



## Special Executive Report

S-4617

September 24, 2007

### **CME Group Inc. to Launch Futures and Options on S&P/GRA Commercial Real Estate Indices (SPCREX<sup>TM</sup>) on Sunday, October 14, 2007**

CME Group Inc. (“CME” or “the Exchange”) will list futures and option contracts on a battery of S&P/GRA Commercial Real Estate Indices (SPCREX<sup>TM</sup>) commencing Sunday, October 28, 2007, for trade date Monday, October 29, 2007. Specifically, these include the Desert Mountain West, Mid-Atlantic South, Midwest, Northeast, Pacific West, Apartments, Office, Retail, Warehouse and National Indexes. The Exchange intends to offer SPCREX futures exclusively on the CME Globex<sup>®</sup> electronic trading platform. The product is designated under the aegis of the Chicago Mercantile Exchange Inc. Self Regulatory Organization (SRO) featuring GEM access rights. Expanded-Access Product status applies for full CBOT, AM and IDEM classes.

These contracts underscore the Exchange’s commitment to developing viable real estate related derivatives and as a follow-up on CME Housing Index futures and options.

This Special Executive Report (SER) includes a description of the underlying indexes; a review of the salient contract terms and conditions; and, the Rules which govern trade of such futures and options.

*Please contact Tony Zaccaria, Associate Director, Alternative Investments at (312) 930-4560; or, John W. Labuszewski, Managing Director, Research & Product Development at 312-446-7469 if you have any inquiries regarding this matter.*

## **1. Nature of the Indexes <sup>1</sup>**

The S&P/GRA Commercial Real Estate Indices (SPCREX™) are designed to be a reliable and consistent benchmark for commercial real estate prices in the U.S. These indices measure the change in commercial real estate prices by property sector and geographic region. The S&P/GRA Commercial Real Estate Indices comprise ten commercial real estate indices: a national composite, five geographic regions, and four national property sectors.

**Partnership** - The indices are maintained and published under agreements between Standard & Poor's (S&P) and GRA/Charles Schwab Investment Management (CSIM). Charles Schwab Investment Management (CSIM), the asset management arm of The Charles Schwab Corporation, announced that on January 1, 2007, it completed the acquisition of substantially all of the assets of Global Real Analytics, LLC.

**Highlights** - The S&P/GRA Commercial Real Estate Indices are computed using a stock value, or market capitalization-weighted, methodology. This approach, the accepted standard for index construction, utilizes average transaction prices per square foot and commercial real estate stock data to derive index levels.

Transaction prices for closed sales are collected at the metro level and filtered to remove extremely high-and-low prices. The prices are compiled at the metro group level, and derived mean prices are combined with weighting factors based on the size, in square feet, of commercial stock in the reference year to calculate the indices. Divisors are used to permit adjustments for changes in stock data and other necessary index adjustments. Commercial transactions are aggregated in rolling three-month periods, to maintain statistically reliable sample sizes and to assure acceptable statistical precision in the calculations.

<b>Name</b>	<b>Coverage</b>
National	Composite Index
Office	Property Sector
Warehouse	Property Sector
Apartments	Property Sector
Retail	Property Sector
Northeast	Geographic Region
Midwest	Geographic Region
Mid-Atlantic South	Geographic Region
Pacific West	Geographic Region
Desert Mountain West	Geographic Region

---

<sup>1</sup> The information in this section is adapted and reprinted with permission from GRA COMMERCIAL REAL ESTATE INDEX (CREX™) METHODOLOGY publication dated September 5, 2007. This section provides an explanation of the design and implementation of the SPCREX Indices.

## **CME to Launch SPCREX Futures & Options on October 28, 2007 (S-4617)**

**September 24, 2007**

**Page 3 of 20**

**Eligibility Criteria** - To be eligible to be included in the S&P/GRA Commercial Real Estate Indices, property sales must be identified as closed transactions in the defined commercial real estate regions and sectors. Closed commercial transactions are those where the escrow has closed and the title has been transferred to the new owner. There are no transactions included in the index that are appraisals, just listed, sales pending, or in escrow.

The S&P/GRA Commercial Real Estate Indices are based on commercial real estate sales transaction prices. These indices are constructed to account for movements in commercial real estate prices at the property sector and regional level.

**Approaches** - The indices are calculated monthly, using a three-month moving average. Commercial real estate sale transactions are aggregated into rolling three-month periods for the calculation of constant quality mean prices per square foot. Commercial stock weights are, then, applied to calculate each index. In each reporting period, the index is based on three months of closed transactions. The typical lag from transaction close to data reporting is three months.

**Index Calculations** - Composite commercial real estate indices are analogous to cap-weighted equity indices, where the aggregate value of the commercial real estate stock represents the total capitalization of the regions or property types included in the index. A constant quality average price per square foot is calculated monthly for each metro group by sector, using the three-month moving average algorithm. Commercial transactions are aggregated in rolling three-month periods to maintain statistical precision. Transaction prices are equally weighted.

**Geographic Definitions** - The starting point for the SPCREX™ regional definitions relate to Metropolitan Statistical Areas (MSAs) by county, determined by the U.S. Office of Management and Budget (OMB). Regions are defined as a collection of metro areas and associated counties. Data are classified based on broad target market definitions for the five geographic regions below:

1. *Northeast* - (New York-New Jersey-Boston, and Washington D.C.-Baltimore-Richmond-Philadelphia).
2. *Midwest* - (Chicago, and Cincinnati-Cleveland-Columbus-Detroit-Kansas City).
3. *Mid-Atlantic South* - (Atlanta-Charlotte-Raleigh-Durham-Memphis-Nashville, and Miami-Ft. Lauderdale-Jacksonville-Orlando-Tampa Bay-St. Petersburg).
4. *Pacific West* - (Northern California: San Francisco-Oakland-San Jose-Sacramento; Southern California: Los Angeles-Orange County-Riverside-San Bernardino-San Diego; and Pacific Northwest: Seattle-Portland).
5. *Desert Mountain West* - (Phoenix-Tucson-Las Vegas-Denver-Boulder).

# CME to Launch SPCREX Futures & Options on October 28, 2007 (S-4617)

September 24, 2007

Page 4 of 20

The methodology excludes non-disclosure states where there are no requirements for real estate transactions to be published. These states include Texas, Louisiana, Mississippi, Utah, Idaho, Montana, Wyoming, and North and South Dakota. Depending on data availability and quality, future indices may be made available for these regions. Geographic aggregations are based on the concentration of commercial real estate and market activity, population size, demographics, and economic composition and trends.



## Regions for the S&P/GRA Commercial Real Estate Indices -

Region	Metro Areas/Grouped Metros	County Composition
Northeast (NEI)	New York –N. New Jersey-Long Island, NY-NJ-PA (MSA); Boston-Cambridge-Quincy, MA-NH (MSA)	<u>New York Metro:</u> Middlesex County, NJ; Monmouth County, NJ; Ocean County, NJ; Somerset County, NJ; Nassau County, NY; Suffolk County, NY; Bergen County, NJ; Hudson County, NJ; Passaic County, NJ; Bronx County, NY; Kings County, NY; New York County, NY; Putnam County, NY; Queens County, NY; Richmond County, NY; Rockland County, NY; Westchester County, NY; Essex County, NJ; Hunterdon County, NJ; Morris County, NJ; Sussex County, NJ; Union County, NJ; Pike County, PA. <u>Boston Metro:</u> Norfolk County, MA; Plymouth, County, MA; Suffolk County, MA; Middlesex County, MA; Essex County, MA; Rockingham, County, NH; Strafford County, NH.
	Washington-Arlington-Alexandria, DC-VA-MD-WV (MSA); Baltimore-Towson, MD	<u>Washington Metro:</u> Frederick County, MD; Montgomery County, MD; District of Columbia, DC; Calvert County, MD; Charles County, MD; Prince George's County, MD; Arlington County, VA; Clarke County, VA; Fairfax County, VA; Fauquier County, VA; Loudoun County, VA; Prince William County, VA; Spotsylvania County, VA; Alexandria city, VA; Fairfax city; Falls Church city; Fredericksburg city, VA; Manassas city, VA; Manassas Park city, VA; Jefferson

# CME to Launch SPCREX Futures & Options on October 28, 2007 (S-4617)

September 24, 2007

Page 5 of 20

	(MSA); Richmond, VA (MSA); Philadelphia-Camden-Wilmington, PA-NJ-DE-MD (MSA)	County, VA. <u>Baltimore Metro</u> : Anne Arundel County, MD; Baltimore County, MD; Carroll County, MD; Harford County, MD; Howard County, MD; Queen Anne's County, MD; Baltimore city, MD. <u>Richmond Metro</u> : Amelia County, VA; Caroline County, VA; Charles City County, VA; Chesterfield County, VA; Cumberland County, VA; Dinwiddie County, VA; Goochland County, VA; Hanover County, VA; Henrico County, VA; King and Queen County, VA; King William County, VA; Louisa County, VA; New Kent County, VA; Powhatan County, VA; Prince George County, VA; Sussex County, VA; Colonial Heights city, VA; Hopewell city, VA; Petersburg city, VA; Richmond city, VA. <u>Philadelphia Metro</u> : Burlington County, NJ; Camden County, NJ; Gloucester County, NJ; Bucks County, PA; Chester County, PA; Delaware County, PA; Montgomery County, PA; Philadelphia County, PA; New Castle County, DE; Cecil County, MD; Salem County, NJ.
Midwest (NEI)	Chicago-Naperville-Joliet, IL-IN-WI (MSA)	<u>Chicago Metro</u> : Cook County, IL; DeKalb County, IL; DuPage County, IL; Grundy County, IL; Kane County, IL; Kendall County, IL; McHenry County, IL; Will County, IL; Jasper County, IN; Lake County, IN; Newton County, IN; Porter County, IN; Lake County, IL; Kenosha County, WI
	Cincinnati-Middletown, OH-KY-IN (MSA); Cleveland-Elyria-Mentor, OH (MSA); Columbus, OH (MSA); Detroit-Warren-Livonia, MI (MSA); Kansas City-Overland Park-Kansas City, MO-KS	<u>Cincinnati Metro</u> : Dearborn County, IN; Franklin County, IN; Ohio County, IN; Boone County, KY; Bracken County, KY; Campbell County, KY; Gallatin County, KY; Grant County, KY; Kenton County, KY; Pendleton County, KY; Brown County, OH; Butler County, OH; Clermont County, OH; Hamilton County, OH; Warren County, OH. <u>Cleveland Metro</u> : Cuyahoga County, OH; Geauga County, OH; Lake County, OH; Lorain County, OH; Medina County, OH. <u>Columbus Metro</u> : Delaware County, OH; Fairfield County, OH; Franklin County, OH; Licking County, OH; Madison County, OH; Morrow County, OH; Pickaway County, OH; Union County, OH. <u>Detroit Metro</u> : Wayne County, MI; Lapeer County, MI; Livingston County, MI; Macomb County, MI; Oakland County, MI; St. Clair County, MI. <u>Kansas City Metro</u> : Franklin County, KS; Johnson County, KS; Leavenworth County, KS; Linn County, KS; Miami County, KS; Wyandotte County, KS; Bates County, MO; Caldwell County, MO; Cass County, MO; Clay County, MO; Clinton County, MO; Jackson County, MO; Lafayette County, MO; Platte County, MO; Ray County, MO.
Mid-Atlantic South (MAS)	Atlanta-Sandy Springs-Marietta, GA (MSA); Charlotte-Gastonia-Concord, NC-SC (MSA); Raleigh-Cary, NC (MSA); Durham, NC (MSA); Memphis, TN-MS-AR (MSA); Nashville-Davidson-Murfreesboro, TN (MSA)	<u>Atlanta Metro</u> : Barrow County, GA; Bartow County, GA; Butts County, GA; Carroll County, GA; Cherokee County, GA; Clayton County, GA; Cobb County, GA; Coweta County, GA; Dawson County, GA; DeKalb County, GA; Douglas County, GA; Fayette County, GA; Forsyth County, GA; Fulton County, GA; Gwinnett County, GA; Haralson County, GA; Heard County, GA; Henry County, GA; Jasper County, GA; Lamar County, GA; Meriwether County, GA; Newton County, GA; Paulding County, GA; Pickens County, GA; Pike County, GA; Rockdale County, GA; Spalding County, GA; Walton County, GA. <u>Charlotte Metro</u> : Anson County, NC; Cabarrus County, NC; Gaston County, NC; Mecklenburg County, NC; Union County, NC; York County, SC. <u>Raleigh Metro</u> : Franklin County, NC; Johnston County, NC; Wake County, NC. <u>Durham Metro</u> : Chatham County, NC; Durham County, NC; Orange County, NC; Person County, NC. <u>Memphis Metro</u> : Crittenden County, AR; DeSoto County, MS; Marshall County, MS; Tate County, MS; Tunica County, MS; Fayette County, TN; Shelby County, TN; Tipton County, TN. <u>Nashville Metro</u> : Cannon County, TN; Cheatham County, TN; Davidson County, TN; Dickson County, TN; Hickman County, TN; Macon County, TN; Robertson County, TN; Rutherford County, TN; Smith County, TN; Sumner County, TN; Trousdale County, TN; Williamson County, TN; Wilson County, TN.

# CME to Launch SPCREX Futures & Options on October 28, 2007 (S-4617)

September 24, 2007

Page 6 of 20

	Miami-Ft. Lauderdale-Miami Beach, FL (MSA); Jacksonville, FL (MSA); Orlando-Kissimmee, FL (MSA); Tampa Bay-St. Petersburg-Clearwater, FL (MSA)	<u>Miami Metro</u> : Broward County, FL; Miami-Dade County, FL; Palm Beach County, FL. <u>Jacksonville Metro</u> : Baker County, FL; Clay County, FL; Duval County, FL; Nassau County, FL; St. Johns County, FL. <u>Orlando Metro</u> : Lake County, FL; Orange County, FL; Osceola County, FL; Seminole County, FL. <u>Tampa Bay Metro</u> : Hernando County, FL; Hillsborough County, FL; Pasco County, FL; Pinellas County, FL.
Desert Mountain West (DMW)	Phoenix-Mesa-Scottsdale, AZ (MSA); Tucson, AZ (MSA); Las Vegas-Paradise, NV (MSA); Denver-Aurora, CO (MSA)	<u>Phoenix Metro</u> : Maricopa County, AZ; Pinal County, AZ; Pima County, AZ. <u>Las Vegas Metro</u> : Clark County, NV. <u>Denver Metro</u> : Adams County, CO; Arapahoe County, CO; Broomfield County, CO; Clear Creek County, CO; Denver County, CO; Douglas County, CO; Elbert County, CO; Gilpin County, CO; Jefferson County, CO; Park County, CO
Pacific West (PCW)	Los Angeles-Long Beach-Santa Ana, CA (MSA); Riverside-San Bernardino-Ontario, CA (MSA); San Diego-Carlsbad-San Marcos, CA (MSA)	<u>Los Angeles Metro</u> : Los Angeles County, CA; Orange County, CA. <u>Riverside-San Bernardino MSA</u> : Riverside Co., CA; San Bernardino County, CA. <u>San Diego Metro</u> : San Diego County, CA.
	San Francisco-Oakland-Fremont, CA (MSA); San Jose-Sunnyvale-Santa Clara, CA (MSA); Sacramento-Arden-Arcade-Roseville, CA (MSA)	<u>San Francisco-Oakland Metro</u> : Alameda County, CA; Contra Costa County, CA; Marin County, CA; San Francisco County, CA; San Mateo County, CA. <u>San Jose Metro</u> : San Benito County, CA; Santa Clara County, CA. <u>Sacramento Metro</u> : El Dorado County, CA; Placer County, CA; Sacramento County, CA; Yolo County, CA.
	Seattle-Tacoma-Bellevue, WA (MSA); Portland-Vancouver-Beaverton, OR-WA (MSA)	<u>Seattle Metro</u> : King County, WA; Snohomish County, WA; Pierce County, WA. <u>Portland Metro</u> : Clackamas County, OR; Columbia County, OR; Multnomah County, OR; Washington County, OR; Yamhill County, OR; Clark County, WA; Skamania County, WA.

**Property Sector Definitions** - Transactions are also classified by property sector. The SPCREX™ is based on a refined set of property classifications as follows:

1. *Apartments* - Includes garden, mid-rise, high-rise, urban, and walkup apartments in buildings or complexes over 20,000 square feet; and excludes mixed-use, senior, congregate care, student, military, government subsidized, condo-coop, residential condos, lofts, master planned communities, super luxury homes and high-rise apartments, town-homes, and single-room occupancy hotels.

# CME to Launch SPCREX Futures & Options on October 28, 2007 (S-4617)

September 24, 2007

Page 7 of 20

2. *Office* - Includes Central Business District or suburban office properties over 20,000 square feet; and excludes mixed-urban, education, medical, office condos, and call centers.
3. *Retail* - Includes regional malls, grocery-drug anchored centers, strip centers, power centers, factory outlets, big box retail, stand-alone retail grocery, auto and hardware stores over 10,000 square feet; and excludes mixed-use, super luxury stand-alone, drug and pharmacy stand-alone, bank branches, entertainment, nursery, gas stations, and video stores.
4. *Warehouse* - Includes warehousing and distribution facilities over 20,000 square feet; and excludes mixed-use, flex, manufacturing, industrial condos, truck terminals, services centers, laboratory, production studios, showrooms, cold storage and auto repair.

**Index Construction Process** - The S&P/GRA Commercial Real Estate Indices (SPCREX™) are based on closed transaction prices. Commercial real estate price data are collected and screened for reasonableness and to eliminate duplicate records. Transactions that do not meet completeness standards are eliminated. Closed transactions with extreme prices per square foot are excluded from the final calculations.

Transaction data are collected at the beginning of each month for the prior four months. For example, in early December transactions data are collected and include closed transactions for the months of August, September, October, and November. This includes all new transactions data that occurred and were reported for these months. The earliest possible transaction included in the December collection is one with an August 1st transaction date. The following illustrates data collection dates and 3-month rolling, closed sales by month.

		October Index Data				Published in January					
Collection Date		June	July	August	Sept	Oct	Nov	Dec	Jan	Feb	March
	1-Aug										
	1-Sep										
	1-Oct										
	1-Nov										
	1-Dec						Published 2nd to Last Tuesday of the Month				
	1-Jan										
	1-Feb										
	1-Mar										
	1-Apr										
Three Month Rolling						Three Month Lag					

In the example above, the October index number, published in January, only includes transactions closed in the months of August, September, and October. The published number is, therefore, a 'three month rolling' number with a three-month lag. The data used in the calculation of the October value would include all collected and processed transactions represented in the darker cells in the box above.

**Index Calculation** - The SPCREX™ is a market capitalization-weighted index. The approach is similar to the calculation of stock market indices. Prices per square foot for real estate properties are analogous to stock prices, and the number of square feet in a region or of a particular property type is analogous to a company's shares outstanding. A divisor, or scale factor, is used so that the stock values can be adjusted without causing discontinuities in the index. The basic calculation is:

$$Index = \frac{\sum P_i * S_i}{Divisor} \quad (1)$$

where:

$P_i$  = Price per square foot of property type/region/metro group  $i$

$S_i$  = Square feet of property type  $i$

The initial value of the divisor is established when the base period value of the index is set. For these indices the base period is December 2001 and the base value is 100. Stock values are updated every five years based on data provided by McGraw-Hill Construction. When these values are updated, the divisor is recalculated to prevent any jumps in the index level associated with revised stock values.

SPCREX™ is a family of indices covering four property types, five regions and a national index. While the regions and property types are described as sub-indices, each index is calculated from the underlying property stock and price data as shown in equation (1) above.

**Index Maintenance** - Restatements to the commercial real estate indices will only be made in extreme circumstances such as market disruptions, data collection failures or catastrophic events. The indices have a base value of 100 on December 2001. Reference year commercial stock (in square feet) used to calculate national, regional and sector level composite indices are updated every five years, when new metro/county level inventory data have been made available. The current reference year is 2005. McGraw-Hill Construction stock data are used to formulate reference year weights.

**Index Governance** - The S&P/GRA SPCREX™ Commercial Real Estate indices are maintained and governed by the S&P/GRA Index Committee. Three members are appointed by S&P, two members are appointed by GRA; Standard & Poor's designates the Committee Chairman. The Index Committee has full discretion over index policy including calculations, revisions, restatements, methodology and any other matters related to the SPCREX™ Indices to determine how the indices are calculated. Standard & Poor's considers information about changes to the S&P/GRA Commercial Real Estate indices and related matters to be potentially market moving and material. Therefore, all Index Committee discussions are confidential.

**Data Quality Control** - Closed transactions used in the SPCREX™ indices are collected and processed on a monthly schedule. Data sources include commercial vendors, brokerage firms, appraisers, mortgage brokers, and publicly traded operating companies.



## **CME to Launch SPCREX Futures & Options on October 28, 2007 (S-4617)**

**September 24, 2007**

**Page 9 of 20**

Transaction data are reviewed to identify and eliminate duplications (the same properties that have been reported by two or more data sources). Validation tests are conducted on random samples of transactions at the national, regional and property sector level to verify price, property size, use classification, and location. Extreme values (high and low) are eliminated from final mean price calculations by taking the log of the price data and eliminating transactions outside two standard deviations from the mean.

Minimum sample sizes for each region and property sector are determined to maintain acceptable statistical precision. If the sample size is deemed too small, the Index Committee will be notified and will review conditions. The Index Committee will determine when index calculation can resume with acceptable precision. In the interim the Index Committee may decide, among other options, to publish the previous index value, expand the data sample over a longer averaging time period, combine two or more property types or regions, or suspend publication.

***Index Policy*** - Announcements of index levels are made at 9:00 AM ET, on the second to last Tuesday of each month. Press releases are posted at [www.indices.standardandpoors.com](http://www.indices.standardandpoors.com), and are released to major news services. The indices are published on the second to last Tuesday of each month. In the event this falls on a holiday, the data will be published at the same time on the next business day.

***Index Dissemination*** - The S&P/GRA Commercial Real Estate Indices are published monthly, on the second to last Tuesday of each month at 9:00 AM ET. The indices may be accessed on the Bloomberg quotation system using the ticker symbols as follows.

<b>Index</b>	<b>Bloomberg Ticker</b>
National	SPXCUS
Apartments	SPXCUSAP
Office	SPXCUSOF
Retail	SPXCUSRE
Warehouse	SPXCUSWA
Desert Mountain West	SPXCUSDM
Mid-Atlantic South	SPXCUSMS
Midwest	SPXCUSMW
Northeast	SPXCUSNE
Pacific West	SPXCUSPW

Historical index data are published on the Standard & Poor's website at [www.indices.standardandpoors.com](http://www.indices.standardandpoors.com).

## **2. Description of Individual Contract Terms**

The Exchange offers the following description and explanation of SPCREX<sup>TM</sup> contract terms and conditions. The Exchange intends to offer SPCREX<sup>TM</sup> futures contracts exclusively on the CME Globex electronic trading platform.

**Contract Size** – Rule 43401., COMMODITY SPECIFICATIONS, provides that “[e]ach futures contract shall be valued at \$250.00 times the reference S&P/GRA Commercial Real Estate Index. The Exchange shall list futures based on S&P/GRA Commercial Real Estate Indices representing various geographic regions, property sectors and a National Composite ... “

Rule 43401 further identifies the specific S&P/GRA Commercial Real Estate Indices that are the subject of these contracts including the Desert Mountain West, Mid-Atlantic South, Midwest, Northeast, Pacific West, Apartments, Office, Retail, Warehouse and National Indexes. The \$250 multiplier is designed to result in a dollar value per contract that are deemed reasonable relative to other extant futures contracts. The table below depicts the contract multipliers associated with each individual index.

**Contract Size/Tick Size**

<b>Index</b>	<b>Contract Multiplier</b>	<b>Spot Index Value (7/2/07)</b>	<b>Contract Value</b>
Desert Mountain West	\$250	161.37	\$40,342.50
Mid-Atlantic South	\$250	148.05	\$37,012.50
Midwest	\$250	128.57	\$32,142.50
Northeast	\$250	147.21	\$36,802.50
Pacific West	\$250	156.36	\$39,090.00
Apartments	\$250	138.91	\$34,727.50
Office	\$250	150.91	\$37,727.50
Retail	\$250	160.90	\$40,225.00
Warehouse	\$250	158.05	\$39,512.50
National	\$250	147.99	\$36,997.50

**Contract Months** – Rule 43402.A., Trading Schedule, provides that “[f]utures contracts shall be scheduled for trading during such hours and for delivery in such months as may be determined by the Board of Directors.” Accordingly, the Exchange intends, at any given time, to list the first twenty (20) contracts in the March quarterly cycle of March, June, September and December.

## **CME to Launch SPCREX Futures & Options on October 28, 2007 (S-4617)**

**September 24, 2007**

**Page 11 of 20**

***Quotation Specification*** - Rule 43402.C., Price Increments, specifies with respect to SPCREX<sup>TM</sup> futures contracts that “[b]ids and offers shall be quoted in terms of the reference SPCREX. The minimum fluctuation of the futures contract shall be 0.20 index points, equivalent to \$50.00 per contract.” With respect to options, Rule 343A01.C., Price Increments, provides that “[t]he price of an option shall be quoted in index points. The minimum fluctuation shall be 0.10 index points, equivalent to \$25.00 per contract.” These tick sizes are not inconsistent with the tick size of other extant futures and option contracts.

***Position Limits*** - Per Rule 43402.D., Position Limits, requires that “[a] person shall not own or control more than 5,000 contracts net long or net short in any single SPCREX futures contract in all contract months combined. For positions involving options on SPCREX futures, this rule is superseded by the option speculative position limit rule.” Rule 434A01.F similarly establishes a limit of 5,000 futures or net equivalent futures for positions including both futures and options.

***Block Trading*** – The Exchange shall permit block trading to be conducted in the context of the S&P/GRA Commercial Real Estate Indices futures and option contracts with a twenty (20) contract minimum transacted quantity requirement.

***Other Contract Terms and Conditions*** - All other terms and conditions of the proposed contracts are substantially modeled on other extant real estate based contracts on CME. For the reader’s convenience, we provide a table (below) summarizing contract terms and conditions.

**CME to Launch SPCREX Futures & Options on October 28, 2007 (S-4617)**

**September 24, 2007**

**Page 12 of 20**

**S&P/GRA Commercial Real Estate Indices (SPCREX™) Contract Terms**

	<b>Futures</b>	<b>Options on Futures</b>																																	
<b>Contract Size</b>	\$250 x Index, <i>e.g.</i> , if GRA CREX Index @ 150.00 then contract value equals \$37,500 (= \$250 x 150.00)	One (1) futures contract																																	
<b>Tick Size</b>	0.20 index points (\$50.00)	0.10 index points (\$25.00)																																	
<b>Trading Hours</b>	Offered on CME Globex Sundays-Thursdays, 5:00 p.m.-2:00 p.m. (central) the following day																																		
<b>Months</b>	First 20 contracts in quarterly cycle of March, June, September and December																																		
<b>Final Settlement Date</b>	Trading in expiring contract ceases at the close of trading on the business day prior to the 2 <sup>nd</sup> to last Tuesday of contract month; index data released at 8:00 a.m. (CT) on 2 <sup>nd</sup> to last Tuesday of contract month																																		
<b>Cash Settlement</b>	Cash settled on Commercial Real Estate Indexes published by Global Real Analytics LLC (“GRA CREX Indexes”) for ... (1) Composite Index; Property Type Indexes on (2) Retail; (3) Office; (4) Apartments; and (5) Warehouse properties; Regional Indexes in (6) Desert Mountain West; (7) Mid-Atlantic South; (8) Northeast; (9) Midwest; and (10) Pacific West	Exercised into associated futures contract																																	
<b>Strike Prices</b>	NA	1 point intervals above and below market price																																	
<b>Ticker Symbols</b>	<table> <tr> <th></th><th><u><b>Futures Ticker</b></u></th><th><u><b>Index Ticker</b></u></th></tr> <tr> <td>Composite Index</td><td>CEC</td><td>CE0</td></tr> <tr> <td>Retail</td><td>CEL</td><td>CE3</td></tr> <tr> <td>Office</td><td>CEO</td><td>CE2</td></tr> <tr> <td>Apartments</td><td>CEA</td><td>CE1</td></tr> <tr> <td>Warehouse</td><td>CEE</td><td>CE4</td></tr> <tr> <td>Desert Mountain West</td><td>CED</td><td>CE5</td></tr> <tr> <td>Mid-Atlantic South</td><td>CES</td><td>CE6</td></tr> <tr> <td>Northeast</td><td>CEN</td><td>CE8</td></tr> <tr> <td>Midwest</td><td>CEM</td><td>CE7</td></tr> <tr> <td>Pacific West</td><td>CEW</td><td>CE9</td></tr> </table>			<u><b>Futures Ticker</b></u>	<u><b>Index Ticker</b></u>	Composite Index	CEC	CE0	Retail	CEL	CE3	Office	CEO	CE2	Apartments	CEA	CE1	Warehouse	CEE	CE4	Desert Mountain West	CED	CE5	Mid-Atlantic South	CES	CE6	Northeast	CEN	CE8	Midwest	CEM	CE7	Pacific West	CEW	CE9
	<u><b>Futures Ticker</b></u>	<u><b>Index Ticker</b></u>																																	
Composite Index	CEC	CE0																																	
Retail	CEL	CE3																																	
Office	CEO	CE2																																	
Apartments	CEA	CE1																																	
Warehouse	CEE	CE4																																	
Desert Mountain West	CED	CE5																																	
Mid-Atlantic South	CES	CE6																																	
Northeast	CEN	CE8																																	
Midwest	CEM	CE7																																	
Pacific West	CEW	CE9																																	

### **3. Rules Governing Commodity Excess Return Futures (CERFs)**

#### **Chapter 434: SPCREX<sup>TM</sup> Index Futures**

##### **43400. SCOPE OF CHAPTER**

This chapter is limited in application to futures trading in S&P/GRA Commercial Real Estate Indices (“SPCREX<sup>TM</sup>”) based on U.S. commercial real estate values (“SPCREX<sup>TM</sup> futures”). The procedures for trading, clearing, settlement, and any other matters not specifically covered herein shall be governed by the rules of the Exchange.

##### **43401. COMMODITY SPECIFICATIONS**

Each futures contract shall be valued at \$250.00 times the reference S&P/GRA Commercial Real Estate Index. The Exchange shall list futures based on S&P/GRA Commercial Real Estate Indices representing various geographic regions, property sectors and a National Composite as follows.

	<b>Index</b>	<b>Coverage</b>
1.	Desert Mountain West	Covers apartments, office, retail, warehouse property types within geographic region
2.	Mid-Atlantic South	Covers apartments, office, retail, warehouse property types within geographic region
3.	Midwest	Covers apartments, office, retail, warehouse property types within geographic region
4.	Northeast	Covers apartments, office, retail, warehouse property types within geographic region
5.	Pacific West	Covers apartments, office, retail, warehouse property types within geographic region
6.	Apartments	Covers apartment sector within Desert Mountain West, Mid-Atlantic South, Midwest, Northeast and Pacific West geographic regions
7.	Office	Covers office sector within Desert Mountain West, Mid-Atlantic South, Midwest, Northeast and Pacific West geographic regions
8.	Retail	Covers retail sector within Desert Mountain West, Mid-Atlantic South, Midwest, Northeast and Pacific West geographic regions
9.	Warehouse	Covers warehouse sector within Desert Mountain West, Mid-Atlantic South, Midwest, Northeast and Pacific West geographic regions
10.	National	Covers apartments, office, retail, warehouse property types within Desert Mountain West, Mid-Atlantic South, Midwest, Northeast and Pacific West geographic regions

**43402. FUTURES CALL**

**43402.A. Trading Schedule**

Futures contracts shall be scheduled for trading during such hours and for delivery in such months as may be determined by the Board of Directors.

**43402.B. Trading Unit**

The unit of trading shall be \$250.00 times the reference SPCREX.

**43402.C. Price Increments**

Bids and offers shall be quoted in terms of the reference SPCREX. The minimum fluctuation of the futures contract shall be 0.20 index points, equivalent to \$50.00 per contract.

**43402.D. Position Limits**

A person shall not own or control more than 5,000 contracts net long or net short in any single SPCREX futures contract in all contract months combined. For positions involving options on SPCREX futures, this rule is superseded by the option speculative position limit rule.

**43402.E. 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.

**43402.F. 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, (2) other positions exempted pursuant to Rule 543, and (3) cash-substitute positions described in Rule 43406.

**43402.G. Termination of Trading**

Futures trading shall terminate at 2:00 pm Central Time (3:00 pm Eastern Time) on the business day preceding the day of final settlement price determination.

**43402.H. 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.

**43402.I. Reserved**

**43403. SETTLEMENT PROCEDURES**

Delivery under the SPCREX futures contract shall be by cash settlement.

**43403.A. Final Settlement Price**

The Final Settlement Price shall be the value of the reference S&P/GRA Commercial Real Estate Index as determined for the three-month period ending two calendar months prior to the contract month. For the purpose of rule 43403.A., the period for which the index calculation is performed shall be referred to as the Data Period. For example, the Final Settlement Price for the September 2008 Office SPCREX futures contract will be the S&P/GRA Office Commercial Real Estate Index as determined for the three-month Data Period of April 2008 through June 2008, scheduled for release in September 2008.

The scheduled release date for the reference S&P/GRA Commercial Real Estate Index is the second (2<sup>nd</sup>) to last Tuesday of the contract month. If the second (2<sup>nd</sup>) to last Tuesday of the contract month is not a business day, then the final settlement price will be determined on the business day immediately after the second (2<sup>nd</sup>) to last Tuesday of the contract month.

In the event that the reference S&P/GRA Commercial Real Estate Index is not published on the scheduled release date, the Final Settlement Price determination shall be postponed until the publication of the reference S&P/GRA Commercial Real Estate Index.

In the event that the reference S&P/GRA Commercial Real Estate Index cannot be determined for the relevant Data Period (the "Original Data Period"), for instance due to catastrophic events, the Final Settlement Price determination shall be postponed until the earliest possible time when the reference S&P/GRA Commercial Real Estate Index can be determined. The Final Settlement Price shall be the first available subsequent S&P/GRA Commercial Real Estate Index for the affected Index, regardless of the underlying Data Period.

For example, the Original Data Period for the December 2008 S&P/GRA Office Commercial Real Estate Index is the 3-month period October to December 2008. This is the reference S&P/GRA Commercial Real Estate Index for the March 2009 SPCREX futures contract, and has not been determined due to a catastrophic event. The first available subsequent S&P/GRA Office Commercial Real Estate Index is the January 2009 S&P/GRA Office Commercial Real Estate Index which covers a 3-month Data Period from November 2008 to January 2009. The Final Settlement Price for the March 2009 Office SPCREX futures contract shall be determined using the March 2009 S&P/GRA Office Commercial Real Estate Index despite the fact that this Index has a different Data Period than the Original Data Period.

In the event of a change to the base period, the Final Settlement Price for all listed contract months shall be determined by referencing the SPCSI calculated using the old base period. The Final Settlement Price for all subsequently listed contract months shall be determined by referencing the SPCSI calculated using the new base period.

**43403.B. Final Settlement**

Clearing members holding open positions in a SPCREX futures contract 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 performance bond procedures based on a settlement price equal to the final settlement price.

**43404. ACTS OF GOVERNMENT, ACTS OF GOD AND OTHER EMERGENCIES**

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

**43405. FAILURE TO PERFORM**

If a 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 shall determine and assess losses sustained, taking into account the settlement price, interest earnings foregone, and such other factors as it deems appropriate. The Board may also assess such penalties as it deems appropriate in addition to damages.

(End Chapter 434)

**INTERPRETATIONS & SPECIAL NOTICES  
RELATING TO CHAPTER 434**

WHILE SCHWAB WILL USE REASONABLE EFFORTS BASED ON SOURCES DEEMED RELIABLE IN COLLECTING THE SCHWAB DATA, SCHWAB DOES NOT GUARANTEE THE QUALITY, ACCURACY AND/OR COMPLETENESS OF THE SCHWAB DATA WHILE S&P WILL USE REASONABLE EFFORTS BASED ON SOURCES DEEMED RELIABLE IN COLLECTING THE STOCK/INVENTORY DATA, S&P DOES NOT GUARANTEE THE QUALITY, ACCURACY AND/OR COMPLETENESS OF THE STOCK/INVENTORY DATA. EXCEPT AS OTHERWISE PROVIDED HEREIN, NEITHER PARTY MAKES ANY WARRANTY, EXPRESS OR IMPLIED, AS TO ANY RESULTS TO BE OBTAINED BY THE OTHER PARTY, THEIR CUSTOMERS OR ANY OTHER PERSON OR ENTITY FROM THE USE OF THE JOINT INDICES, THE CUSTOM INDICES OR ANY THIRD PARTY PRODUCTS EXCEPT AS OTHERWISE PROVIDED HEREIN, NEITHER PARTY MAKES ANY EXPRESS OR IMPLIED WARRANTIES, AND EACH PARTY HEREBY EXPRESSLY DISCLAIMS ALL WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE WITH RESPECT TO THE JOINT INDICES, THE CUSTOM INDICES OR ANY THIRD PARTY PRODUCTS EXCEPT AS OTHERWISE PROVIDED HEREIN, NEITHER PARTY MAKES ANY REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, TO THE OTHER PARTY, THEIR CUSTOMERS OR ANY OTHER PERSON OR ENTITY REGARDING THE ABILITY OF ANY JOINT INDICES, THE CUSTOM INDICES OR ANY THIRD PARTY PRODUCTS TO TRACK THE PERFORMANCE OF ANY MARKET SECTORS, ASSET CLASSES OR ANY OTHER INDEX SELECTION CRITERIA APPLICABLE TO SUCH INDEX.



## **Chapter 434A: Options on SPCREX<sup>TM</sup> Index Futures**

### **434A00. SCOPE OF CHAPTER**

This chapter is limited in application to trading in put and call options on S&P/GRA Commercial Real Estate Indices ("SPCREX<sup>TM</sup>") ("options on SPCREX<sup>TM</sup> futures"). The procedures for trading, clearing, inspection, delivery and settlement and any other matters not specifically covered herein shall be governed by the rules of the Exchange.

### **434A01. OPTION CHARACTERISTICS**

#### **434A01.A. Trading Schedule**

Options contracts shall be listed for such contract months and scheduled for trading during such hours, except as indicated below, as may be determined by the Board of Directors.

#### **434A01.B. Trading Unit**

The trading unit shall be an option to buy, in the case of the call, or to sell, in the case of the put, one SPCREX futures contract as specified in Chapter 434.

#### **434A01.C. Price Increments**

The price of an option shall be quoted in index points. The minimum fluctuation shall be 0.10 index points, equivalent to \$25.00 per contract.

#### **434A01.D. Underlying Futures Contract**

The underlying futures contract is the futures contract for the month in which the option expires. For example, the underlying futures contract for an option that expires in September 2008 is the September 2008 futures contract.

#### **434A01.E. Exercise Prices**

The exercise prices shall be stated in terms of the respective SPCREX futures contract which is deliverable upon exercise of the option.

At the commencement of option trading in a contract month, 10 eligible puts and call options at 5.00 index point intervals at a range of 50 index points above and 50 index points below the previous day's settlement price of the nearest futures contract will be listed. Thereafter, 10 eligible puts and calls at 5.00 index point intervals at a range of 50 index points above and 50 index points below the previous day's settlement price of the underlying futures contract will be listed. Strikes at 1.00 index point intervals within the above range will be listed upon demand evidenced in the options pit.

New options may be listed for trading up to and including the termination of trading. The Board may modify the provisions governing the establishment of exercise prices as it deems appropriate.

## **CME to Launch SPCREX Futures & Options on October 28, 2007 (S-4617)**

**September 24, 2007**

**Page 18 of 20**

### **434A01.F. Position Limits**

No person shall own or control a combination of options and underlying futures contract that exceeds 5,000 futures-equivalent contracts net on the same side of the market in all contract months combined.

For the purpose of this rule, the futures equivalent of an option contract is 1 times the previous business day's IOM risk factor for the option series. Also for purposes of this rule, a long call option, a short put option, and a long underlying futures contract are on the same side of the market; similarly, a short call option, a long put option, and a short underlying futures contract are on the same side of the market.

### **434A01.G. 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.

### **434A01.H. Exemptions**

The foregoing position limits shall not apply to commercially appropriate risk reducing option positions defined in accordance with Regulation 1.3(z)(1) of the CFTC and meeting the requirements of Rule 543 and shall not apply to other option positions exempted pursuant to Rule 543.

### **434A01.I. Termination of Trading**

Options trading shall terminate at the same date and time as the underlying futures contract.

### **434A01.J. Contract Modification**

Specifications shall be fixed as of the first day of trading of a contract except that all options must conform to government regulations in force at the time of exercise. If the U.S. government, an agency, or duly constituted body thereof issues an order, ruling, directive, or law inconsistent with these rules, such order, ruling directive, or law shall be construed to become part of these rules and all open new options contracts shall be subject to such governmental orders.

## **434A02. EXERCISE**

In addition to the applicable procedures and requirements of Chapter 7, the following shall apply to the exercise of options on SPCREX futures.

### **434A02.A. Exercise of Option by Buyer**

An option may be exercised by the buyer on any business day that the option is traded. Exercise of an option is accomplished by the clearing member representing the buyer presenting an exercise notice to the Clearing House by 7:00 p.m. on the day of exercise.

## **CME to Launch SPCREX Futures & Options on October 28, 2007 (S-4617)**

**September 24, 2007**

**Page 19 of 20**

An option that is in the money and has not been liquidated or exercised prior to the termination of trading shall, in the absence of contrary instructions delivered to the Clearing House by 7:00 p.m. on the business day following the termination of trading by the clearing member representing the option buyer, be exercised automatically.

In-the-money options that expire in months other than those in the March quarterly cycle (March, June, September and December) and have not been liquidated or exercised prior to the termination of trading shall, in the absence of contrary instructions delivered to the Clearing House by 7:00 p.m. on the day of the expiration by the clearing member representing the option buyer, be exercised automatically.

Corrections to option exercises may be accepted by the Clearing House after the 7:00 p.m. deadline and up to the beginning of final option expiration processing provided that such corrections are necessary due to; (1) a bona fide clerical error, (2) an unreconciled Exchange option transaction(s), or (3) an extraordinary circumstance where the clearing firm and customer are unable to communicate final option exercise instructions prior to the deadline. The decision whether a correction is acceptable will be made by the President of the Clearing House, or the President's designee, and such decision will be final.

### **434A02.B. Assignment**

Exercise notices accepted by the Clearing House shall be assigned through a process of random selection to clearing members with open short positions in the same series. A clearing member to which an exercise notice is assigned shall be notified thereof as soon as practicable after such notice is assigned by the Clearing House, but not later than 45 minutes prior to the opening of trading in the underlying futures contract on the following business day.

The clearing member assigned an exercise notice shall be assigned a short position in the underlying futures contract if a call was exercised or a long position if a put was exercised. The clearing member representing the option buyer shall be assigned a long position in the underlying futures contract if a call was exercised and a short position if a put was exercised.

All such futures positions shall be assigned at a price equal to the exercise price of the option and shall be marked to market in accordance with Rule 814 on the trading day of acceptance by the Clearing House of the exercise notice.

### **434A03. ACTS OF GOVERNMENT, ACTS OF GOD AND OTHER EMERGENCIES**

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

(End Chapter 434A)

**INTERPRETATIONS & SPECIAL NOTICES  
RELATING TO CHAPTER 434A**

WHILE SCHWAB WILL USE REASONABLE EFFORTS BASED ON SOURCES DEEMED RELIABLE IN COLLECTING THE SCHWAB DATA, SCHWAB DOES NOT GUARANTEE THE QUALITY, ACCURACY AND/OR COMPLETENESS OF THE SCHWAB DATA WHILE S&P WILL USE REASONABLE EFFORTS BASED ON SOURCES DEEMED RELIABLE IN COLLECTING THE STOCK/INVENTORY DATA, S&P DOES NOT GUARANTEE THE QUALITY, ACCURACY AND/OR COMPLETENESS OF THE STOCK/INVENTORY DATA. EXCEPT AS OTHERWISE PROVIDED HEREIN, NEITHER PARTY MAKES ANY WARRANTY, EXPRESS OR IMPLIED, AS TO ANY RESULTS TO BE OBTAINED BY THE OTHER PARTY, THEIR CUSTOMERS OR ANY OTHER PERSON OR ENTITY FROM THE USE OF THE JOINT INDICES, THE CUSTOM INDICES OR ANY THIRD PARTY PRODUCTS EXCEPT AS OTHERWISE PROVIDED HEREIN, NEITHER PARTY MAKES ANY EXPRESS OR IMPLIED WARRANTIES, AND EACH PARTY HEREBY EXPRESSLY DISCLAIMS ALL WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE WITH RESPECT TO THE JOINT INDICES, THE CUSTOM INDICES OR ANY THIRD PARTY PRODUCTS EXCEPT AS OTHERWISE PROVIDED HEREIN, NEITHER PARTY MAKES ANY REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, TO THE OTHER PARTY, THEIR CUSTOMERS OR ANY OTHER PERSON OR ENTITY REGARDING THE ABILITY OF ANY JOINT INDICES, THE CUSTOM INDICES OR ANY THIRD PARTY PRODUCTS TO TRACK THE PERFORMANCE OF ANY MARKET SECTORS, ASSET CLASSES OR ANY OTHER INDEX SELECTION CRITERIA APPLICABLE TO SUCH INDEX.

*Please contact Tony Zaccaria, Associate Director, Alternative Investments at (312) 930-4560; or, John W. Labuszewski, Managing Director, Research & Product Development at 312-446-7469 if you have any inquiries regarding this matter.*