



Special Executive Report

S-4683

February 27, 2008

REMINDER REGARDING CME GROUP FX PRODUCT ENHANCEMENTS: (1) ELIMINATION OF CONTRARY INSTRUCTIONS REGARDING AUTOMATIC EXERCISE OF AMERICAN-STYLE FX OPTIONS ON TERMINATION DAY, AND (2) DAILY SETTLEMENT PRICES BASED ON VOLUME-WEIGHTED AVERAGE PRICES IN A NEW 30-SECOND CLOSING RANGE FOR SELECT FX FUTURES

OBJECTIVE OF ENHANCEMENTS: As you were notified previously in CME Member Update February 2008, Volume 2 and January 2008, Volume 1 and in Special Executive Report, S-4653, dated Thursday, December 20, 2007, CME Group approved changes to make the expiration process for American style foreign exchange (FX) options even more transparent and remove uncertainty for all market participants. The improved automatic exercise process allows all participants to know their positions and be in a position to hedge risk during liquid, early afternoon U.S. trading hours. Over the past year, the CME Group FX Products Team sought and received feedback from a broad range of customers and FCMs, which support a move to real auto-exercise for American-style FX options on futures contracts on the termination date.

TWO-STEP ENHANCEMENTS: First, the exchange is eliminating “contrary instructions” to CME Clearing by American-style FX option buyers on the termination of trading day only. With option buyers not able to elect to exercise out-of-the-money options or not exercise in-the-money options at expiration (*i.e.*, “contrary instructions”) until 7:00 p.m. Central Time (CT), CME Group eliminates the situation where futures contracts are assigned when underlying markets are less liquid and offset hedging is difficult. Market participants have indicated to the exchange that this situation is a major deterrent to OTC (over-the-counter) market use of CME Group American-style FX options on futures. Rule amendments appear in Appendix 1 with additions underlined and deletions bracketed and overstruck.

Please note that these rule amendments to eliminate contrary instructions at options termination are effective immediately for all newly listed American-style exercise FX options on futures contracts. For existing contract months, the elimination of contrary instructions rule amendments on the options termination day are effective beginning with the expiration of the March 2008 (Friday, March 7, 2008) and apply to all subsequently expiring contract months. Please note also that buyer’s ability to exercise American-style FX options up until 7:00 p.m., on any other business day except the termination (expiration) day, is unchanged.

Second, to make daily “settlement prices” more robust and market determined, the exchange is changing daily settlement price determination procedures to a volume-weighted average price (“VWAP”) instead of the current provisions of Rule 813 – **SETTLEMENT PRICE** for an average of the CME Globex[®] high and low trade prices (or higher bid, lower offer, where applicable) during the closing range. Therefore, CME Group adopted changes to Rule 813 – **SETTLEMENT PRICE** to allow CME Globex sourced, VWAP calculations to determine daily settlement prices for selected FX futures contracts (Australian dollar, British pound, Canadian dollar, Euro FX, Japanese yen and Swiss franc futures). The closing range for these more actively-traded FX futures will decrease from one-minute to 30 seconds to better represent a 2:00 p.m. price. The amendments to Rule 813 appear in Appendix 2. As you were notified previously in CME Group

Special Executive Report, S-4681, dated Tuesday, February 26, 2008, the exchange is implementing the new daily volume-weighted average settlement prices / 2:00 PM fixing prices for the selected nearby FX futures contracts on Monday, March 3, 2008. These settlement prices will be available on Merquote, the CME Upper Trading Floor wallboards and on a CME Group Web site page described as "2:00 PM FX Fixings" as soon after the 2:00 p.m. close as is practicable. The exchange plans at a later date to introduce real-time calculation and display of these settlement / fixing prices.

Volume-Weighted FX Futures Settlement Prices Details

With elimination of the contrary instructions process, the price at which the American-style FX options are determined to be in-the-money, and automatically exercised, becomes even more important. Therefore, the method for determining daily settlement prices for nearby, most actively traded FX futures contract months will be changed from an average of the high and low sale prices (or higher bid or lower offer, if applicable) in the 60-second "closing range" to a VWAP which utilizes CME Globex "traded volumes at price" information, over a shorter, 30-second interval.

By switching to VWAPs over the 30-second interval (1:59:30 to 1:59:59) for daily FX futures settlement prices, these new settlement prices become more robust by being transaction-based. The more volume traded at a given price during the new 30-second closing range, the more influence that particular price has on the calculation of the settlement price. This method applies rational economic principles to the determination of settlement prices. The subsequent section describes in detail the proposed method for determining FX futures settlement prices. In brief, if no transactions occur in the closing range (*i.e.*, no sales) such that there are no VWAP determined settlement prices (under the descriptions labeled "Tier 1"), then the settlement price is determined by the average of the CME Globex bid/ask spreads over the 30-second closing range ("Tier 2"). If no CME Globex bid/offer spreads exist (and no sales), then CME Group Operations staff replicates current settlement procedures to use quote vendor spot rates and forward points to IMM dates to determine the nearby contract synthetic daily settlements. Then, also mirroring current procedures, the previous daily spread differentials, from the nearby futures contract settlement price to the deferred contract months, are used to set all deferred FX futures contract month settlement prices.

Approved New FX Settlement Price Definitions

New Procedures for FX Futures Settlement Prices: Used Each Day for Settlement Price Determination and to Exercise Expiring American-Style FX Options (Initially, applies to the following major FX futures contracts only – AD, BP, CD, EC, JY, SF futures):

Terminate CME Globex trading (in expiring option) at:

- 2:00 p.m. on Friday termination day (rather than the current CME Globex termination time of 4:00 p.m.) and expire the options to the "new" underlying futures settlement price that day determined at 2:00 p.m. (The termination of trading time change is a result of the elimination of the option buyer's right to exercise an out-of-the-money option or not exercise an in-the-money option up until 7:00 p.m., *i.e.*, submission of "contrarian instructions" to CME Clearing to prevent "automatic exercise.")
- Exercise expiring options to a newly defined daily "settlement price" for all American-style FX options. New tiers...

- a. Changes to CME Rule 813 – **SETTLEMENT PRICE** provide for tiers of operational procedures. (See approved CME Rule 813 changes in Appendix 2)
- b. 30 second (closing range) window (1:59:30 to 1:59:59)*
- c. Tier 1: VWAP from CME Globex sales during the 30-second interval, calculated initially on a look-back basis (real-time calculation to be added at a later date). However, if less than three trades by the end of the interval, then go to Tier 2 for CME Globex bid/ask data.** The Tier 1 calculation is analogous to the Tier 1 calculation for the “9:00 a.m. CME currency fixing price for exercising European-style FX options,” with the added provision that there must be at least three trades for Tier 1 to apply (therefore, for 2, 1 or zero trades in 30 second closing range, then Tier 2 applies).
- d. Tier 2: Calculate the midpoint of the bid/ask spread during the 30 seconds on a look-back basis (real time calculation to be added at a later date). Sample at least once per second (minimum of 30 observations). Settlement price is the average of the midpoints. For liquid contracts, most of the time settlement prices will be determined at 2:00 p.m. via the Tier 1 procedures. The Tier 2 calculation is analogous to the Tier 2 calculation for the “CME currency fixing price,” but with the inputted maximum allowable bid / ask differential value disabled.
- e. Tier 3: Use over-the-counter (OTC) vendor contributed spot rates and forward points to calculate synthetic futures “settlement price” (via “Operations settlement price programs”). This is essentially what CME Group does now if there are no sales in the 60 seconds before 2:00 p.m., no prior sale during the day, and no standing bids and offers on CME Globex.

Therefore, at 2:00 p.m., CME Group will calculate settlement prices based on either sales or the bid/ask spreads. As soon as practical after 2:00 p.m., the exchange will print the price based upon sales, if there were any (i.e., 3 or more deals); or print the price based upon bid/ask spreads, if there were not the requisite number of sales. OTC-based synthetic settlement prices will be used, in the event they are needed (at 2:00 p.m. there are no sales, bids or asks). Please note that the exchange plans to introduce at a later date real-time calculated and displayed settlement / fixing prices during the closing range.

* Current closing range is 60 seconds from 1:59:00 to 2:00:00.

** Select simulations indicated current Tier 1 Settlement Prices would apply to EC, JY, BP, CD, SF and AD (by virtue of typically having more than two trades on CME Globex in the 30 second closing range).

Appendix 1.

Rule Changes to Eliminate “Contrary Instructions” on All American-Style FX Options Termination Days Only. The rule amendments follow with additions underlined and deletions bracketed and overstruck.

Chapter 251A Options on British Pound Sterling Futures

251A03. EXERCISE

In addition to the applicable procedures and requirements of Chapter 7, the following shall apply to the exercise of option contracts on British pound sterling futures. Both American-style and European-style exercise options on currency futures are available for trading.

251A03.A.1. Exercise of American-Style Exercise Options by Buyer

An option may be exercised by the buyer on any business day that the option is traded. To exercise an option the clearing member representing the buyer shall present an exercise notice to the Clearing House by 7:00 p.m. Central time on ~~the~~ any day of exercise except on the termination of trading day.

All British pound sterling options that are in the money¹ 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. Central Time on the day of expiration by the clearing member representing the option buyer,]~~ be exercised automatically.

Remainder of rule is unchanged.

Chapter 252A **Options on Canadian Dollar Futures**

252A03. EXERCISE

In addition to the applicable procedures and requirements of Chapter 7, the following shall apply to the exercise of option contracts on Canadian dollar futures. Both American-style and European-style exercise options on currency futures are available for trading.

252A03.A.1. Exercise of American-Style Options by Buyer

An option may be exercised by the buyer on any business day that the option is traded. To exercise an option the clearing member representing the buyer shall present an exercise notice to the Clearing House by 7:00 p.m. Central Time on ~~[the]~~ any day of exercise ~~except on the termination of trading day.~~

All Canadian dollar options that are in the money² 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. Central Time on the day of expiration by the clearing member representing the option buyer,]~~ be exercised automatically.

Remainder of rule is unchanged.

Chapter 253A **Options on Japanese Yen Futures**

253A03. EXERCISE

In addition to the applicable procedures and requirements of Chapter 7, the following shall apply to the exercise of option contracts on Japanese yen futures. Both American-style and European-style exercise options on currency futures are available for trading.

253A03.A.1. Exercise of American-Style Options by Buyer

An option may be exercised by the buyer on any business day that the option is traded. To exercise an option the clearing member representing the buyer shall present an exercise notice to the Clearing House by 7:00 p.m. Central Time on ~~[the]~~ any day of exercise ~~except on the termination of trading day.~~

All Japanese yen options that are in the money³ 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. Central Time on the day of expiration by the clearing member representing the option buyer,]~~ be exercised automatically.⁴

Remainder of rule is unchanged.

Chapter 254A **Options on Swiss Franc Futures**

254A03. EXERCISE

In addition to the applicable procedures and requirements of Chapter 7, the following shall apply to the exercise of option contracts on Swiss franc futures. Both American-style and European-style exercise options on currency futures are available for trading.

254A03.A.1. Exercise of American-Style Options by Buyer

An option may be exercised by the buyer on any business day that the option is traded. To exercise an option the clearing member representing the buyer shall present an exercise notice to the Clearing House by 7:00 p.m. Central Time on ~~[the]~~ any day of exercise ~~except on the termination of trading day.~~

All Swiss franc options that are in the money⁵ 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. Central Time on the day of expiration by the clearing member representing the option buyer,]~~ be exercised automatically.⁶

Remainder of rule is unchanged.

¹ An option is in the money if the settlement price of the underlying futures contract at termination lies above the exercise price in the case of a call, or lies below the exercise price in the case of a put.

² An option is in the money if the settlement price of the underlying futures contract at termination lies above the exercise price in the case of a call, or lies below the exercise price in the case of a put.

³ An option is in the money if the settlement price of the underlying futures contract at termination lies above the exercise price in the case of a call, or lies below the exercise price in the case of a put.

⁵ An option is in the money if the settlement price of the underlying futures contract at termination lies above the exercise price in the case of a call, or lies below the exercise price in the case of a put.

Chapter 255A
Options on Australian Dollar Futures

255A03. EXERCISE

In addition to the applicable procedures and requirements of Chapter 7, the following shall apply to the exercise of option contracts on Australian dollar futures.

255A03.A.1. Exercise of Option by Buyer

An option may be exercised by the buyer on any business day that the option is traded. To exercise an option the clearing member representing the buyer shall present an exercise notice to the Clearing House by 7:00 p.m. on ~~[the]~~ any day of exercise except on the termination of trading day.

All Australian dollar options that are in the money⁷ 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 expiration by the clearing member representing the option buyer,]~~ be exercised automatically.

Remainder of rule is unchanged.

Chapter 256A
Options on Mexican Peso Futures

256A03. EXERCISE

In addition to the applicable procedures and requirements of Chapter 7, the following shall apply to the exercise of option contracts on Mexican peso futures.

256A03.A. Exercise of Option by Buyer

An option may be exercised by the buyer on any business day that the option is traded. To exercise an option the clearing member representing the buyer shall present an exercise notice to the Clearing House by 7:00 p.m. on ~~[the]~~ any day of exercise except on the termination of trading day.

All Mexican peso options that are in the money⁸ 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 expiration by the clearing member representing the option buyer,]~~ be exercised automatically.

Remainder of rule is unchanged.

Chapter 257A
Options on Brazilian Real Futures

257A03. EXERCISE

In addition to the applicable procedures and requirements of Chapter 7, the following shall apply to the exercise of option contracts on Brazilian real futures.

257A03.A.1. Exercise of American-Style Options by Buyer

An option may be exercised by the buyer on any business day that the option is traded. To exercise an option the clearing member representing the buyer shall present an exercise notice to the Clearing House by 7:00 p.m. on ~~[the]~~ any day of exercise except on the termination of trading day.

All Euro options that are in the money⁹ 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. Central Time on the day of expiration by the clearing member representing the option buyer,]~~ be exercised automatically.¹⁰

Remainder of rule is unchanged.

Chapter 258A
Options on New Zealand Dollar Futures

258A03. EXERCISE

In addition to the applicable procedures and requirements of Chapter 7, the following shall apply to the exercise of option contracts on New Zealand dollar futures.

258A03.A.1. Exercise of Option by Buyer

An option may be exercised by the buyer on any business day that the option is traded. To exercise an option the clearing member representing the buyer shall present an exercise notice to the Clearing House by 7:00 p.m. on ~~[the]~~ any day of exercise except on the termination of trading day.

⁷ An option is in the money if the settlement price of the underlying futures contract at termination lies above the exercise price in the case of a call, or lies below the exercise price in the case of a put.

⁸ An option is in the money if the settlement price of the underlying futures contract at termination lies above the exercise price in the case of a call, or lies below the exercise price in the case of a put.

⁹ An option is in the money if the settlement price of the underlying futures contract at termination lies above the exercise price in the case of a call, or lies below the exercise price in the case of a put.

All New Zealand dollar options that are in the money¹¹ 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 expiration by the clearing member representing the option buyer,]~~ be exercised automatically.
Remainder of rule is unchanged.

Chapter 259A
Options on South African Rand Futures

259A03. EXERCISE

In addition to the applicable procedures and requirements of Chapter 7, the following shall apply to the exercise of option contracts on South African rand futures.

259A03.A. Exercise of Option by Buyer

An option may be exercised by the buyer on any business day that the option is traded. To exercise an option the clearing member representing the buyer shall present an exercise notice to the Clearing House by 7:00 p.m. on ~~[the]~~ any day of exercise except on the termination of trading day.

All South African rand options that are in the money¹² 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 expiration by the clearing member representing the option buyer,]~~ be exercised automatically.

Remainder of rule is unchanged.

Chapter 260A
Options on Russian Ruble Futures

260A03. EXERCISE

In addition to the applicable procedures and requirements of Chapter 7, the following shall apply to the exercise of option contracts on Russian ruble futures.

260A03.A. Exercise of Option by Buyer

An option may be exercised by the buyer on any business day that the option is traded. To exercise an option the clearing member representing the buyer shall present an exercise notice to the Clearing House by 7:00 p.m. on ~~[the]~~ any day of exercise except on the termination of trading day.

All Russian ruble options that are in the money¹³ 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 expiration by the clearing member representing the option buyer,]~~ be exercised automatically.

Remainder of rule is unchanged.

Chapter 261A
Options on Euro Futures

261A03. EXERCISE

In addition to the applicable procedures and requirements of Chapter 7, the following shall apply to the exercise of option contracts on Euro futures. Both American-style and European-style exercise options on currency futures are available for trading.

261A03.A.1. Exercise of American-Style Options by Buyer

An option may be exercised by the buyer on any business day that the option is traded. To exercise an option the clearing member representing the buyer shall present an exercise notice to the Clearing House by 7:00 p.m. Central Time on ~~[the]~~ any day of exercise except on the termination of trading day.

All Euro options that are in the money¹⁴ 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. Central Time on the day of expiration by the clearing member representing the option buyer,]~~ be exercised automatically.¹⁵

Remainder of rule is unchanged.

Chapter 266A
Options on Czech Koruna Futures

266A03. EXERCISE

In addition to the applicable procedures and requirements of Chapter 7, the following shall apply to the exercise of option contracts on Czech koruna futures.

¹¹ An option is in the money if the settlement price of the underlying futures contract at termination lies above the exercise price in the case of a call, or lies below the exercise price in the case of a put.

¹² An option is in the money if the settlement price of the underlying futures contract at termination lies above the exercise price in the case of a call, or lies below the exercise price in the case of a put.

¹³ An option is in the money if the settlement price of the underlying futures contract at termination lies above the exercise price in the case of a call, or lies below the exercise price in the case of a put.

¹⁴ An option is in the money if the settlement price of the underlying futures contract at termination lies above the exercise price in the case of a call, or lies below the exercise price in the case of a put.

266A03.A.1. Exercise of Option by Buyer

An option may be exercised by the buyer on any business day that the option is traded. To exercise an option the clearing member representing the buyer shall present an exercise notice to the Clearing House by 7:00 p.m. on ~~[the]~~ any day of exercise except on the termination of trading day.

All Czech koruna options that are in the money¹⁶ 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 expiration by the clearing member representing the option buyer,]~~ be exercised automatically.

Remainder of rule is unchanged.

Chapter 267A
Options on Hungarian Forint Futures

267A03. EXERCISE

In addition to the applicable procedures and requirements of Chapter 7, the following shall apply to the exercise of option contracts on Hungarian Forint futures.

267A03.A.1. Exercise of Option by Buyer

An option may be exercised by the buyer on any business day that the option is traded. To exercise an option the clearing member representing the buyer shall present an exercise notice to the Clearing House by 7:00 p.m. on ~~[the]~~ any day of exercise except on the termination of trading day.

All Hungarian forint options that are in the money¹⁷ 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 expiration by the clearing member representing the option buyer,]~~ be exercised automatically.

Remainder of rule is unchanged.

Chapter 268A
Options on Polish Zloty Futures

268A03. EXERCISE

In addition to the applicable procedures and requirements of Chapter 7, the following shall apply to the exercise of option contracts on Polish Zloty futures.

268A03.A.1. Exercise of Option by Buyer

An option may be exercised by the buyer on any business day that the option is traded. To exercise an option the clearing member representing the buyer shall present an exercise notice to the Clearing House by 7:00 p.m. on ~~[the]~~ any day of exercise except on the termination of trading day.

All Polish Zloty options that are in the money¹⁸ 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 expiration by the clearing member representing the option buyer,]~~ be exercised automatically.

Remainder of rule is unchanged.

Chapter 269A
Options on Israeli Shekel Futures

269A03. EXERCISE

In addition to the applicable procedures and requirements of Chapter 7, the following shall apply to the exercise of option contracts on Israeli shekel futures.

269A03.A.1. Exercise of Option by Buyer

An option may be exercised by the buyer on any business day that the option is traded. To exercise an option the clearing member representing the buyer shall present an exercise notice to the Clearing House by 7:00 p.m. on ~~[the]~~ any day of exercise except on the termination of trading day.

All Israeli shekel options that are in the money¹⁹ 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 expiration by the clearing member representing the option buyer,]~~ be exercised automatically.

Remainder of rule is unchanged.

¹⁶ An option is in the money if the settlement price of the underlying futures contract at termination lies above the exercise price in the case of a call, or lies below the exercise price in the case of a put.

¹⁷ An option is in the money if the settlement price of the underlying futures contract at termination lies above the exercise price in the case of a call, or lies below the exercise price in the case of a put.

¹⁸ An option is in the money if the settlement price of the underlying futures contract at termination lies above the exercise price in the case of a call, or lies below the exercise price in the case of a put.

¹⁹ An option is in the money if the settlement price of the underlying futures contract at termination lies above the exercise price in the case of a call, or lies below the exercise price in the case of a put.

Chapter 270A
Options on Chinese Renminbi Futures

270A03. EXERCISE

In addition to the applicable procedures and requirements of Chapter 7, the following shall apply to the exercise of option contracts on Chinese renminbi futures.

270A03.A.1. Exercise of Option by Buyer

An option may be exercised by the buyer on any business day that the option is traded. To exercise an option the clearing member representing the buyer shall present an exercise notice to the Clearing House by 7:00 p.m. on ~~the~~ any day of exercise except on the termination of trading day.

All Chinese renminbi options that are in the money²⁰ 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 expiration by the clearing member representing the option buyer,]~~ be exercised automatically.

Remainder of rule is unchanged.

Chapter 271A
Options on Korean Won Futures

271A03. EXERCISE

In addition to the applicable procedures and requirements of Chapter 7, the following shall apply to the exercise of option contracts on Korean won futures.

271A03.A.1. Exercise of Option by Buyer

An option may be exercised by the buyer on any business day that the option is traded. To exercise an option the clearing member representing the buyer shall present an exercise notice to the Clearing House by 7:00 p.m. on ~~the~~ any day of exercise except on the termination of trading day.

All Korean won options that are in the money²¹ 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 expiration by the clearing member representing the option buyer,]~~ be exercised automatically.

Remainder of rule is unchanged.

Chapter 301A
Options on Euro/ British Pound (Euro/ BP) Futures

301A03. EXERCISE

In addition to the applicable procedures and requirements of Chapter 7, the following shall apply to the exercise of option contracts on Euro/ British pound cross-rate futures.

301A03.A.1. Exercise of Option by Buyer

An option may be exercised by the buyer on any business day that the option is traded. To exercise an option the clearing member representing the buyer shall present an exercise notice to the Clearing House by 7:00 p.m. on ~~the~~ any day of exercise except on the termination of trading day.

An option that is in the money²² 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 day of 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.]~~

Remainder of rule is unchanged.

Chapter 303A
Options on Euro/ Japanese Yen (Euro/ JY) Futures

303A03. EXERCISE

In addition to the applicable procedures and requirements of Chapter 7, the following shall apply to the exercise of option contracts on Euro/ Japanese yen cross-rate futures.

²⁰ An option is in the money if the settlement price of the underlying futures contract at termination lies above the exercise price in the case of a call, or lies below the exercise price in the case of a put.

²¹ An option is in the money if the settlement price of the underlying futures contract at termination lies above the exercise price in the case of a call, or lies below the exercise price in the case of a put.

²² An option is in the money if the settlement price of the underlying futures contract at termination lies above the exercise price in the case of a call, or lies below the exercise price in the case of a put.

303A03.A.1. Exercise of Option by Buyer

An option may be exercised by the buyer on any business day that the option is traded. To exercise an option the clearing member representing the buyer shall present an exercise notice to the Clearing House by 7:00 p.m. on ~~[the]~~ any day of exercise except on the termination of trading day.

An option that is in the money²³ 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 day of 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.]~~

Remainder of rule is unchanged.

Chapter 304A Options on Euro/ Swiss Franc (Euro/ SF) Futures

304A03. EXERCISE

In addition to the applicable procedures and requirements of Chapter 7, the following shall apply to the exercise of option contracts on Euro/ Swiss franc cross-rate futures.

304A03.A.1. Exercise of Option by Buyer

An option may be exercised by the buyer on any business day that the option is traded. To exercise an option the clearing member representing the buyer shall present an exercise notice to the Clearing House by 7:00 p.m. on ~~[the]~~ any day of exercise except on the termination of trading day.

An option that is in the money²⁴ 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 day of 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.]~~

Remainder of rule is unchanged.

Chapter 315A Options on Euro/ Czech Koruna (Euro/ Koruna) Futures

315A03. EXERCISE

In addition to the applicable procedures and requirements of Chapter 7, the following shall apply to the exercise of option contracts on Euro/ Czech koruna cross-rate futures.

315A03.A.1. Exercise of Option by Buyer

An option may be exercised by the buyer on any business day that the option is traded. To exercise an option the clearing member representing the buyer shall present an exercise notice to the Clearing House by 7:00 p.m. on ~~[the]~~ any day of exercise except on the termination of trading day.

An option that is in the money²⁵ 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 day of 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.]~~

Remainder of rule is unchanged.

²³ An option is in the money if the settlement price of the underlying futures contract at termination lies above the exercise price in the case of a call, or lies below the exercise price in the case of a put.

²⁴ An option is in the money if the settlement price of the underlying futures contract at termination lies above the exercise price in the case of a call, or lies below the exercise price in the case of a put.

²⁵ An option is in the money if the settlement price of the underlying futures contract at termination lies above the exercise price in the case of a call, or lies below the exercise price in the case of a put.

Chapter 316A
Options on Euro/ Hungarian Forint (Euro/ Forint) Futures

316A03. EXERCISE

In addition to the applicable procedures and requirements of Chapter 7, the following shall apply to the exercise of option contracts on Euro/ Hungarian forint cross-rate futures.

316A03.A.1. Exercise of Option by Buyer

An option may be exercised by the buyer on any business day that the option is traded. To exercise an option the clearing member representing the buyer shall present an exercise notice to the Clearing House by 7:00 p.m. on ~~[the]~~ any day of exercise except on the termination of trading day.

An option that is in the money²⁶ 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 day of 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.]~~

Remainder of rule is unchanged.

Chapter 317A
Options on Euro/ Polish Zloty (Euro/ Zloty) Futures

317A03. EXERCISE

In addition to the applicable procedures and requirements of Chapter 7, the following shall apply to the exercise of option contracts on Euro/ Polish zloty cross-rate futures.

317A03.A.1. Exercise of Option by Buyer

An option may be exercised by the buyer on any business day that the option is traded. To exercise an option the clearing member representing the buyer shall present an exercise notice to the Clearing House by 7:00 p.m. on ~~[the]~~ any day of exercise except on the termination of trading day.

An option that is in the money²⁷ 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 day of 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.]~~

Remainder of rule is unchanged.

Chapter 318A
Options on Chinese Renminbi/ Euro (RMB/ Euro) Futures

318A03. EXERCISE

In addition to the applicable procedures and requirements of Chapter 7, the following shall apply to the exercise of option contracts on Chinese renminbi/ Euro futures.

318A03.A.1. Exercise of Option by Buyer

An option may be exercised by the buyer on any business day that the option is traded. To exercise an option the clearing member representing the buyer shall present an exercise notice to the Clearing House by 7:00 p.m. on ~~[the]~~ any day of exercise except on the termination of trading day.

All Chinese renminbi/ Euro options that are in the money²⁸ 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 expiration by the clearing member representing the option buyer,]~~ be exercised automatically.

Remainder of rule is unchanged.

²⁶ An option is in the money if the settlement price of the underlying futures contract at termination lies above the exercise price in the case of a call, or lies below the exercise price in the case of a put.

²⁷ An option is in the money if the settlement price of the underlying futures contract at termination lies above the exercise price in the case of a call, or lies below the exercise price in the case of a put.

²⁸ An option is in the money if the settlement price of the underlying futures contract at termination lies above the exercise price in the case of a call, or lies below the exercise price in the case of a put.

Chapter 319A
Options on Chinese Renminbi/ Japanese Yen (RMB/ Japanese Yen) Futures

319A03. EXERCISE

In addition to the applicable procedures and requirements of Chapter 7, the following shall apply to the exercise of option contracts on Chinese renminbi/ Japanese yen futures.

319A03.A.1. Exercise of Option by Buyer

An option may be exercised by the buyer on any business day that the option is traded. To exercise an option the clearing member representing the buyer shall present an exercise notice to the Clearing House by 7:00 p.m. on ~~the~~ any day of exercise except on the termination of trading day.

All Chinese renminbi/ Japanese yen options that are in the money²⁹ 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 expiration by the clearing member representing the option buyer,]~~ be exercised automatically.

Remainder of rule is unchanged.

Appendix 2.

Proposed Changes to Rule 813 – Settlement Price

813. SETTLEMENT PRICE ³⁰

The settlement price shall be a price consistent with the minimum fluctuations of a commodity. Settlement prices shall be determined each business day for each commodity pursuant to the procedures set forth below. The procedure used to determine the settlement price of a commodity will depend on the product group, level of closing range activity and liquidity, and the bid – ask width and size, if settled to Globex.

1. The time and sales procedure is used when a trade occurs in the closing range (either the last 30 or 60 seconds). The first trade and every subsequent quote (trade, bid, offer) in the closing range are included in the calculation. The midpoint of the high and low quotes is the settlement price. If a midpoint cannot be determined, the settlement price is the price closer to the prior day's settlement price.
2. The last quote procedure is used when no trades occur in the closing range (either the last 30 or 60 seconds). The last valid quote of the day (trade, higher bid or lower offer) is the settlement price. In the event there are no valid quotes during the day, the settlement price will be the prior day's settlement price.
3. The bid-ask midpoint procedure is used for transactions that occur on Globex. The midpoint of the low bid and the high offer of the Globex closing range (either the last 30 or 60 seconds) is the settlement price. If a midpoint cannot be determined, the settlement price is the price closer to the prior day's settlement price.
4. When relevant spread trading information is available, it may also be used to assist in the calculation of settlement prices. (For example, Front and Red Eurodollars may be adjusted for calendar or fly spreads.)
5. In illiquid commodities, where there is no relevant market activity, any applicable market information, such as spot or cash markets, may be used to determine the settlement price.
6. Notwithstanding any of the foregoing and applicable for Australian Dollar, British Pound, Canadian Dollar, Euro, Japanese Yen and Swiss Franc futures contracts initially, the settlement price for the nearby liquid Currency Futures contract month shall equal the volume-weighted average price of sales on CME Globex during the 30-second closing range (usually 1:59:30 to 1:59:59 PM Central Time), provided such volume weighted average price is based upon at least three transactions ("Tier 1"). If less than three transactions or no sales occur in the 30-second closing range, then the settlement price shall be determined by the average of the nearby liquid futures contract month bid and offer spread during the 30-second closing range ("Tier 2"). If a settlement price cannot be determined by procedures given in the previous two sentences, then the settlement price for the nearby liquid Currency Futures contract month shall be determined by referencing as appropriate underlying spot prices and forward points ("Tier 3").
Then, all other Currency Futures contract month settlement prices shall be determined by applying the previous day's settlement price spread differentials as appropriate to the nearby liquid Currency Futures contract month settlement price as determined by the prior three sentences.

- ~~[6]~~ 7. Notwithstanding any of the foregoing, settlement prices for the E-Mini Standard and Poor's 500 Stock Price Index Futures, the E-Mini Standard and Poor's SmallCap 600 Index Futures, the E-Mini Nasdaq 100 Index Futures, the E-mini Three-month Eurodollar futures and the E-Mini Currency Futures contract months shall equal the settlement prices for the corresponding contract months of the Standard and Poor's 500 Stock Price Index Futures, the Standard and Poor's SmallCap 600 Index Futures, the Nasdaq 100 Index Futures, Three-month Eurodollar Futures and the Currency Futures, respectively. Further, the settlement price for the E-mini Five-Year Eurodollar Bundle Futures shall be the average of the settlement price for the underlying Eurodollar futures, rounded to the nearest 0.00001 IMM Index Points³¹

²⁹ An option is in the money if the settlement price of the underlying futures contract at termination lies above the exercise price in the case of a call, or lies below the exercise price in the case of a put.

³⁰ Revised January 1981; March 1981; April 1982; July 1982; September 1989; September 1992; November 1995; November 2000; November 2001.

³¹ Adopted September 1997. Revised September 1999; May 2000; July 2000; June 2003, October 2006.

- ~~[7]~~ 8. Options settlements are derived utilizing key market information, such as; outright bids and offers, implied volatility, the underlying futures movement, and relevant spread orders.
- ~~[8]~~ 9. Notwithstanding the above, if a settlement price in any product, as derived by the normal methodology used for that product, is inconsistent with trades, bids or offers in other months during the closing range or with other market information, an Exchange official may establish a settlement price that best reflects the true market valuation at the time of the close.
- ~~[9]~~ 10. For products cleared by the Clearing House on behalf of another exchange, market or Marketplace other than the Exchange, the settlement price shall be determined according to the rules of such entity.
- ~~[40]~~ 11. Notwithstanding the above, in the case of inaccuracy or unavailability of a settlement price from the Exchange, another exchange, market or Marketplace, or if such settlement price would create risk management concerns for the Clearing House, the Clearing House reserves the right to calculate settlement variation using an alternate price determined by the Clearing House ³²

If you have any questions, please contact Derek Sammann, Managing Director, FX Products, at 312-466-7454, or Craig LeVeille, Director, FX Products, at 312-930-5301, or Steve Youngren, Associate Director, Financial Product Development, at (312) 930-4583.

© Copyright CME Group. All rights reserved.