

Special Executive Report

S-4799

December 15, 2008

REMINDER OF CME GROUP'S STANDARDIZATION OF ITS FOREIGN EXCHANGE (FX) FIXING PRICES, EFFECTIVE MONDAY, DECEMBER 15, 2008

As you were notified previously in CME Group Special Executive Report, S-4785, dated Monday, November 10, 2008, and in CME Group Member Update December 2008 Volume 12, dated Monday, December 1, 2008, CME Group is standardizing its FX fixing price procedures by implementing the current 2:00 PM FX fixing price / settlement price procedures for the calculation of the 9:00 AM FX fixing prices, which are used for exercise of the European-style FX options on futures at expiration. The new real-time calculation and display of the 9:00 AM FX fixing price procedures will begin Monday, December 15, 2008. The 9:00 AM FX fixing prices are currently available and will continue to be displayed on the Merquote "CUR" page 2, as well as on the CME Group Web site (see <http://www.cmegroup.com/trading/fx/daily-currency-fixing-price.html>).

BACKGROUND: Earlier this year, CME Group adopted several enhancements to the FX options product line, including (1) elimination of "pin risk" by forced exercise of expiring, in-the-money American-style FX options and (2) using a 30-second volume-weighted average price (VWAP) of underlying FX futures sales to determine which American-style futures options were in the money* and exercised at expiration (2:00 PM FX fixing prices are also used as the nearby futures daily settlement price). Given that these 2:00 PM procedures have proven effective, and a uniform methodology for CME Group FX fixing prices simplifies operations and customer education for the FX product line, the exchange will standardize the FX fixing price procedures by adopting the preferred 2:00 PM methodology for 9:00 AM FX fixings. The principal difference between the two procedures lies in the length of the interval over which the VWAP is calculated (as noted previously, Appendix 1 details the new 9:00 AM FX fixing price procedures). The 2:00 PM FX Fixing / Settlement Prices are sampled over a 30-second interval. The 9:00 AM FX Fixings are calculated over a 2-minute interval.

*Note that in-the-money (at least one tick in the money) options are exercised at expiration, and at- and out-of-the money options are abandoned at expiration.

RATIONALE: Over-the-counter (OTC) FX option exercises are marked exactly to the 10:00 AM Eastern time (9:00 AM Central time) spot FX rates. The longer the CME Group FX futures fixing price calculation interval; the more potential for deviation from the OTC FX option benchmark. When CME Group's European-style FX options were first launched in 2005 and expanded in 2006, a two-minute VWAP calculation at 9:00 AM was considered to be a reasonable interval for specifying the volume-weighted average price for determining which expiring options are in the money and exercised. However, since that time, CME Group FX volumes in the underlying futures contracts have increased and now CME Group has access to CME Globex depth of book data for additional analysis. CME Group believes these historical data suggest that a 30-second VWAP calculation can now be used for the 9:00 AM FX fixings.

RULE AMENDMENTS: Appendix 2 presents rule amendments to five CME Group FX options contracts, which enable adoption of the new 9:00 AM CME FX fixing price procedures for determining those expiring European-style FX options that are in the money and exercised. Rule additions are underlined and deletions are bracketed and lined out.

Appendix 1

New 9:00 AM FX Fixing Price Procedures Summarized

1. "CME currency fixing price" calculation interval is 30 seconds (8:59:30 to 8:59:59)
2. Tier 1: Volume-Weighted Average Price (VWAP) of underlying futures contract traded on CME Globex is calculated and disseminated on a real time basis during the 30-second interval ending at 9:00 AM. However, if less than three trades by the end of the interval, then go to Tier 2 for the CME Globex bid/ask data (therefore, for 2, 1 or zero trades in 30-second calculation interval, then Tier 2 applies).
3. Tier 2: Calculate the midpoint of the bid/ask spread during the 30 seconds on a real time basis. Sample at least once per second (minimum of 30 observations). CME FX fixing price is the average of the midpoints. For liquid contracts, most of the time fixing prices will be determined via the Tier 1 procedures. If no bid/ask spreads are available during the 30-second interval, then Tier 3 applies.
4. Tier 3: Use over-the-counter (OTC) vendor contributed spot rates and forward points to calculate synthetic futures "CME currency fixing prices." If there are no sales or bid and ask prices during the 30-second interval preceding 9:00 AM at the expiration of a European-style FX option contract, then Exchange staff will derive the CME currency fixing price as a synthetic futures price from quote vendor spot rates and appropriate maturity forward points. The price will be displayed on Merquote and the CME Website.

Appendix 2

Approved Rule Amendments to Adopt the Current 2:00 PM CME FX Fixing Price / Settlement Price Procedures for the 9:00 AM FX Fixing Price Procedures for Options on Selected FX Futures.

Chapter 251A Options on British Pound Sterling Futures

Rules 251A00 through 251A03.A.1. are unchanged.

251A03.A.2. Exercise of European-Style Exercise Options

All in-the-money options are automatically exercised by the Clearing House on the day of expiration for the option. All out-of-the-money options are abandoned by the Clearing House on the day of expiration for the option. To determine whether an option is in or out of the money on this day, the Exchange shall calculate the relevant "CME currency fixing price" from ~~[pit-traded and]~~ GLOBEX-traded underlying futures contracts as follows:

- | | |
|--------|--|
| Tier 1 | Take the [two-minute] <u>30-second</u> average of sale (trade) prices, weighted by volume [where available,] from [8:58 to 9:00] <u>8:59:30 to 8:59:59</u> a.m. Central time on the day of determination of the CME currency fixing price. |
| Tier 2 | If <u>less than three or</u> no sales (trades) occurred during the [two-minute] <u>30-second</u> interval noted above, take the midpoint of each bid & ask spread where available and average the resulting midpoints over the [two-minute] <u>30-second</u> interval.
[However, when looking at each bid / ask spread, if it is wider than a specified number of points (inputted variable, e.g., 3 points for Euro, 6 points for British pound, etc.), then ignore that average bid & ask pair in the calculation.] |

- Tier 3 [If no sales (trades) and no bid and ask prices occurred during the two-minute interval, then take the five-minute average of sale (trade) prices, weighted by volume where available, from 8:55 to 9:00 a.m. Central time.
- Tier 4 — If no sales (trades) occurred during the five-minute interval noted above, take the midpoint of each bid & ask spread where available and average the resulting midpoints over the five-minute interval. However, when looking at each bid / ask spread, if it is wider than a specified number of points (inputted variable, e.g., 3 points for Euro, 6 points for British pound), then ignore that average bid & ask pair in the calculation.
- Tier-5] If no sales (trades) and no bid and ask prices occurred during the [five-minute] 30-second interval, then Exchange staff shall [take into consideration any other information it deems appropriate to determine the CME currency fixing price for that day. This information may include, but is not limited to the following, and the procedures to determine the information may be performed in any order by Exchange staff: (1) repeat the steps described in Tiers 3 or 4 at ever increasing five-minute increments (e.g., intervals of 10, 15, 20, etc. minutes) until data is obtained; (2) derive the CME currency fixing price (as a synthetic futures price)[s] from quote vendor spot rates and appropriate maturity forward points[; and (3) set the CME currency fixing price using any other information or method deemed appropriate].

The calculation of the CME currency fixing price at Tiers 1 to [5] 3 shall be rounded to each contract's Price Increment's definition. For example, for Euro with a Price Increment of \$0.0001 per Euro, the CME currency fixing price shall be rounded to the nearest \$0.0001 per Euro (with \$0.00005 and above rounded up to \$0.0001, and \$0.00004 and below rounded down to \$0.0000).

An option is in the money if the CME currency fixing price of the underlying futures contract lies above the exercise price in the case of a call, or lies below the exercise price in the case of a put. For example, if the CME currency fixing price were 1.3051 or higher, then 1.3050 Calls shall be exercised. If the CME currency fixing price for Euro were 1.3050 or lower, then 1.3050 calls shall be abandoned. Similarly, if the CME currency fixing price were 1.3049 or lower, then 1.3050 Puts shall be exercised. If the CME currency fixing price for Euro were 1.3050 or higher, then 1.3050 Puts shall be abandoned.

Remainder of rules is unchanged.

Chapter 252A Options on Canadian Dollar Futures

Rules 252A00 through 252A03.A.1. are unchanged.

252A03.A.2. Exercise of European-Style Exercise Options

All in-the-money options are automatically exercised by the Clearing House on the day of expiration for the option. All out-of-the-money options are abandoned by the Clearing House on the day of expiration for the option. To determine whether an option is in or out of the money on this day, the Exchange shall calculate the relevant "CME currency fixing price" from [pit-traded and] GLOBEX-traded underlying futures contracts as follows:

- Tier 1 Take the [two-minute] 30-second average of sale (trade) prices, weighted by volume [where available,] from [8:58 to 9:00] 8:59:30 to 8:59:59 a.m. Central time on the day of determination of the CME currency fixing price.
- Tier 2 If less than three or no sales (trades) occurred during the [two-minute] 30-second interval noted above, take the midpoint of each bid & ask spread where available and average the resulting midpoints over the [two-minute] 30-second interval. [However, when looking at each bid / ask spread, if it is wider than a specified number of points (inputted variable, e.g., 3 points for Euro, 6 points for British pound, etc.), then ignore that average bid & ask pair in the calculation.]
- Tier 3 [If no sales (trades) and no bid and ask prices occurred during the two-minute interval, then take the five-minute average of sale (trade) prices, weighted by volume where available, from 8:55 to 9:00 a.m. Central time.
- Tier 4 — If no sales (trades) occurred during the five-minute interval noted above, take the midpoint of each bid & ask spread where available and average the resulting midpoints over the five-minute interval. However, when looking at each bid / ask spread, if it is wider than a specified number of points (inputted variable, e.g., 3 points for Euro, 6 points for British pound), then ignore that average bid & ask pair in the calculation.
- Tier-5] If no sales (trades) and no bid and ask prices occurred during the [five-minute] 30-second interval, then Exchange staff shall [take into consideration any other information it deems appropriate to determine the CME currency fixing price for that day. This information may include, but is not limited to the following, and the procedures to determine the information may be performed in any order by Exchange staff: (1) repeat the steps described in Tiers 3 or 4 at ever increasing five-minute increments (e.g., intervals of 10, 15, 20, etc. minutes) until data is obtained; (2) derive the CME currency fixing price (as a synthetic futures price)[s] from quote vendor spot rates and appropriate maturity forward points[; and (3) set the CME currency fixing price using any other information or method deemed appropriate].

The calculation of the CME currency fixing price at Tiers 1 to [5] 3 shall be rounded to each contract's Price Increment's definition. For example, for Euro with a Price Increment of \$0.0001 per Euro, the CME currency fixing price shall be rounded to the nearest \$0.0001 per Euro (with \$0.00005 and above rounded up to \$0.0001, and \$0.00004 and below rounded down to \$0.0000).

An option is in the money if the CME currency fixing price of the underlying futures contract lies above the exercise price in the case of a call, or lies below the exercise price in the case of a put. For example, if the CME currency fixing price were 1.3051 or higher, then 1.3050 Calls shall be exercised. If the CME currency fixing price for Euro were 1.3050 or lower, then 1.3050 calls shall be abandoned. Similarly, if the CME currency fixing price were 1.3049 or lower, then 1.3050 Puts shall be exercised. If the CME

currency fixing price for Euro were 1.3050 or higher, then 1.3050 Puts shall be abandoned.
Remainder of rules is unchanged.

Chapter 253A Options on Japanese Yen Futures

Rules 253A00 through 253A03.A.1. are unchanged.

253A03.A.2. Exercise of European-Style Exercise Options

All in-the-money options are automatically exercised by the Clearing House on the day of expiration for the option. All out-of-the-money options are abandoned by the Clearing House on the day of expiration for the option. To determine whether an option is in or out of the money on this day, the Exchange shall calculate the relevant "CME currency fixing price" from ~~[pit-traded and]~~GLOBEX-traded underlying futures contracts as follows:

- Tier 1 Take the ~~[two-minute]~~ 30-second average of sale (trade) prices, weighted by volume ~~[where available,]~~ from ~~[8:58 to 9:00]~~ 8:59:30 to 8:59:59 a.m. Central time on the day of determination of the CME currency fixing price.
- Tier 2 If ~~less than three or no~~ sales (trades) occurred during the ~~[two-minute]~~ 30-second interval noted above, take the midpoint of each bid & ask spread where available and average the resulting midpoints over the ~~[two-minute]~~ 30-second interval. ~~[However, when looking at each bid / ask spread, if it is wider than a specified number of points (inputted variable, e.g., 3 points for Euro, 6 points for British pound, etc.), then ignore that average bid & ask pair in the calculation.]~~
- Tier 3 ~~[If no sales (trades) and no bid and ask prices occurred during the two-minute interval, then take the five-minute average of sale (trade) prices, weighted by volume where available, from 8:55 to 9:00 a.m. Central time.~~
- Tier 4 ~~— If no sales (trades) occurred during the five-minute interval noted above, take the midpoint of each bid & ask spread where available and average the resulting midpoints over the five-minute interval. However, when looking at each bid / ask spread, if it is wider than a specified number of points (inputted variable, e.g., 3 points for Euro, 6 points for British pound), then ignore that average bid & ask pair in the calculation.~~
- Tier 5] If no sales (trades) and no bid and ask prices occurred during the ~~[five-minute]~~ 30-second interval, then Exchange staff shall ~~[take into consideration any other information it deems appropriate to determine the CME currency fixing price for that day. This information may include, but is not limited to the following, and the procedures to determine the information may be performed in any order by Exchange staff: (1) repeat the steps described in Tiers 3 or 4 at ever increasing five-minute increments (e.g., intervals of 10, 15, 20, etc. minutes) until data is obtained; (2) derive the CME currency fixing price (as a synthetic futures price)[s] from quote vendor spot rates and appropriate maturity forward points]; and (3) set the CME currency fixing price using any other information or method deemed appropriate].~~

The calculation of the CME currency fixing price at Tiers 1 to ~~[5]~~ 3 shall be rounded to each contract's Price Increment's definition. For example, for Euro with a Price Increment of \$0.0001 per Euro, the CME currency fixing price shall be rounded to the nearest \$0.0001 per Euro (with \$0.00005 and above rounded up to \$0.0001, and \$0.00004 and below rounded down to \$0.0000).

An option is in the money if the CME currency fixing price of the underlying futures contract lies above the exercise price in the case of a call, or lies below the exercise price in the case of a put. For example, if the CME currency fixing price were 1.3051 or higher, then 1.3050 Calls shall be exercised. If the CME currency fixing price for Euro were 1.3050 or lower, then 1.3050 calls shall be abandoned. Similarly, if the CME currency fixing price were 1.3049 or lower, then 1.3050 Puts shall be exercised. If the CME currency fixing price for Euro were 1.3050 or higher, then 1.3050 Puts shall be abandoned.

Remainder of rules is unchanged.

Chapter 254A Options on Swiss Franc Futures

Rules 254A00 through 254A03.A.1. are unchanged.

254A03.A.2. Exercise of European-Style Exercise Options

All in-the-money options are automatically exercised by the Clearing House on the day of expiration for the option. All out-of-the-money options are abandoned by the Clearing House on the day of expiration for the option. To determine whether an option is in or out of the money on this day, the Exchange shall calculate the relevant "CME currency fixing price" from ~~[pit-traded and]~~GLOBEX-traded underlying futures contracts as follows:

- Tier 1 Take the ~~[two-minute]~~ 30-second average of sale (trade) prices, weighted by volume ~~[where available,]~~ from ~~[8:58 to 9:00]~~ 8:59:30 to 8:59:59 a.m. Central time on the day of determination of the CME currency fixing price.
- Tier 2 If ~~less than three or no~~ sales (trades) occurred during the ~~[two-minute]~~ 30-second interval noted above, take the midpoint

- of each bid & ask spread where available and average the resulting midpoints over the [two-minute] 30-second interval. [However, when looking at each bid / ask spread, if it is wider than a specified number of points (inputted variable, e.g., 3 points for Euro, 6 points for British pound, etc.), then ignore that average bid & ask pair in the calculation.]
- Tier 3 [If no sales (trades) and no bid and ask prices occurred during the two-minute interval, then take the five-minute average of sale (trade) prices, weighted by volume where available, from 8:55 to 9:00 a.m. Central time.
- Tier 4 — If no sales (trades) occurred during the five-minute interval noted above, take the midpoint of each bid & ask spread where available and average the resulting midpoints over the five-minute interval. However, when looking at each bid / ask spread, if it is wider than a specified number of points (inputted variable, e.g., 3 points for Euro, 6 points for British pound), then ignore that average bid & ask pair in the calculation.
- Tier-5] If no sales (trades) and no bid and ask prices occurred during the [five-minute] 30-second interval, then Exchange staff shall [take into consideration any other information it deems appropriate to determine the CME currency fixing price for that day. This information may include, but is not limited to the following, and the procedures to determine the information may be performed in any order by Exchange staff: (1) repeat the steps described in Tiers 3 or 4 at ever increasing five-minute increments (e.g., intervals of 10, 15, 20, etc. minutes) until data is obtained; (2) derive the CME currency fixing price (as a synthetic futures price)][s] from quote vendor spot rates and appropriate maturity forward points]; and (3) set the CME currency fixing price using any other information or method deemed appropriate].

The calculation of the CME currency fixing price at Tiers 1 to [5] 3 shall be rounded to each contract's Price Increment's definition. For example, for Euro with a Price Increment of \$0.0001 per Euro, the CME currency fixing price shall be rounded to the nearest \$0.0001 per Euro (with \$0.00005 and above rounded up to \$0.0001, and \$0.00004 and below rounded down to \$0.0000).

An option is in the money if the CME currency fixing price of the underlying futures contract lies above the exercise price in the case of a call, or lies below the exercise price in the case of a put. For example, if the CME currency fixing price were 1.3051 or higher, then 1.3050 Calls shall be exercised. If the CME currency fixing price for Euro were 1.3050 or lower, then 1.3050 calls shall be abandoned. Similarly, if the CME currency fixing price were 1.3049 or lower, then 1.3050 Puts shall be exercised. If the CME currency fixing price for Euro were 1.3050 or higher, then 1.3050 Puts shall be abandoned.

Remainder of rules is unchanged.

Chapter 261A Options on Euro Futures

Rules 261A00 through 261A03.A.1. are unchanged.

261A03.A.2. Exercise of European-Style Exercise Options

All in-the-money options are automatically exercised by the Clearing House on the day of expiration for the option. All out-of-the-money options are abandoned by the Clearing House on the day of expiration for the option. To determine whether an option is in or out of the money on this day, the Exchange shall calculate the relevant "CME currency fixing price" from [pit-traded and JGLOBEX-traded underlying futures contracts as follows:

- Tier 1 Take the [two-minute] 30-second average of sale (trade) prices, weighted by volume [where available,] from [8:58 to 9:00] 8:59:30 to 8:59:59 a.m. Central time on the day of determination of the CME currency fixing price.
- Tier 2 If less than three or no sales (trades) occurred during the [two-minute] 30-second interval noted above, take the midpoint of each bid & ask spread where available and average the resulting midpoints over the [two-minute] 30-second interval. [However, when looking at each bid / ask spread, if it is wider than a specified number of points (inputted variable, e.g., 3 points for Euro, 6 points for British pound, etc.), then ignore that average bid & ask pair in the calculation.]
- Tier 3 [If no sales (trades) and no bid and ask prices occurred during the two-minute interval, then take the five-minute average of sale (trade) prices, weighted by volume where available, from 8:55 to 9:00 a.m. Central time.
- Tier 4 — If no sales (trades) occurred during the five-minute interval noted above, take the midpoint of each bid & ask spread where available and average the resulting midpoints over the five-minute interval. However, when looking at each bid / ask spread, if it is wider than a specified number of points (inputted variable, e.g., 3 points for Euro, 6 points for British pound), then ignore that average bid & ask pair in the calculation.
- Tier-5] If no sales (trades) and no bid and ask prices occurred during the [five-minute] 30-second interval, then Exchange staff shall [take into consideration any other information it deems appropriate to determine the CME currency fixing price for that day. This information may include, but is not limited to the following, and the procedures to determine the information may be performed in any order by Exchange staff: (1) repeat the steps described in Tiers 3 or 4 at ever increasing five-minute increments (e.g., intervals of 10, 15, 20, etc. minutes) until data is obtained; (2) derive the CME currency fixing price (as a synthetic futures price)][s] from quote vendor spot rates and appropriate maturity forward points]; and (3) set the CME currency fixing price using any other information or method deemed appropriate].

The calculation of the CME currency fixing price at Tiers 1 to [5] 3 shall be rounded to each contract's Price Increment's definition. For example, for Euro with a Price Increment of \$0.0001 per Euro, the CME currency fixing price shall be rounded to the nearest

\$0.0001 per Euro (with \$0.00005 and above rounded up to \$0.0001, and \$0.00004 and below rounded down to \$0.0000).

An option is in the money if the CME currency fixing price of the underlying futures contract lies above the exercise price in the case of a call, or lies below the exercise price in the case of a put. For example, if the CME currency fixing price were 1.3051 or higher, then 1.3050 Calls shall be exercised. If the CME currency fixing price for Euro were 1.3050 or lower, then 1.3050 calls shall be abandoned. Similarly, if the CME currency fixing price were 1.3049 or lower, then 1.3050 Puts shall be exercised. If the CME currency fixing price for Euro were 1.3050 or higher, then 1.3050 Puts shall be abandoned.

Remainder of rules is unchanged.

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