

INTEREST RATE PRODUCTS

Ultra U.S. Treasury Bond Futures and Options

A new addition to the U.S. Treasury complex for managing longer-dated Treasury yield exposure

Overview

With the U.S. Treasury Department fiscal policy shift toward greater issuance of long-term bonds, market participants need a tool that allows them to manage very long-dated Treasury exposure. Ultra U.S. Treasury Bond (Ultra T-Bond) futures were developed in response to that need. The Ultra T-Bond futures contract is a natural complement to the U.S. Treasury futures complex, providing market participants with a more direct way to manage long-term interest rate risk and add duration to their portfolios. Since its launch on January 11, 2010, it has been the fastest growing Interest Rate futures product ever listed by a CME Group exchange.

Contract Design

The key design feature that distinguishes Ultra T-Bond futures from the original T-Bond futures contract is its relatively narrow range of deliverable securities: the deliverable grade for Ultra T-Bond futures comprises Treasury bonds with at least 25 years of remaining term to maturity. The deliverable baskets of the 2010 expiries for the T-Bond futures contract include bonds with remaining terms to maturity of 15 years or more. See the chart on the back page for a deliverable basket comparison.

However, effective with the March 2011 expiry, the deliverable basket for the T-Bond contract will include bonds with remaining terms to maturity of at least 15 years, but less than 25 years. This change will ensure that the T-Bond and the Ultra T-Bond futures contracts serve two distinct points on the yield curve. T-Bond futures will serve as the principal short-term bond futures contract. Ultra T-Bond will serve as the primary long-term bond futures contract.

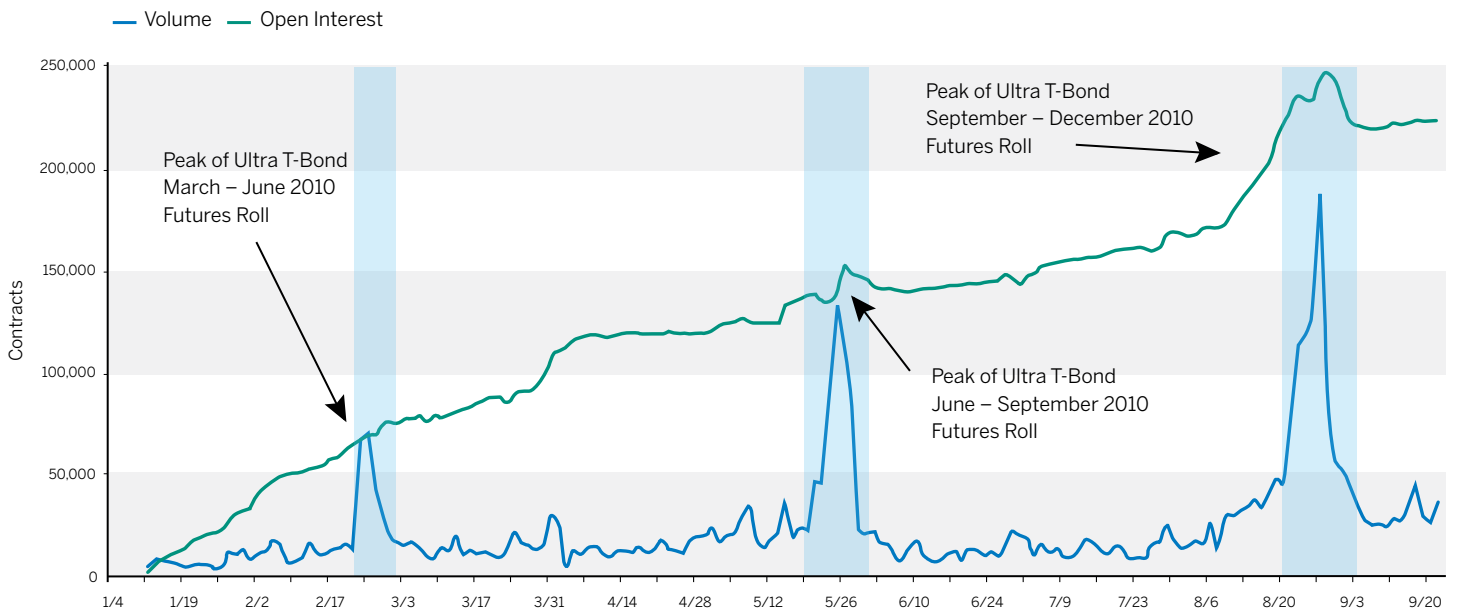
In all other aspects, the specifications for the Ultra T-Bond futures contract resemble those for the T-Bond futures contract. They are identical in terms of their \$100,000 notional value, 1/32nd (\$31.25) minimum tick size, contract critical dates (e.g., delivery dates, last trading day, etc.), and the 6 percent yield that determines their conversion factors for delivery invoicing.

Ultra T-Bond Options Now Trading

Building on the success of Ultra T-Bond futures, Ultra T-Bond options began trading on Sunday, June 6, 2010. Adding options to the robust Ultra T-Bond futures market provides even more opportunities for market participants seeking longer-dated, off-balance sheet exposure in Treasury markets. Both standard and flexible options on Ultra T-Bond futures are listed.

Ultra T-Bond Futures Volume and Open Interest (January 11, 2010 – September 21, 2010)

Source: CME Group



Applications:

Ultra T-Bond futures expand the range of risk management and trading opportunities for market professionals by providing significant cross-hedging and spreading opportunities.

These include:

- Basis trading
- Portfolio duration management
- Hedging exposure to very long-term yields
- Implied intermarket Treasury yield curve spreads
- Implied intermarket swap spreads
- Replication of cash Treasury bonds and Treasury STRIPS exposures
- Alternative to OTC 30-year interest rate swaps as a duration tool

Users:

Ultra T-Bond futures are a valuable new tool for financial institutions that manage general interest rate exposure linked to on-the-run 30-year Treasury bonds:

- Primary Dealers
- Government Sponsored Entities
- Central Banks
- Sovereign Wealth Funds
- Mutual Funds
- Asset Managers
- Insurance Companies
- Pension Funds
- Endowments
- Commodity Trading Advisors
- Hedge Funds
- Proprietary Traders

ULTRA T-BOND FUTURES CONTRACT SPECIFICATIONS

Underlying Instrument	U.S. Treasury bonds having face value of \$100,000 or multiples thereof
Deliverable Grade	U.S. Treasury bonds having remaining term to maturity of not less than 25 years from the first day of the futures contract delivery month The invoice price equals the futures settlement price times a conversion factor, plus accrued interest. The conversion factor is the price of the delivered note (\$1 par value) to yield 6 percent.
Price Basis	Points (\$1,000 per contract) and 32nds of one point (\$31.25 per contract). For example, 91-16 equals 91-16/32, 91-17 equals 91-17/32, and 91-18 equals 91-18/32.
Minimum Price Increment	One 32nd of one point (\$31.25 per contract), except for intermonth spreads for which the minimum price increment is one quarter of one 32nd of one point (\$7.8125 per contract).
Contract Months	Three consecutive expiries in the March, June, September, and December quarterly cycle
Last Trading Day	The seventh business day before the last business day of the delivery month. Trading in an expiring contract ceases at 12:01 p.m. on the last trading day.
Last Delivery Day	Last business day of the delivery month
Delivery Method	Federal Reserve book-entry wire-transfer system
Trading Hours	Open Outcry: 7:20 a.m. – 2:00 p.m. Central Time (CT) Monday – Friday CME Globex: 5:30 p.m. – 4:00 p.m. CT, Sunday – Friday
Ticker Symbols	Open Outcry: UL; CME Globex: UB; Clearing Code: UBE; Bloomberg: WNA
Block Minimum	Regular Trading Hours (RTH) (7:00 a.m. – 4:00 p.m. CT): 3,000 contracts European Trading Hours (ETH) (12:00 a.m. – 7:00 a.m. CT): 1,500 contracts Asian Trading Hours (ATH) (4:00 p.m. – 12:00 a.m. CT): 750 contracts Intra-commodity calendar spreads are prohibited. Inter-commodity spreads are permitted provided that the quantity of each leg of the spread meets the larger of the threshold requirements for the underlying futures during RTH, ETH, or ATH.
All-or-None Minimum	2,000 contracts on an outright basis. 2,000 contracts per leg for inter- and intra-market spreads.
Exchange Rules	This contract is listed with and subject to the rules and regulations of the CBOT

ULTRA T-BOND OPTIONS CONTRACT SPECIFICATIONS

Contract Size	One Ultra Treasury Bond futures contract of a specified delivery month
Tick Size	One 64th of one point (\$15.625/contract), rounded up to the nearest cent/contract
Strike Price Interval	One point (\$1,000/contract) to bracket the current Ultra T-Bond futures price. For example, if Ultra T-Bond futures are at 92-00, strike prices may be set at 89, 90, 91, 92, 93, 94, 95, etc.
Contract Months	Initially two serial expiries plus three consecutive expiries in the March, June, September and December quarterly cycle. Serials will exercise into the first nearby quarterly futures contract. Quarterlies will exercise into futures contracts of the same delivery period.
Last Trading Day	Options cease trading on the last Friday, which precedes by at least two business days, the last business day of the month preceding the option month.
Exercise	American-style. The buyer of a futures option may exercise the option on any business day prior to expiration by giving notice to CME Clearing by 6:00 p.m., Central Time. Options that expire in-the-money on the last trading day are automatically exercised after 6:00 p.m. CT, into a futures position, unless specific instructions are given to CME Clearing.
Expiration	Unexercised options shall expire at 7:00 p.m., CT on the last day of trading.
Trading Hours	Open Outcry: 7:20 a.m. – 2:00 p.m., CT Monday – Friday CME Globex: 5:30 p.m. – 4:00 p.m., CT Sunday – Friday Trading in expiration options ceases at the close of the regular CME Globex trading session for the corresponding Ultra T-Bond futures contracts.
Ticker Symbols	Open Outcry: OUL; CME Globex: OUB
All or None Minimum	2,500 contracts on an outright basis. 2,500 contracts per leg for inter- and intra-market spreads.
Exchange Rules	This contract is listed with and subject to the rules and regulations of the CBOT

T-BOND FUTURES AND ULTRA T-BOND FUTURES DELIVERABLE BASKET COMPARISON

Coupon	Maturity	Issuance (Billions)	Jun. 2010	Sep. 2010	Dec. 2010	*Mar. 2011	Jun. 2011	Sep. 2011	Dec. 2011	Mar. 2012
6 7/8	08/15/25	\$10.1	1.0858							
6	02/15/26	\$11.9	1.0000	0.9999	1.0000					
6 3/4	08/15/26	\$7.9	1.0765	1.0756	1.0750	1.0741	1.0735			
6 1/2	11/15/26	\$9.4	1.0513	1.0510	1.0504	1.0500	1.0494	1.0490		
6 5/8	02/15/27	\$9.5	1.0649	1.0642	1.0637	1.0630	1.0625	1.0618	1.0613	
6 3/8	08/15/27	\$8.5	1.0396	1.0392	1.0389	1.0385	1.0382	1.0377	1.0375	1.0370
6 1/8	11/15/27	\$19.5	1.0132	1.0132	1.0130	1.0130	1.0127	1.0127	1.0125	1.0125
5 1/2	08/15/28	\$10.0	0.9454	0.9457	0.9463	0.9466	0.9472	0.9475	0.9481	0.9485
5 1/4	11/15/28	\$10.0	0.9174	0.9181	0.9187	0.9194	0.9200	0.9208	0.9213	0.9221
5 1/4	02/15/29	\$10.0	0.9169	0.9174	0.9181	0.9187	0.9194	0.9200	0.9208	0.9213
6 1/8	08/15/29	\$10.0	1.0141	1.0138	1.0139	1.0136	1.0136	1.0134	1.0134	1.0132
6 1/4	05/15/30	\$15.0	1.0286	1.0285	1.0282	1.0281	1.0278	1.0277	1.0274	1.0273
5 3/8	02/15/31	\$15.0	0.9268	0.9272	0.9278	0.9281	0.9287	0.9291	0.9297	0.9301
4 1/2	02/15/36	\$24.0	0.8054	0.8061	0.8070	0.8078	0.8087	0.8095	0.8105	0.8113
4 3/4	02/15/37	\$14.0	0.8352	0.8357	0.8365	0.8370	0.8378	0.8384	0.8392	0.8398
5	05/15/37	\$14.0	0.8675	0.8681	0.8686	0.8692	0.8696	0.8702	0.8707	0.8714
4 3/8	02/15/38	\$15.0	0.7825	0.7832	0.7841	0.7848	0.7857	0.7865	0.7874	0.7882
4 1/2	05/15/38	\$20.0	0.7984	0.7992	0.7998	0.8007	0.8013	0.8022	0.8029	0.8038
3 1/2	02/15/39	\$25.0	0.6606	0.6617	0.6629	0.6641	0.6653	0.6665	0.6678	0.6690
4 1/4	05/15/39	\$36.0	0.7616	0.7624	0.7632	0.7641	0.7648	0.7657	0.7665	0.7674
4 1/2	08/15/39	\$39.0	0.7950	0.7956	0.7964	0.7970	0.7978	0.7984	0.7992	0.7998
4 3/8	11/15/39	\$42.0	0.7771	0.7779	0.7786	0.7794	0.7801	0.7809	0.7816	0.7825
4 5/8	02/15/40	\$42.0	0.8109	0.8114	0.8121	0.8126	0.8133	0.8139	0.8146	0.8152
T-Bond Futures	Number of Issues	23	23	22	22	12	12	11	10	10
	Total (\$ Billions)	\$417.8	\$417.8	\$407.7	\$407.7	\$148.8	\$148.8	\$140.9	\$131.5	\$136.0
Ultra T-Bond Futures	Number of Issues	10	10	10	10	9	9	9	9	8
	Total (\$ Billions)	\$271.0	\$271.0	\$271.0	\$271.0	\$247.0	\$247.0	\$247.0	\$247.0	\$233.0
Overlap	Number of Issues	10	10	10	10					
	Total (\$ Billions)	\$271.0	\$271.0	\$271.0	\$271.0					

*Effective with the March 2011 expiry, the deliverable basket for the T-Bond futures contract will include bonds with remaining terms to maturity of at least 15 years, but less than 25 years.

For additional information on Ultra T-Bond futures and options, visit www.cmegroup.com/ultra.

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All references to options refer to options on futures.

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