference Entity	Credit Event Indicator (E)	Weight (W)	Final Settlement Rate (F)	E x W x F
Corporation 1	0	3.125%	60%	0
Corporation 2	0	3.125%	60%	0
Corporation 3	0	3.125%	60%	0
Corporation 4	0	3.125%	60%	0
Corporation 5	1	3.125%	60%	1.875%
Corporation 6	0	3.125%	60%	0
Corporation 7	0	3.125%	60%	0
Corporation 8	0	3.125%	60%	0
Corporation 9	0	3.125%	60%	0
...
Corporation 32	0	3.125%	60%	0
TOTAL				1.875%

If two (2) Index constituents should experience a credit event, then the contract is settled at 375 basis points or \$3,750. If three (3) Index constituents should experience a credit event, then the contract is settled at 562.5 basis points or \$5,625. In the (presumably unlikely) event that all 100 Index constituents should experience a credit event, then the contract is finally settled at \$60,000 in this example. If all Index constituents should experience a credit event prior to the regularly scheduled Final Settlement Date, then the contract is settled early at that maximal Final Settlement Price.

Thus, CME Credit Index Event Contracts may be characterized as a form of digital event contract. The “events” include defined Credit Events suffered by any of the Reference Entities included in the Index. We have carefully constructed the contract so that it may not be characterized as a security futures contract. In particular, it is not a contract for future delivery of a single security or Index of securities; or, for delivery of any measure of value based on a single security or an Index of securities. The Final Settlement Price is digital in nature and does not vary in relation to the price of any obligation issued by any Reference Entity or Entities.

Credit Index – We anticipate an initial listing of an Index consisting of thirty-two (32) North American (NA) Investment Grade (IG) High Volatility (HV) corporate Reference Entities. Each constituent will be associated with a Reference Obligation, *i.e.*, a specific corporate bond. The Index will be selected by CME by reference to a number of factors including ... (1) general representation of the broad marketplace in terms of industrial sectors; (2) liquidity of the CDSs associated with those corporate Reference Entities; and (3) conformance to OTC Index derivative practices with respect to the constitution of indexes.

**CME North American Investment Grade
High-Volatility Index, Series 2**

	Reference Entity	Rating	Industry Sector	Weight (W)	Final Settlement Rate (F)
1	Arrow Electronics, Inc.	BBB-	Industrial	3.125%	60%
2	Belo Corp.	BBB-	Communications	3.125%	60%
3	CBS Corporation	BBB	Communications	3.125%	60%
4	Centex Corporation	BBB	Consumer Cyclical	3.125%	60%
5	CenturyTel, Inc.	BBB	Communications	3.125%	60%
6	Computer Sciences Corporation	A	Technology	3.125%	60%
7	Countrywide Home Loans, Inc.	A	Financial	3.125%	60%
8	CSX Corporation	BBB	Industrial	3.125%	60%
9	DR Horton Inc	BBB-	Consumer Cyclical	3.125%	60%
10	Embarq Corporation	BBB-	Communications	3.125%	60%
11	Expedia, Inc.	BBB-	Communications	3.125%	60%
12	Fortune Brands, Inc.	BBB	Consumer Non-Cyclical	3.125%	60%
13	H.J. Heinz Company	BBB	Consumer Non-Cyclical	3.125%	60%
14	InterActiveCorp	BBB-	Communications	3.125%	60%
15	J. C. Penney Company, Inc.	BBB-	Consumer Cyclical	3.125%	60%
16	Jones Apparel Group, Inc.	BBB-	Consumer Cyclical	3.125%	60%
17	Lennar Corporation	BBB	Consumer Cyclical	3.125%	60%
18	Limited Brands, Inc.	BBB	Consumer Cyclical	3.125%	60%
19	Marsh & McLennan Cos Inc	BBB	Financial	3.125%	60%
20	Masco Corporation	BBB+	Industrial	3.125%	60%
21	MeadWestvaco Corporation	BBB	Basic Materials	3.125%	60%
22	MGIC Investment Corp	A	Financial	3.125%	60%
23	Pulte Homes, Inc.	BBB	Consumer Cyclical	3.125%	60%
24	R R Donnelley & Sons Company	BBB+	Consumer Non-Cyclical	3.125%	60%
25	Residential Capital, LLC	BBB	Financial	3.125%	60%
26	Sara Lee Corporation	BBB+	Consumer Non-Cyclical	3.125%	60%
27	Sprint Nextel Corporation	BBB	Communications	3.125%	60%
28	Starwood Hotels & Resorts Worldwide, Inc.	BBB-	Consumer Cyclical	3.125%	60%
29	Temple-Inland Inc.	BBB	Basic Materials	3.125%	60%
30	Toll Brothers, Inc.	BBB-	Consumer Cyclical	3.125%	60%
31	Universal Health Services	BBB-	Health Care	3.125%	60%
32	Weyerhaeuser Company	BBB	Basic Materials	3.125%	60%

The “CME North American Investment Grade High Volatility Index, Series 2” is comprised of 32 Reference Entities as shown in the table above. “High-Volatility” Reference Entities generally include investment grade corporate names with ratings of BBB- or better (or equivalent rating) from rating agencies such as Standard & Poor’s and Fitch. These names are considered “Hi-Vol” in the sense that they may be close to the investment grade/high-yield rating barrier and as such have experienced high volatility and activity in the OTC CDS markets.

Each Reference Entity is further associated with a specific Reference Obligation, *i.e.*, a debt item such as a corporate bond. These Reference Obligations are generally selected as representative of senior unsubordinated corporate debt. *E.g.*, the Reference Obligation for Arrow Electronics Inc. may be the 6.875% maturing June 1, 2018 (CUSIP: DD117613). A credit event may be triggered when a failure to pay occurs with respect to the identified Reference Obligation; or, with respect to any other corporate debt obligation that is equal to or higher than the Reference Obligation within the corporation's debt structure hierarchy.

Succession Events – On occasion, we may expect a particular Reference Entity included in an Index to experience a "Succession Event." ISDA protocols define a Succession Event as inclusive of a merger, consolidation, amalgamation, transfer of assets or liabilities, demerger, spin-off or other similar event in which one Reference Entity succeeds to the obligations of another Reference Entity.

Should a Succession Event occur, the Index may be restructured to reflect that Event. For example, consider the situations where Reference Entity "Corporation 3" is split into two successor Reference Entities "Corporation 3a" and "Corporation 3b." The Index constitution pre-Succession Event may be depicted as follows.

Index Construction Before Succession Event

	Reference Entity	Weight (W)	Final Settlement Rate (F)
1	Corporation 1	3.125%	60%
2	Corporation 2	3.125%	60%
3	<i>Corporation 3</i>	<i>3.125%</i>	<i>60%</i>
4	Corporation 4	3.125%	60%
...

Subsequent to the Succession Event, the Index may be adjusted to drop Corporation 3 and add Corporation 3a and Corporation 3b with Weights split evenly between the two successor Reference Entities as depicted below.

Index Construction After Succession Event

	Reference Entity	Weight (W)	Final Settlement Rate (F)
1	Corporation 1	3.125%	60%
2	Corporation 2	3.125%	60%
3 <i>a</i>	<i>Corporation 3a</i>	<i>1.5625%</i>	<i>60%</i>
3 <i>b</i>	<i>Corporation 3b</i>	<i>1.5625%</i>	<i>60%</i>
4	Corporation 4	3.125%	60%
...

Or, a Reference Entity may be split into three (3) successor Reference Entities with a similar effect upon the Index underlying the CME Credit Index Event Contract. CME will handle Succession Events in a fashion analogous to established ISDA protocols.

Summary of CME Credit Index Event Contracts

Digital Final Settlement	Final Settlement Value (FSV) = $NV \times [\sum E_i \times W_i \times F_i]$ where NV=contract Notional Value; $E_i=1$ if credit event occurs for index constituent i or $E_i=0$ in absence of credit event; W_i =Weight for constituent i ; F_i =Final Settlement Rate for constituent i . <i>E.g., IF one constituent of 32 equally-weighted names ($W=3.125\%$) experiences credit event with $NV=\\$100,000$, and $F=60\%$ THEN $FSV=\\$1,875$. IF 2 constituents experience credit events with $F=60\%$ THEN $FSV=\\$3,750$; IF 5 experience credit events THEN $FSV=\\$9,375$. If no credit events are realized, contract settles on Final Settlement Date at $FSV=\\$0$.</i>
Index Constitution	Index comprised of 32 North American Investment Grade High-Volatility Reference Entities ("CME North American High-Volatility Index Series 2" for June 2012 expiration) and associated Reference Obligations.
Credit Event	Credit Event deemed to occur in the event of: 1) Bankruptcy, or 2) Failure to Pay, of a Reference Entity/Obligation.
Quotation Convention	Quoted as total price of credit protection for remainder of term, expressed as fraction of Notional Value in basis points (bps). <i>E.g., contract worth 50 bps per annum with 5 years to expiration may be quoted at ~250.0 bps. The "time decay" in total price allows buyer effectively to compensate seller for cost of credit protection over time.</i>
Tick Size	0.5 Basis Points (bps), <i>IF Notional Value = \$100,000 THEN 0.5 bps = \$5.00</i>
Contract Months	Listed five (5) years out in June and December
Final Termination of Trading Date	Trading terminates at 12:00 noon on the Final Termination of Trading Date. The Final Termination of Trading Date shall be the second London bank business day immediately preceding the third Wednesday of the contract expiration month. Contract may terminate early if Credit Events are declared for all Index reference entities.
Final Settle Date	The first business day following the Final Termination of Trading Date.
Trading Hours	Offered exclusively on CME Globex [®] electronic trading platform on Sundays thru Thursdays from 5:00 pm-4:00 pm (Chicago time) the following day.

Credit Event Definitions - CME Credit Index Event Contracts are triggered by the same events as standard OTC CDSs using ISDA conventions, specifically, bankruptcies and failures to pay.

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These contracts will rely upon the credit event definitions adopted from Article IV of the 2003 ISDA Credit Derivatives Definitions, subject to confirmation from public sources, also per ISDA conventions. Because of the digital nature of this contract, it does not rely upon a cash price series *per se* for purposes of final cash settlement.

Cash Flows – From a cash flow perspective, CME Credit Index Event Contracts operates akin to other cash settled contracts. One may buy or sell a contract, at which point, one is required to post an initial performance bond (or “initial margin”). Subsequently, the price of the contract may fluctuate up or down resulting in variation margin payments on a daily mark-to-market (“MTM”) basis. CME will list Credit Index Event Contracts maturing on the 2nd business day preceding the third Wednesday of the contract months of June and December extending out five years into the future. (Note that the most popular OTC credit derivatives typically carry a five-year term.)

Unlike a typical futures contract, however, the CME Credit Index Event Contracts may terminate prior to the regularly scheduled maturity date if a credit event such as bankruptcy or failure to pay should occur with respect to all Index constituents. At this point, the contract is promptly settled during the next clearing cycle at a value equal to the notional value (\$100,000) multiplied by the summation of the product of the Weights and associated Final Settlement Values of all the constituents. E.g., if X is established at 60% for all Index constituents, then both long and short are marked-to-market at a Final Settlement Price of \$60,000 ($= 60\% \times \$100,000$) or 6,000 basis points (bps).

It is reasonable to anticipate that the market prices will tend to rise in anticipation of the occurrence of a credit event. *I.e.*, the market should be efficiently priced. As such, the daily mark-to-market process will have the effect of transferring the value of the protection associated with the contract from protection seller to protection buyer. Effectively, shorts will pay longs an amount equal to the Final Settlement Value less the original transaction price through the accumulation of daily MTM pays and collects. Because this process will tend to be gradual in nature, risks to traders with outstanding positions in the contract are muted relative to a single-name credit product.

Contracts are quoted as the total remaining value of the credit protection in minimum increments of 0.5 basis points or \$5 ($= 0.005\% \times \$100,000$) or \$10 per full basis point. E.g., a 5-year contract quoted as 250 bps implies an annualized quote of ≈ 50 bps. Daily mark-to-market procedures ensure that the value of the protection is transferred from buyer to seller as maturity approaches in the absence of a credit event. Or, that the value of the fixed payout is transferred from seller to buyer as contracts are cash settled early, triggered by a credit event.

Settlement at Zero - Assume it is June 11, 2007 and you purchase one (1) CME Credit Index Event Contract at a price of 320.0 bps maturing June 13, 2011 with a 4-year remaining term to maturity. (This translates into an annualized cost of approximately 80 basis points or 320 bps □ 4 years.)

While the price of 320.0 bps represents \$3,200 ($= 3.2\% \times \$100,000$), the buyer does not actually pay \$3,200 in cash but rather secures this transaction with funds sufficient to cover the initial

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performance bond (“PB”) requirement. Assume that the initial performance bond requirement equals \$800. Although our example is constructed from the perspective of the buyer, both buyer and seller must post the initial performance bond and both are marked-to-market as market values fluctuate.

Date	Action	Market Price	Cash Flows
6/11/07	Buy 1 Credit Index Event Contract	320.0 bps	Posts \$800 initial PB
6/12/07		318.0 bps	MTM pay of \$20
6/13/07		317.0 bps	MTM pay of \$10
6/14/07		320.5 bps	MTM collect of \$35
6/15/07		323.0 bps	MTM collect of \$25
...
6/07/11		2.0 bps	Accumulated pays of \$3,180
6/08/11		1.0 bps	MTM pay of \$10
6/09/11		0.5 bps	MTM pay of \$5
6/10/11		0.5 bps	-
6/13/11	Final Cash Settlement	0.0 bps	MTM pay of \$5
			TOTAL PAYS = \$3,200

Assume that none of the Index Constituents experience a credit event throughout the next 4 years until full term. Under these circumstances, one would expect the market price to wind down to zero by the time the contract matures. Upon final settlement at a value of 0.0 bps, any performance bonds on deposit are released back to buyer and seller.

If both buyer and seller retain their long and short positions, respectively, and do not offset them during the next 4 years, the contract value winds down to 0.0 bps ... perhaps taking a circuitous path but winding down to zero nevertheless. As such, the buyer, through a series of MTM pays and collects, compensates the seller with the original 320.0 bps or \$3,200.

Occurrence of Credit Event – Assume that one buys the same CME Credit Index Event Contract at a price of 320.0 bps maturing 4 years hence. But this time, credit anxieties begin to mount. The price of the CME Credit Index Event Contract increases as the market factors in a higher probability for the occurrence of one or more credit events.

Commensurate with increasing volatility, performance bond requirements may be increased by CME Clearing House; or, they may be reduced in the event of declining volatility. Assume that performance bond (“PB”) requirements had been raised to \$1,000 and are increased to \$1,500 on April 16, 2008.

If a credit event should occur with respect to any one Index constituent, we would expect that the contract would trade at a minimum value equal to the minimum Final Settlement Value. Assume that the Index in question is comprised of thirty-two (32) constituents with equal weighting of 3.125% and a uniform Final Settlement Rate of 60%.

Thus, if one (1) credit event should occur, we would expect that the contract would trade at a minimum value of \$1,875.00 [= \$100,000 x (3.125% x 60%)]. If two (2) credit events should occur, we would expect that the contract would trade at a minimum value of \$3,750.00; if three

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(3) credit events should occur, we would expect that the contract would trade at a minimum value of \$5,625.00 and so forth.

Date	Action	Market Price	Cash Flows
6/11/07	Buy 1 Credit Index Event Contract	320.0 bps	Posts \$800 initial PB
6/12/07		318.0 bps	MTM pay of \$20
6/13/07		317.0 bps	MTM pay of \$10
6/14/07		320.5 bps	MTM collect of \$35
6/15/07		323.0 bps	MTM collect of \$25
...
4/14/08	1 credit event occurs, Minimum FSV=\$1,875.00 (187.5 bps)	520.0 bps	Accumulated collects of \$2,000
4/15/08	Credit concerns increasing	525.0 bps	MTM collect of \$50
4/16/08	CH increases PB requirement to \$1,500 from \$1,000	530.0 bps	MTM collect of \$50 Post \$500 in additional PBs
4/17/08	Credit concerns continue	540.0 bps	MTM collect of \$100
4/18/08	2 nd credit event occurs, Minimum FSV=\$3,750 or 375.0 bps	550.0 bps	MTM collect of \$100
4/21/08	Credit markets conditions stabilize	545.0 bps	MTM pay of \$50
...
11/01/10	3 rd credit event occurs, Minimum FSV=\$5,625.00 or 562.5 bps	640.0 bps	Accumulated collects of \$3,200
...
6/08/11		565.5 bps	Accumulated collects of \$2,455
6/09/11		564.5 bps	MTM pay of \$10
6/10/11		563.5 bps	MTM pay of \$10
6/13/11	Final Cash Settlement based on three (3) declared credit events	562.5 bps	MTM pay of \$10
			TOTAL COLLECTS = \$2,425

Unless all thirty-two (32) Reference Entities suffer a default event, the CME Credit Index Event Contract will not attain a settlement price of \$60,000 or 6,000 basis points [= \$100,000 x (32 x 3.125% x 60%)]. But if all components of an Index should suffer a credit event, the CME Credit Index Event Contract is subject to early settlement at its maximum value.

CME Credit Index Event Contracts will trade exclusively on the CME Globex electronic trading platform.

3. CME CREDIT INDEX EVENT CONTRACT RULES

CHAPTER 454: CME Credit Index Event Contract

45400. SCOPE OF CHAPTER

This chapter is limited in application to trading in CME Credit Index Event Contracts. The procedures for trading, clearing, settlement, and any other matters not specifically covered herein shall be governed by the rules of the Exchange.

45401. COMMODITY SPECIFICATIONS

CME Credit Index Event Contracts shall represent a Notional Value as determined by the Board of Directors or its delegates (hereinafter the “Board”) as depicted in Rule 45402.B. The Board may determine to list multiple contracts based on a specific CME Credit Event Index with varying Notional Values (NV), minimum increments, Final Settlement Rates (F), or terms to maturity as depicted in Rule 45402.B.

45402. FUTURES CALL

45402.A. Schedule

CME Credit Index Event Contracts shall be scheduled for trading during such hours and delivery in such months as may be determined by the Board.

45402.B. CME Credit Event Indexes

CME Credit Index Event Contracts shall be based upon the following Indexes.

Index Designation	Notional Value (NV)	Minimum Increment	Position Limit
CME NA IG HV2	\$100,000 (USD)	0.5 basis points (\$5.00)	5,000 contracts

45402.C. Trading Unit

CME Credit Index Event Contracts shall be based on a Notional Value and denominated in such currency as determined by the Board as depicted in Rule 45402.B.

45402.D. Minimum Increments

CME Credit Index Event Contracts shall be traded with a minimum price increment as determined by the Board as depicted in Rule 45402.B. Bids and offers shall be quoted in terms of basis points of Notional Value. *E.g.*, If the minimum price increment of a contract with a Notional Value of \$100,000 is established at 0.5 basis points, then the minimum price increment equates to \$5.00. A quotation of 405.5 basis points based on a contract with a Notional Value of \$100,000 equates to \$4,055.00.

45402.E. Position Limits

A person shall not own or control more than a specified number of contracts net long or short in all contract months combined in any single Index as determined by the Board as depicted in Rule 45402.B.

45402.F. Accumulation of Positions

For the purposes of this rule, the positions of all accounts directly or indirectly owned or controlled by a person or persons, and the positions of all accounts of a person or persons acting pursuant to an expressed or implied agreement or understanding, and the positions of all accounts in which a person or persons have a proprietary or beneficial interest, shall be cumulated.

45402.G. Exemptions

The foregoing position limits shall not apply to (1) bona fide hedge positions meeting the requirements of Regulation 1.3(z)(1) of the CFTC and the rules of the Exchange, and (2) other positions exempted pursuant to Rule 543.

45402.H. Final and Early Termination of Trading Date

Trading shall terminate at 12:00 p.m. (Chicago Time) on the Final Termination of Trading Date. The Final Termination of Trading Date shall be the second London bank business day immediately preceding the third Wednesday of the contract expiration month. For purposes of determining whether a Credit Event has occurred, the Final Termination of Trading Date shall end at 12:00 p.m. (Chicago Time) on the relevant day.

If Credit Events have been Declared ("Declaration of Credit Event") per Rule 45403.C., on or prior to the Final Termination of Trading Date, with respect to all Reference Entities included in a CME Credit Index Event Contract then such Contract shall be subject to Early Termination of Trading. The Early Termination of Trading Date shall be the first business day following the final Declaration of Credit Event that is possible under such Credit Index Event contract. Trading shall terminate at the regularly scheduled time, on the Early Termination of Trading Date.

45402.I. Final Settlement Date

The Final Settlement Date shall be the first business day following the Final Termination of Trading Date. However, if a Contract is subject to Early Termination of Trading per Rule 45402.H., then the Final Settlement Date shall be the first business day following the Early Termination of Trading Date.

45402.J. Contract Modifications

Specifications shall be fixed as of the first day of trading of a Contract. If any U.S. governmental 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.

45403. CASH SETTLEMENT

Delivery of CME Credit Index Event Contracts shall be by cash settlement.

45403.A. Final Settlement Procedures

The Final Settlement Price (FSP) shall be rounded to the nearest 1/10000th of a percentage point. (Decimal fractions ending in a five (5) are rounded up. For example, a FSP equal to 4.06246% would be rounded to 4.0625%.) The Final Settlement Value (FSV) quoted in the currency designated per Rule 455A02.B. with respect to a CME Credit Index Event Contract shall be calculated as follows.

$$\begin{aligned} \text{FSV} &= \text{NV} \times \text{FSP} \\ \text{FSP} &= \sum_{i=1}^n [\text{E}_i \times \text{F}_i \times \text{W}_i] \end{aligned}$$

Where:

- NV = Notional Value of Contract per Rule 455A02.B.
- Binary Event Indicator which equals
 - E_i = 1 if a Credit Event has been declared with respect to Reference Entity i
 - 0 if a Credit Event has not been declared with respect to Reference Entity i
- F_i = Final Settlement Rate assigned to Reference Entity i
- W_i = Weight assigned to Reference Entity i

E.g., if no Credit Events have been declared with respect to the Reference Entities included in an Index, then FSP = 0 and FSV = \$0.

If a Credit Event has been declared with respect to one Reference Entity included in an Index where NV = \$100,000, F_i = 60% and W_i = 3.125% then FSP = 187.5 basis points [= 1 x 0.60 x 0.03125] and FSV = \$1,875 [= \$100,000 x 187.5 basis points].

If a Credit Event has been declared with respect to two Reference Entities included in an Index where NV = \$100,000, and both Reference Entities have Final Settlement Rates of F_i = 60% and Weights of W_i = 3.125% then FSP = 375 basis points [= 2 x 0.60 x 0.03125] and FSV = \$3,750 [= \$100,000 x 375 basis points].

If a Credit Event has been declared with respect to all 32 Reference Entities in an Index of 32 constituents where NV = \$100,000, and all 32 Reference Entities have Final Settlement Rates of F_i = 60% and Weights of W_i = 3.125% then FSP = 6,000 basis points [= 32 x 0.60 x 0.03125] and FSV = \$60,000 [= \$100,000 x 6,000 basis points].

45403.B. Credit Events

Credit Event means, with respect to CME Credit Index Event Contracts, one or more of Bankruptcy or Failure to Pay in accordance with the INTERPRETATIONS TO CHAPTER 454.

45403.C. Declaration of Credit Events

The Exchange shall issue a Declaration of Credit Event, when a Credit Event is confirmed by the Exchange with Publicly Available Information, which may occur after the Final Termination of Trading Date. Final Settlement may be postponed indefinitely pending Exchange confirmation of a Credit Event.

45403.D. Final Mark-to-Market

Following the determination of the Final Settlement Price and Final Settlement Value, clearing members holding open positions in CME Credit Index Event Contracts at the time of termination of trading in that contract shall make payment to or receive payment from the Clearing House in accordance with normal variation margin procedures based on a settlement price equal to the Final Settlement Price.

45404. ADJUSTMENTS TO CME CREDIT INDEX EVENT CONTRACTS

CME Credit Index Event Contracts shall be subject to adjustments upon the occurrence of a Succession Event as defined in Section II(1)(i)-(vi) in the INTERPRETATIONS TO CHAPTER 454. Determinations as to whether and how to adjust the terms of CME Credit Index Event Contracts to reflect events affecting Reference Entities and their Successor(s) shall be made by the Board based on its judgment as to what is appropriate for the protection of investors and the public interest, taking into account such factors as fairness to the buyers and sellers of CME Credit Index Event Contracts on the underlying interest, the maintenance of a fair and orderly market, efficiency of CME Credit Index Event Contract settlement, and consistency of interpretation and practice in accordance with the INTERPRETATIONS TO CHAPTER 454.

Adjustments to CME Credit Index Event Contracts may include, but are not limited to, assigning a Successor Reference Entity or Successor Reference Entities to a CME Credit Index Event Contract, attachment of a cash payment from longs to shorts or shorts to longs as appropriate; early cash settlement of retiring CME Credit Index Event Contracts at a fair and reasonable price; or such other provisions or combinations of provisions as deemed appropriate by the Board.

Every determination by the Board in respect of CME Credit Index Event Contracts pursuant to this Rule shall be within the discretion of the Board and shall be conclusive and binding on all investors and not subject to review.

45405. FAILURE TO PERFORM

If the clearing member fails to perform all acts required by this chapter, then that clearing member shall be deemed as failing to perform which may be punishable as a major violation. The Board may also assess such penalties as it deems appropriate.

45406. ACTS OF GOVERNMENT, ACTS OF GOD AND OTHER EMERGENCIES

(Refer to Rule 701. – ACTS OF GOVERNMENT, ACTS OF GOD AND OTHER EMERGENCIES)

INTERPRETATIONS TO CHAPTER 454

I. Credit Events

Credit Event means, with respect to CME Credit Index Event Contracts, one or more of Bankruptcy, or Failure to Pay.

- (a) "Bankruptcy" means the filing under the United States Bankruptcy Code in a United States Bankruptcy Court of: (i) a voluntary petition by the Reference Entity; or (ii) an involuntary petition against the Reference Entity with respect to which an order of relief has been issued by the Court prior to the Final Termination of Trading Date of the Contract (irrespective of whether such order of relief is subsequently reversed on appeal, nullified, vacated, dismissed or otherwise modified after the expiration date of the Contract).
- (b) "Failure to Pay" means, after the expiration of any applicable Grace Period, the failure by a Reference Entity to make, when and where due, any payments in an aggregate amount of not less than the Payment Requirement under one or more Obligations, in accordance with the terms of such Obligations at the time of such failure.¹ For the avoidance of doubt, if the applicable Grace Period cannot expire on or prior to the Final Termination of Trading Date, then there will be no Declaration of Credit Event with respect to the CME Credit Index Event Contract

II. Definitions.²

- (a) Grace Period. "Grace Period" means if a Reference Entity fails to make, when and where due, any payment in an aggregate amount of not less than the Payment Requirement under one or more Obligations, the shorter of (i) the applicable grace period with respect to payments under the relevant Obligation under the terms of such Obligation in effect as of the date of such payment failure and (ii) 30 calendar days.
- (b) Obligation. "Obligation" means each obligation of each Reference Entity that is a Bond and has each of the following characteristics: Not Subordinated, Not Sovereign Lender, and Specified Currency.
 - (i) "Bond" means any obligation for the payment or repayment of borrowed money in the form of or represented by a bond, note (other than notes delivered pursuant to obligations that are typically documented by term loan, revolving loan, letter of credit reimbursement, or similar credit agreements), certificated or uncertificated debt security or other debt security, in each case that is assigned an identification number such as a CUSIP number, International Securities Identification Number (ISIN), or a similar number of a successor to either of such identification systems.

¹ Section I.(b) has been adapted with permission from copyrighted material as published by the International Swaps & Derivatives Association, Inc. (ISDA). Specifically Section I.(b) is adapted from Article IV, Section 4.5 of the 2003 ISDA Credit Derivatives Definitions.

² Section II. has been adapted with permission from copyrighted material as published by the International Swaps & Derivatives Association, Inc. (ISDA). Specifically Section II.(c) is adapted from Article IV, Section 4.8(c); Section II. (e)(i)-(iv) is adapted from Article III, Section 3.5(a)-(d); Section II.(f) is adapted from Article III, Section 3.7; Section II.(g) is adapted from Article II, Section 2.1; Section II.(j) is adapted from Article II Section 2.2(c); Section II.(k) is adapted from Article II Section 2.2(b); Section II.(l) is adapted from Article II Section 2.2(a)(i)-(vi) of the 2003 ISDA Credit Derivatives Definitions.

- (ii) "Not Subordinated" means an obligation that is not Subordinated to the most senior Reference Obligation in priority of payment. For determining whether an obligation is "Not Subordinated," the ranking in priority of payment of each Reference Obligation shall be determined as of the date on which such Reference Obligation was issued or incurred and shall not reflect any change to such ranking in priority of payment after such date.
- (iii) "Subordination" means, with respect to an obligation (the "Subordinated Obligation") and another obligation of the Reference Entity to which such obligation is being compared (the "Senior Obligation"), a contractual, trust or similar arrangement providing that (1) upon the liquidation, dissolution, reorganization or winding up of the Reference Entity, claims of the holders of the Senior Obligation will be satisfied prior to the claims of the holders of the Subordinated Obligation or (2) the holders of the Subordinated Obligation will not be entitled to receive or retain payments in respect of their claims against the Reference Entity at any time that the Reference Entity is in payment arrears or is otherwise in default under the Senior Obligation. "Subordinate" will be construed accordingly. For purposes of determining whether Subordination exists or whether an obligation is Subordinated with respect to another obligation to which it is being compared, the existence of preferred creditors arising by operation of law or of collateral, credit support or other credit enhancement arrangements shall not be taken into account.
- (iv) "Not Sovereign Lender" means any obligation that is not primarily owed to a Sovereign or Supranational Organization, including without limitation, obligations generally referred to as "Paris Club debt."
- (v) "Sovereign" means any state, political subdivision or government, or any agency, instrumentality, ministry, department or other authority (including, without limiting the foregoing, the central bank) thereof.
- (vi) "Supranational Organization" means any entity or other organization established by treaty or other arrangement between two or more Sovereigns or the "Sovereign Agencies of two or more Sovereigns and includes, without limiting the foregoing, the International Monetary Fund, European Central Bank, International Bank for Reconstruction and Development and European Bank for Reconstruction and Development.
- (vii) "Sovereign Agency" means any agency, instrumentality, ministry, department or other authority (including, without limiting the foregoing, the central bank) of a Sovereign.
- (viii) "Specified Currency" means an obligation that is payable in any of the lawful currencies of Canada, Japan, Switzerland, the United Kingdom, and the United States of America, and the euro and any successor currency to any of the aforementioned currencies.
- (c) Obligation Currency. "Obligation Currency" means the currency or currencies in which an Obligation is denominated.
- (d) Payment Requirement. "Payment Requirement" means USD 5,000,000 or its equivalent in the relevant Obligation Currency, in the occurrence of the relevant Failure to Pay.

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(e) Publicly Available Information. "Publicly Available Information" means:

- (i) Information that reasonably confirms any of the facts relevant to the determination that the Credit Event has occurred and which (1) has been published in or on not less than two Public Sources, regardless of whether the reader or user thereof pays a fee to obtain such information; provided that, if either of the parties or any of their respective Affiliates is cited as the sole source of such information, then such information shall not be deemed to be Publicly Available Information unless such party or its Affiliate is acting in its capacity as trustee, fiscal agent, administrative agent, clearing agent or paying agent for an Obligation, (2) is information received from or published by (A) a Reference Entity that is not a party to the relevant CME Credit Index Event Contract or (B) a trustee, fiscal agent, administrative agent, clearing agent or paying agent for an Obligation, (3) is information contained in any petition or filing instituting a Bankruptcy proceeding against or by a Reference Entity or (4) is information contained in any order, decree, notice or filing, however described, of or filed with a court, tribunal, exchange, regulatory authority or similar administrative, regulatory or judicial body.
- (ii) In the event that with respect to the CME Credit Index Event Contract in which the Buyer is (1) the sole source of information in its capacity as trustee, fiscal agent, administrative agent, clearing agent or paying agent for an Obligation and (2) a holder of the Obligation with respect to which a Credit Event has occurred, the Buyer shall be required to deliver to the Exchange a certificate signed by a Managing Director (or other substantively equivalent title) of the Buyer, which shall certify the occurrence of a Credit Event with respect to a Reference Entity.
- (iii) In relation to any information of the type described in Section (II)(e)(i)(2), (3) and (4) of "Publicly Available Information", the Exchange may assume that such information has been disclosed to it without violating any law, agreement, or understanding regarding the confidentiality of such information and that the party delivering such information has not taken any action or entered into any agreement or understanding with the Reference Entity or any Affiliate of the Reference Entity that would be breached by, or would prevent, the disclosure of such information to third parties.
- (iv) Publicly Available Information need not state (1) in relation to an affiliate, the percentage of voting shares owned, directly or indirectly, by the Reference Entity and (2) that such occurrence (A) has met the Payment Requirement or Default Requirement, (B) is the result of exceeding any applicable Grace Period or (C) has met the subjective criteria specified in certain Credit Events.
- (f) Public Source. "Public Source" means a source of Publicly Available Information such as Bloomberg Service, Dow Jones Telerate Service, Reuters Monitor Rates Services, Dow Jones News Wire, Wall Street Journal, and New York Times (and successor publications), the main source(s) of business news in the country in which the Reference Entity is organized and any other internationally recognized published or electronically displayed news sources.
- (g) Reference Entity. "Reference Entity" means the entity or entities specified as such in a CME Credit Index Event Contract, and in each case any Successor.
- (h) Reference Obligations. "Reference Obligations:" means each Obligation specified as such in a CME Credit Index Event Contract.

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- (i) Relevant Obligations. "Relevant Obligations" means the Obligations constituting Bonds of the Reference Entity outstanding immediately prior to the effective date of the Succession Event, excluding any debt obligations outstanding between the Reference Entity and any of its Affiliates as determined by the Exchange.
- (j) Succeed. In this section II, "Succeed" means, with respect to a Reference Entity and its Relevant Obligations, that a party other than such Reference Entity (1) assumes or becomes liable for such Relevant Obligations whether by operation of law or pursuant to any agreement or (2) issues Bonds that are exchanged for Relevant Obligations, and in either case such Reference Entity is no longer an obligor (primarily or secondarily) or guarantor with respect to such Relevant Obligations. The determinations required pursuant to Section II(l) shall be made in the case of an exchange offer, on the basis of the outstanding principal balance of Relevant Obligations tendered and accepted in the exchange and not on the basis of the outstanding principal balance of Bonds for which Relevant Obligations have been exchanged.
- (k) Succession Event. "Succession Event" means an event such as a merger, consolidation, amalgamation, transfer of assets or liabilities, demerger, spin-off or other similar event in which one entity succeeds to the Relevant Obligations of another entity, whether by operation of law or pursuant to any agreement. Notwithstanding the foregoing, "Succession Event" shall not include an event in which the holders of Relevant Obligation of the Reference Entity exchange such obligations for the obligations of another entity, unless such exchange occurs in connections with a merger, consolidation, amalgamation, transfer of assets or liabilities, demerger, spin-off or other similar event.
- (l) Successor. "Successor" means in relation to a Reference Entity under a CME Credit Index Event Contract, the entity or entities, if any, determined as set forth below:
 - (i) If one entity directly or indirectly succeeds to seventy-five per cent or more of the Relevant Obligations of the Reference Entity by way of a Succession Event, that entity will be the sole Successor in respect of such Reference Entity.
 - (ii) If only one entity directly or indirectly succeeds to more than twenty-five per cent (but less than seventy-five per cent) of the Relevant Obligations of the Reference Entity by way of a Succession Event and not more than twenty-five per cent of the Relevant Obligations of the Reference Entity remain with the Reference Entity, the entity that succeeds to more than twenty-five per cent of the Relevant Obligations will be the sole Successor in respect of such Reference Entity.
 - (iii) If more than one entity each directly or indirectly succeeds to more than twenty-five per cent of the Relevant Obligations of the Reference Entity by way of a Succession Event, and not more than twenty-five per cent of the Relevant Obligations of the Reference Entity remain with the Reference Entity, the entities that succeed to more than twenty-five per cent of the Relevant Obligations will each be a Successor in respect of such Reference Entity.
 - (iv) If one or more entities each directly or indirectly succeeds to more than twenty-five per cent of the Relevant Obligations of the Reference Entity by way of a Succession Event, and more than twenty-five per cent of the Relevant Obligations of the Reference Entity remain with the Reference Entity, each such entity and the Reference Entity will each be a Successor in respect of such Reference Entity.

- (v) If one or more entities directly or indirectly succeed to a portion of the Relevant Obligations of the Reference entity by way of a Succession Event, but no entity succeeds to more than twenty-five per cent of the Relevant Obligations of the Reference Entity and the Reference Entity continues to exist, there will be no Successor and the Reference Entity and the CME Credit Index Event Contract will not be changed in any way as a result of the Succession Event; and
- (vi) If one or more entities directly or indirectly succeed to a portion of the Relevant Obligations of the Reference Entity by way of a Succession Event, but no entity succeeds to more than twenty-five per cent of the Relevant Obligations of the Reference Entity and the Reference Entity ceased to exist, the entity which succeeds to the greatest percentage of Relevant Obligations (or, if two or more entities succeed to an equal percentage of Relevant Obligations, the entity from among those entities which succeeds to the greatest percentage of obligations of the Reference Entity) will be the sole Successor in respect of such Reference Entity.

The Exchange will be responsible for determining the number of Successors as soon as reasonably practicable after it becomes aware of the relevant Succession Event.

III. CME Credit Event Index Adjustment following a Succession Event

Where pursuant to Section II(l)(i)-(vi), one or more Successors have been identified, the relevant Reference Entity of the CME Credit Event Contract will be replaced by one or more Successors with the following terms:

- (a) Each Successor will be a Reference Entity for the purposes of a CME Credit Index Event Contract;
- (b) In respect of each Successor, the “Final Settlement Rate” will be equal to the “Final Settlement Rate” of the original Reference Entity in the CME Credit Index Event Contract. Each Successor will be assigned a Weight. The Weight assigned to a Successor shall be equal to the original Reference Entity’s Weight multiplied by one divided by the number of Successors. Each Successor will have equal or approximately equal Weights.
- (c) The Weight assigned to the Successors in a CME Credit Index Event Contract shall be rounded to four decimal places (e.g. 1.5625%, 1.0416% or 1.0427%). If rounding is necessary in order for the Successor Weights to sum to the Weight assigned to the original Reference Entity, the Reference Entities representing the Successors shall be listed in alphabetical order. The Weight of the Successor at the top of the list shall be rounded higher in the fourth decimal place. The Successors at the bottom of the list shall be rounded down in the fourth decimal place until all Successor Weights have been rounded, and the sum of the Successor Weights is equal to Weight of the original Reference Entity.
- (d) The sum of the Weights assigned to the Successors in a CME Credit Index Event Contract shall be equal to the Weight of the original Reference Entity.
- (e) All other terms and conditions of the original CME Credit Index Event Contract will be replicated following the substitution of Successors except to the extent that modification is required, as determined by the Exchange to preserve the economic effects of the original CME Credit Index Event Contract (considered in the aggregate).

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IV. Designated Indexes

CME North American Investment Grade High Volatility Series 2 (“CME NA IG HV, Series 2”)

	Reference Entity	CUSIP	Reference Obligation	Weight (W)	Final Settlement Rate (F)
1	Arrow Electronics, Inc.	DD117613	ARW 6.875 01Jun2018	3.125%	60%
2	Belo Corp.	DD113183	BLC 7.25 15Sep2027	3.125%	60%
3	CBS Corporation	EC972759	CBS 4.625 15May2018	3.125%	60%
4	Centex Corporation	ED963786	CTX 5.25 15Jun2015	3.125%	60%
5	CenturyTel, Inc.	EC904163	CTL 7.875 15Aug2012	3.125%	60%
6	Computer Sciences Corporation	EC859114	CSC 5 15Feb2013	3.125%	60%
7	Countrywide Home Loans, Inc.	ED384631	CFC 4 22Mar2011	3.125%	60%
8	CSX Corporation	ED224626	CSX 5.3 15Feb2014	3.125%	60%
9	DR Horton Inc	ED615236	DHI 5.625 15Sep2014	3.125%	60%
10	Embarq Corporation	EF420252	EQ 7.082 01Jun2016	3.125%	60%
11	Expedia, Inc.	EF641825	EXPE 7.456 15Aug2018	3.125%	60%
12	Fortune Brands, Inc.	EF233902	FO 5.375 15Jan2016	3.125%	60%
13	H.J. Heinz Company	EC007233	HNZ 6.375 15Jul2028	3.125%	60%
14	IAC/InterActiveCorp	EC910090	IAC 7 15Jan2013	3.125%	60%
15	J. C. Penney Company, Inc.	EC836543	JCP 9 01Aug2012	3.125%	60%
16	Jones Apparel Group, Inc.	ED950861	JNY 5.125 15Nov2014	3.125%	60%
17	Lennar Corporation	EC845599	LEN 5.95 01Mar2013	3.125%	60%
18	Limited Brands, Inc.	EC773327	LTD 6.125 01Dec2012	3.125%	60%
19	Marsh & McLennan Cos Inc	ED535881	MMC 5.375 15Jul2014	3.125%	60%
20	Masco Corporation	EF740302	MAS 6.125 30Oct2016	3.125%	60%
21	MeadWestvaco Corporation	EC545468	MWV 6.85 01Apr2012	3.125%	60%
22	MGIC Investment Corp	EF123344	MTG 5.375 1Nov2015	3.125%	60%
23	Pulte Homes, Inc.	ED290855	PHM 5.25 15Jan2014	3.125%	60%
24	R R Donnelley & Sons Company	ED611402	RRD 4.95 01 Apr2014	3.125%	60%
25	Residential Capital, LLC	EF365507	GM-ResCLLC 6.5 17Apr2013	3.125%	60%
26	Sara Lee Corporation	EC741351	SLE 6.125 01Nov2032	3.125%	60%
27	Sprint Nextel Corporation	EF858094	S 6 01Dec2016	3.125%	60%
28	Starwood Hotels & Resorts Worldwide, Inc.	EC946551	HOT 7.875 01May2012	3.125%	60%
29	Temple-Inland Inc.	EC562588	TIN 7.875 01May2012	3.125%	60%
30	Toll Brothers, Inc.	ED107919	TOL-FinCorp 6.875 15Nov2012	3.125%	60%
31	Universal Health Services	EF521928	UHS 7.125 30Jun2016	3.125%	60%
32	Weyerhaeuser Company	DD530020	WY 7.125 15Jul2023	3.125%	60%

If you have any questions about these Rules, please contact John Nyhoff, Director, Research and Product Development, at (312) 930-2310.

4. Clearing & CME Globex Fees

Please see the CME website at www.cme.com for information concerning member and non-member fees associated with CME Credit Index Event Contracts. CME Credit Index Event Contracts are eligible for inclusion in the New Product Access Program. CME Credit Index Event Contracts will be assigned to the IMM Division, and the fee schedule used for CME Credit Index Event Contracts will apply. *If you have any questions regarding clearing fees, please contact Julie Balzarini, Accounting, at (312) 648-5470.*

5. Reportable Position Levels

For purposes of Rule 561.B. – Reportable Levels, the minimum level at which positions must be reported to the Exchange for CME Credit Index Event Contracts is 25 contracts. *If you have any questions about these levels, please contact Jerry O'Connor, Market Surveillance, at (312) 930-3256.*

6. Block Trade Policy

Block trading in CME Credit Index Event Contract shall be permitted with a minimum executed block trade quantity of ten (10) contracts. *If you have any questions about the block trade policy, please contact John Nyhoff, Director, Research and Product Development, at (312) 930-2310.*

7. Performance Bond Requirements

If you have any questions about these requirements, please contact the Risk Control Department at (312) 648-3888.

8. CME Globex Error Trade Policy

The CME Globex error trade policy for all CME Credit Index Event Contracts calls for a no bust range of 10 basis points or less. *If you have any questions, please contact Kevin Bulman, Supervisor, CME Globex Control Center (GCC), at (312) 648-5475.*

9. Quote Vendors

If you have any questions, please contact Laura Sutor, Market Data Analyst, Market Data Operations, at (312) 648-5480.