



30-Day Fed Funds Mid-Curve Options

Frequently Asked Questions

May 2011

1. What are Fed Funds Mid-Curve Options?

Fed Funds Mid-Curve options (FF Mid-Curves) are short-dated options on deferred Fed Funds futures. They will exercise into Fed Funds futures that expire 6 or 12 months after the month in which the FF Mid-Curve expires. Standard Fed Funds options, by contrast, expire simultaneously with their underlying referenced Fed Funds futures.

2. Are these new products?

No, in the sense that FF Mid-Curves are still options on existing Fed Funds futures. Yes, in the sense that they introduce the popular “Mid-Curve” structure to Fed Funds options.

There will be two new Mid-Curve options series listed:

- **6-Month FF Mid-Curves**
- **1-Year FF Mid-Curves**

3. Where will FF Mid-Curves trade?

FF Mid-Curves will be traded in both open outcry and on CME Globex. In addition, they will be eligible for Request for Cross (RFC) on CME Globex, and will be eligible for block and all-or-none transactions.

4. How many expirations will be listed at a time?

There will be three consecutive monthly expirations for both the 6-Month and 1-Year FF Mid-Curve options. July 2011, August 2011, and September 2011 will be the first expiries listed. The 6-Month and 1-Year October 2011 expiries will be added the first trading day after July 2011 contracts expire.

Initial Fed Funds Mid-Curve Options Listings

FF Mid-Curve Options	Option Last Trading / Expiration Day	Underlying Fed Funds Futures
6-Month Fed Funds Mid-Curves		
July 2011 Expiry	Friday, July 29, 2011	January 2012
August 2011 Expiry	Wednesday, August, 31 2011	February 2012
September 2011 Expiry	Friday, September 30, 2011	March 2012
1-Year Fed Funds Mid-Curves		
July 2011 Expiry	Friday, July 29, 2011	July 2012
August 2011 Expiry	Wednesday, August, 31 2011	August 2012
September 2011 Expiry	Friday, September 30, 2011	September 2012

5. When do FF Mid-Curves expire?

The 6-Month and 1-Year FF Mid-Curves will expire on the last business day of the calendar month. For the purpose of determining whether or not an option is in-the-money or out-of-the-money, FF Mid Curves will be marked against the Fed Funds futures daily settlement price determined at the close of open outcry trading.

6. Is there a difference in the exercise and assignment procedures for Fed Funds Mid-Curve options and standard Fed Funds options?

The most important difference is that in- the- money Fed-Funds Mid Curve options will result in a long (for calls) or short (for puts) futures position, while standard Fed Funds options cash-settle at expiration. For example a 6-Month FF Mid-Curve July call that is in-the-money will result in a January 2012 futures position. A standard July Fed Funds option will cash-settle based on the final settlement price of July Fed Funds futures.

Another key difference is that, unlike standard Fed Funds options, **no contrary instructions will be allowed in FF Mid-Curve options.**

Fed Funds Mid-Curves vs. Standard Fed Funds Options

Fed Funds Option	Exercise Upon Option Expiration	Contrary Instructions
Standard	Option exercise at expiration results in a futures position that immediately expires by cash settlement.	Allowed
Mid-Curve	Option exercise at expiration results in a futures position that is 6 months or one year from expiration.	Not Allowed

7. What does “no contrary instructions” mean?

In accordance with CME Clearing rules, in-the-money options are automatically exercised and out-of-the-money options are automatically abandoned. At-the-money options are considered to be out-of-the-money. In many CME Group products, long option position holders have the right to give “contrary” instructions. That is, those with in-the-money option positions are allowed to instruct CME Clearing **not** to exercise their options, or to only exercise only part of their option positions. Likewise, holders of long out-of-the-money option positions can instruct CME Clearing **to** exercise these options, either in whole or in part. This generally occurs when futures settle at or near a strike price, which results in “pinning the strike” or “pin risk”.

Due to contract design differences between FF Mid-Curves and standard Fed Funds options, ***contrary exercise instructions will not be allowed for FF Mid-Curve options.*** Long options will either be exercised or abandoned depending upon whether they are in-the-money or out-of-the-money.

8. What price determines whether a FF Mid-Curve is in-the-money or out-of-the-money?

Whether a FF Mid-Curve is in-the-money or out-of-the-money will be determined at the close of the open outcry session on the last trading day of the month. This typically occurs at 2:00 p.m., Chicago time, (this may differ on holidays). However, FF Mid-Curves will still be available for trading



electronically on their last trading day until the close of CME Globex, typically 4:00 p.m., Chicago time. In-the-money options based on the 2:00 p.m., Chicago time, settle will be automatically exercised. Out-of-the-money options based on the 2:00 p.m., Chicago time, settle will be automatically abandoned. At-the-money options are considered to be out-of-the-money.

9. Can FF Mid-Curves still be exercised early?

Yes, the buyer of a FF Mid-Curve may exercise the option on any day of trading, except on the day such option expires, by giving notice of exercise to the CME Clearing by 6:00 p.m., Chicago time, or by such other time designated by the Exchange.

10. What are the tick size, strike price increment, and strike price range for FF Mid-Curves?

FF Mid-Curves will have a tick size, strike price increment, and strike price range that is identical to the standard Fed Funds options.

11. Will the Exchange make any changes to the standard Fed Funds options contract?

No, CME Group will continue to list 24 consecutive contract expiration months for standard Fed Funds options under the current contract specifications.

12. What are the exchange ticker symbols for FF Mid-Curves?

6-Month Mid-Curves:	Open Outcry–FF6	CME Globex–ZQ6
1-Year Mid-Curves:	Open Outcry – FF1	CME Globex–ZQ1

13. Are Mid-Curve Options listed on other products?

Yes, Mid-Curve Options have been listed on Eurodollar futures for several years, and are a very popular Eurodollar options trade. Visit www.cmegroup.com/midcurves for information on Eurodollar Mid-Curve options.

For more information on Fed Funds Mid-Curve options, including contract specifications, visit www.cmegroup.com/fedfunds

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