

INTEREST RATE PRODUCTS

On-The-Run U.S. Treasury Futures

Efficient, Cost-Effective Exposure to U.S. Treasury Benchmark Yields

2-Year, 5-Year, and 10-Year On-The-Run (OTR) U.S. Treasury futures prices are based on the yields of the on-the-run—or, most recently auctioned—Treasury securities. These are typically the most liquid points on the Treasury yield curve, and serve as the benchmark Treasury yields at these specific maturities. The new OTR Treasury futures contracts are

designed to exhibit the economic characteristics of the 2-year, 5-year, and 10-year on-the-run Treasury securities, allowing market participants to gain synthetic exposure to the Treasury cash market, but with the added benefit of cross-margining with other interest rate products at CME Group exchanges.

Contract Design

OTR Treasury futures contracts provide direct price exposure to on-the-run Treasury yields, enabling economic replication of the on-the-run Treasury securities.

The OTR Treasury futures trade in price and are cash-settled utilizing on-the-run Treasury yields based on pertinent ISDA Benchmark Rates on the last day of trading. The final settlement pricing formula transforms the underlying reference on-the-run Treasury yield into a price index, whose price dynamics resemble those of a hypothetical \$100,000 face value Treasury note paying a semi-annual coupon rate of 4 percent per annum. Final settlement occurs on the last trading day. OTR Treasury futures trade in both open outcry and on CME Globex.

Key Benefits

The introduction of OTR Treasury futures offers many advantages to market participants involved in the Treasury cash market, including:

- Direct price exposure to on-the-run Treasury security yields for those who may not be in a position to directly access the government securities cash or repo markets, or who may have restrictions with the physical delivery aspect of traditional Treasury futures.
- Direct price exposure to benchmark points on the Treasury yield curve, for index managers and yield curve traders.

- A means of short selling for fiduciary money managers whose plans may forbid short selling of cash Treasury securities but permit short positions in listed futures contracts.
- The cash settlement feature gives users an alternative settlement method versus traditional Treasury futures when taking a contract to expiration.
- Cross margining with other interest rate futures and options listed at CME Group exchanges, including Eurodollars, Treasuries and Interest Rate Swaps.

Market Participants

- Hedge Funds
- Proprietary Traders
- Primary Dealers
- Relative-Value Traders
- Asset Managers
- Spread Traders
- Sovereign Wealth Funds
- Active Individual Traders

OTR Treasury Futures Trading Cycle

OTR Treasury futures listing cycle will correspond to the U.S. Treasury auction cycle for 2-year, 5-year, and 10-year Treasury notes. Each expiry's lifecycle will match up to the underlying Treasury note's lifecycle as the "on-the-run" issue. Each expiry will be listed around the beginning of cash-market When Issued (WI) trading* and will continue to trade after such Treasury note is auctioned, throughout the underlying note's life as the "on-the-run" Treasury security. Trading in the expiry will terminate on the morning of the next new auction, approximately two hours before the underlying note will become the "old."

Initially, one expiry will be listed, and then deferred expiries will be listed one by one, approximately three to five business days prior to expiration of the nearby expiry. The expiration date/last trading day for a specific expiry is the date of the corresponding new Treasury note auction in the named expiry month. This date is indicated in the most recently published "Tentative Auction Schedule of U.S. Treasury Securities" at the time that contract is listed. The expiration date is fixed; should the Auction Schedule change after the listing of an expiry, the last trading day of the expiry will not change. Trading in expiring contracts will cease at 10:01 a.m., Chicago time, on the last trading day, approximately two hours before the underlying Treasury note becomes the "old."

2-Year and 5-Year OTR Treasury Futures

2-Year and 5-Year OTR Treasury futures will have monthly expiries. The first trade date is the auction announcement date of the underlying reference 2- or 5-year Treasury note — the beginning of WI trading. The last day of trading and final settlement take place on the auction date scheduled for the following month.

- The underlying reference for a hypothetical June 2010 expiry is the Treasury note that is auctioned in May 2010.
- The June 2010 expiry begins trading on the day the May 2010 Treasury note auction is announced.
- On the scheduled date of the June 2010 Treasury note auction, the June 2010 contract will be cash-settled to the on-the-run Treasury yield represented by the difference between the ISDA Swap rate and the ISDA Swap Spread at the time, approximately two hours before the May 2010 note becomes the "old."

10-Year OTR Treasury Futures

10-Year OTR Treasury futures will have quarterly expiries in February, May, August, and November. The first trade date is the day following the auction announcement date of the underlying reference 10-year Treasury note, i.e., the day after the beginning of WI trading. The last day of trading and final settlement take place on the auction date scheduled for the following quarter. For example,

- The underlying reference note for the August 2010 expiry is the 10-year Treasury note that is auctioned in May 2010.
- The August 2010 expiry begins trading the day after the May 2010 auction is announced.
- On the scheduled date of the August 2010 10-year note auction, the August 2010 expiry will be cash-settled to the on-the-run Treasury yield represented by the difference between the ISDA Swap rate and the ISDA Swap Spread approximately two hours before the May 2010 10-year note, becomes the "old."

View the Tentative Auction Schedule of U.S. Treasury Securities at <http://www.treas.gov/offices/domestic-finance/debt-management/auction>.

2-YEAR/5-YEAR/10-YEAR OTR FUTURES EXPIRY	AUCTION ANNOUNCEMENT	FIRST DAY OF TRADING	AUCTION DATE	FUTURES SETTLEMENT	
				DATE	TO YIELD OF NOTE AUCTIONED IN
November 2010	2Y/5Y: 10/21/10 10Y: 8/4/10	2Y/5Y/10Y: 10/25/10	2Y: 10/26/10 5Y: 10/27/10 10Y: 8/11/10	2Y: 11/22/10 5Y: 11/23/10 10Y: 11/9/10	2Y: October 2010 5Y: October 2010 10Y: August 2010
December 2010	2Y/5Y: 11/18/10	2Y/5Y: 11/18/10	2Y: 11/22/10 5Y: 11/23/10	2Y: 12/27/10 5Y: 12/28/10	2Y: November 2010 5Y: November 2010
January 2011	2Y/5Y: 12/23/10	2Y/5Y: 12/23/10	2Y: 12/27/10 5Y: 12/28/10	2Y: 1/25/11 5Y: 1/26/11	2Y: December 2010 5Y: December 2010
February 2011	2Y/5Y: 1/20/11 10Y: 11/3/10	2Y/5Y: 1/20/11 10Y: 11/4/10	2Y: 1/25/11 5Y: 1/26/11 10Y: 11/9/10	2Y: TBD** 5Y: TBD** 10Y: TBD**	2Y: January 2011 5Y: January 2011 10Y: November 2010

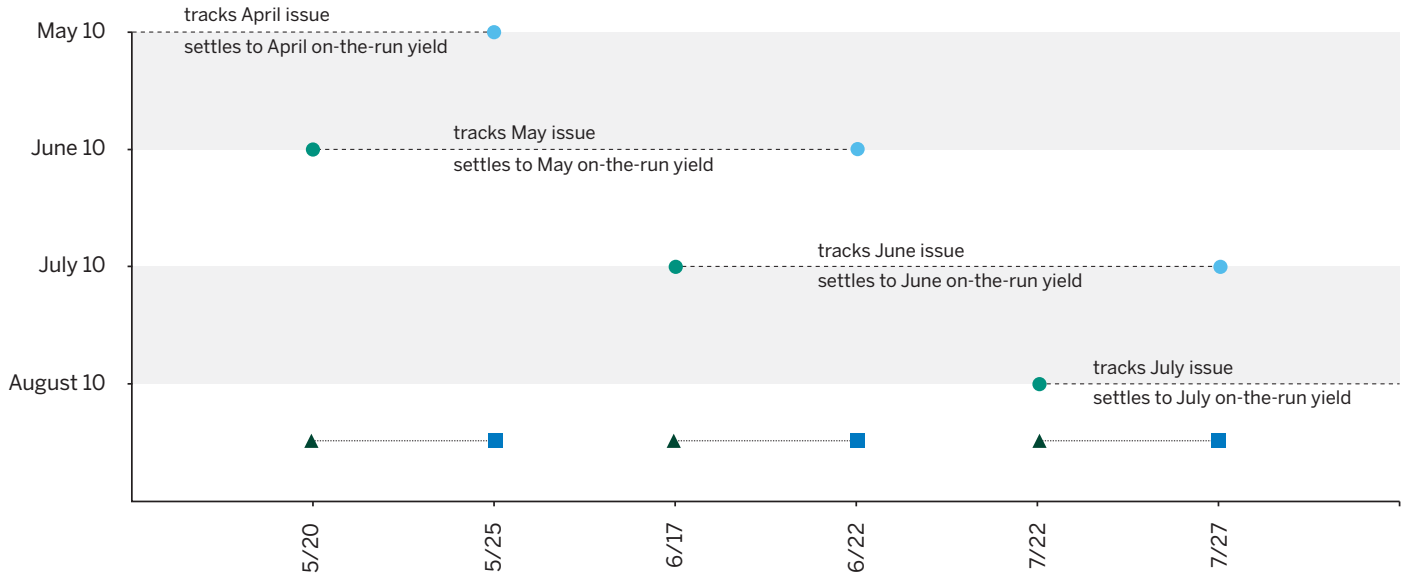
* 2-Year and 5-Year OTR Treasury futures will be listed for trading on the underlying note's announcement date, while 10-Year OTR Treasury futures will be listed for trading the business day following the underlying note's announcement date.

** Determined when U.S. Treasury Refunding Statement is published in November 2010

Contract Listing Cycle Examples

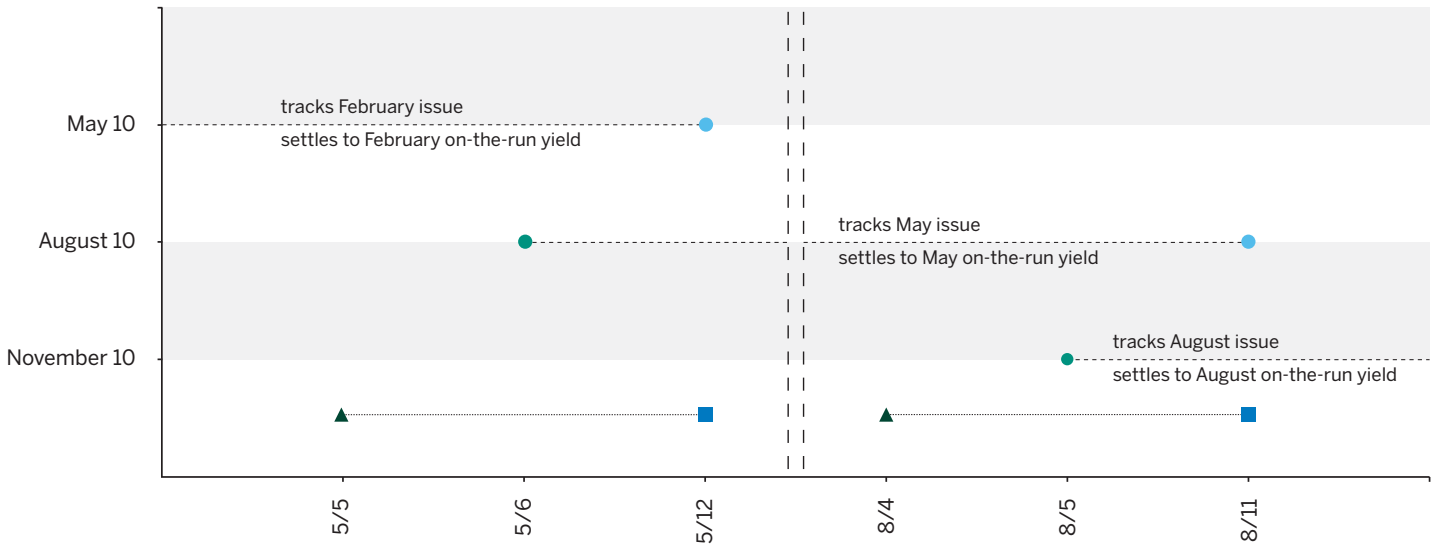
- ▲ Monthly Auction Announced/
WI Trading Begins
- Monthly Auction
- Future Listed
- Future Expires

2-YEAR OTR TREASURY FUTURES LISTING CYCLE EXAMPLE*



* The 5-Year OTR Treasury futures listing cycle will be very similar to the 2-Year cycle, except its auction dates and futures expiry dates will typically be one business day after the 2-Year dates.

10-YEAR OTR TREASURY FUTURES LISTING CYCLE EXAMPLE



Comparing OTR Treasury Futures to Traditional U.S. Treasury Futures

There are four key distinctions between new OTR Treasury futures and traditional U.S. Treasury futures contracts:

- OTR Treasury futures prices are based on the yields of the on-the-run Treasury securities, while traditional Treasury futures prices track “cheapest to deliver” (CTD) securities, which currently represent off-the-run sectors of the yield curve.
- OTR Treasury futures expiration months will match the Tentative Auction Schedule of U.S. Treasury Securities, while traditional Treasury futures have March, June, September and December expiration months.
- OTR Treasury futures are based on a four percent notional coupon, while traditional Treasury futures are based on a six percent notional coupon.
- While traditional Treasury futures expire by physical delivery, OTR Treasury futures are cash-settled to the pertinent on-the-run Treasury yield defined as the ISDA Benchmark Swap Rate minus the ISDA Swap Spread on the last day of trading.

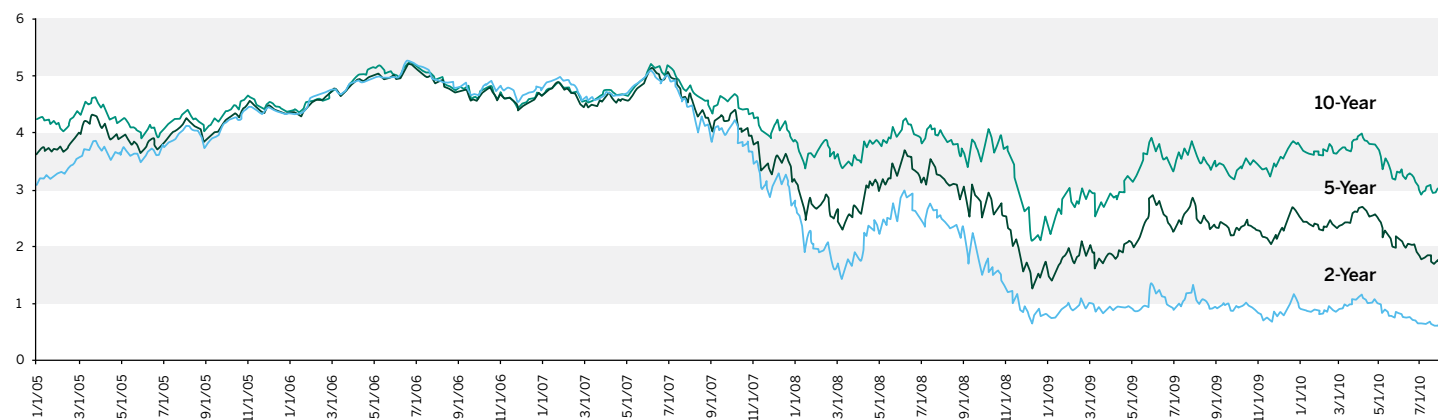
New Trading Opportunities

Because OTR Treasury futures track the yields of specific Treasury issues, they create an interesting array of relative value trading opportunities.

- **OTR Treasury Cash vs. OTR Futures Spread Trades:** Any perceptible mispricing in the shape of the forward yield curve could be expressed by trading on-the-run Treasury securities against OTR Treasury futures. Alternatively, other opportunities could be expressed by trading the “When Issued” (WI) on-the-run Treasury security against an OTR Treasury futures contract to capture a potential arbitrage opportunity.
- **OTR Treasury Futures vs. Traditional Treasury Futures Basis Trades:** Combining a position in OTR Treasury futures with traditional Treasury futures, that track “cheapest to deliver” (CTD) securities, creates a synthetic version of the popular OTR/CTD cash-futures basis trade. This trade should be attractive for those who do not have cash market relationships, and the position will benefit from the capital efficiencies that come from futures positions risk offsets in SPAN.
- **Treasury Yield Curve Spreads:** Price action in OTR Treasury futures yield curve spreads will replicate the dynamics of cash market yield curve spreads. Since OTR yields will determine the price of these futures, tracking the spreads in yield terms will be greatly simplified. These spreads, as well as spreads between OTR and traditional Treasury futures, will be available as pre-defined Inter-commodity Spreads (ICS) on CME Globex.
- **Spreads to LIBOR and Swap Rates:** Clean TED (Treasury vs. Eurodollar) and Swap spreads can be executed by pairing OTR Treasury futures with Eurodollar or Interest Rate Swap futures. Utilizing OTR Treasury futures for the on-the-run Treasury benchmark leg greatly simplifies trading in these spreads. Additionally, both OTR Treasury and Swap futures are priced based on a notional four percent coupon, and trade in price increments of 32nds.

Daily 10:00 a.m. (CT) ISDA Implied On-The-Run Yields

ISDA Morning Swap Rate – ISDA Morning Spread



Capital Efficiency

CME Clearing calculates performance bonds based on the overall risk of portfolios. Offsetting interest rate contract positions – for example OTR Treasury futures, traditional Treasury futures and options, and Eurodollar futures and options – will provide a wide range of potential margin offsets that afford the greatest possible capital efficiency for users.

Moreover, CME Clearing protects the financial integrity of all CME Group markets, including the OTR Treasury futures contracts. By serving as the counterparty to every transaction, CME Clearing becomes the buyer to every seller and the seller to every buyer, virtually eliminating credit risk for each market participant. In its more than 100-year history, there has never been a failure of a clearing member firm resulting in a loss of customer funds.

How does ISDAFIX work?

For the US dollar swap market, the ISDAFIX survey occurs each business day at 11:00 a.m. New York time. It covers 13 terms to maturity: 1 year through 10 years, inclusive, plus 15, 20, and 30 years. For Treasury-swap spreads, the survey's scope is 6 terms to maturity: 2 years through 5 years, inclusive, plus 7 and 10 years.

An ICAP or Reuters representative canvasses a panel of contributing dealers for their par swap rate quotes and swap spread quotes. The dealers in the canvass are selected and impaneled by ISDA, ICAP, and Reuters on the basis of each contributor's reputation among dealers, perceived expertise, credit standing, and scale of activity in the US dollar swap market. The US dollar contributor panel currently comprises 15 institutions:

- *Bank of America*
- *Credit Suisse*
- *JP Morgan Chase*
- *UBS*
- *Barclays Bank*
- *Deutsche Bank*
- *Mizuho*
- *Wells Fargo*
- *BNP Paribas*
- *Goldman Sachs*
- *Morgan Stanley*
- *Citigroup*
- *HSBC*
- *RBS*
- *Nomura*

For any given term to maturity, each contributing dealer provides to the ICAP or Reuters surveyor the midpoint of its own bid/offer spread, i.e., the average of the rate levels (or spread levels) at which that dealer would itself offer and bid a swap (or swap spread), for a notional amount of \$50 million. Importantly, the dealer's submission should be a function of its own bid/offer spread, not where it sees mid-market rates or swap spreads being quoted away from itself. Polling takes place by electronic interface (or, in some instances, by email or telephone). During the polling interval, a contributing dealer may update or amend the mid-market quotes it has submitted.

At the conclusion of the polling interval, ISDAFIX Benchmarks are determined as trimmed means. For US dollar swap rates and swap spreads, the Benchmark value at each term to maturity is calculated by (1) eliminating the four highest and the four lowest of the mid-market quotes that have been submitted and then (2) taking the simple average of the mid-market quotes that remain after the sample has been trimmed.

If every contributing dealer has reported, then the resultant Benchmark Swap Rate or Swap Spread will be an average of seven mid-market quotes. A US dollar Benchmark will be computed and posted, however, as long as at least 10 contributing dealers have participated. Although contributing dealers may submit their mid-market quotes up to five decimal places of precision, the ISDAFIX Benchmarks are computed to just three decimal places.

The ISDAFIX Benchmark values, and the mid-market quotes submitted by each contributing dealer, are published on Reuters and Bloomberg screens at around 11:30 a.m. New York time. To learn more, visit www.isda.org.

ON-THE-RUN U.S. TREASURY FUTURES CONTRACT SPECIFICATIONS

<p>Underlying Instrument</p>	<p>The notional price of a 2-Year, 5-Year, or 10-Year U.S. Treasury note with \$100,000 notional face value and paying a semiannual coupon at the rate of 4% per annum. The price is based on the corresponding on-the-run Treasury note yield of the specified term to maturity. The on-the-run Treasury note yield is derived as the ISDA® Benchmark Swap Rate minus the ISDA Swap Spread, both at the corresponding term to maturity.</p>
<p>Price Basis</p>	<p>Par is on the basis of 100 points.</p> <p>2-Year and 5-Year OTR Treasury Futures: Points (\$1,000) and quarters of 1/32 of a point (\$7.8125). For example, 102-20 represents 102 and 20/32nds, 102-202 represents 102 and 20.25/32nds, 102-205 represents 102 and 20.5/32nds, and 102-207 represents 102 and 20.75/32nds.</p> <p>10-Year OTR Treasury Futures: Points (\$1,000) and halves of 1/32 of a point. For example, 126-16 represents 126 and 16/32nds, and 126-165 represents 126 and 16.5/32nds.</p>
<p>Minimum Price Increment</p>	<p>2-Year and 5-Year OTR Treasury Futures: One-quarter of 1/32 of one point, or \$7.8125.</p> <p>10-Year OTR Treasury Futures: One-half of 1/32 of one point, or \$15.625 per contract, except for intermonth spreads, where the minimum price fluctuation shall be one-quarter of 1/32 of one point, or \$7.8125 per contract.</p>
<p>Contract Months</p>	<p>Expiry listings correspond to U.S. Treasury auctions for 2-year, 5-year, and 10-year Treasury notes. Final Settlement Date is the morning of the following new Treasury note auction (in the named expiry month). Initially, one expiry will be listed. Deferred expiries will be listed approximately 3-5 business days prior to expiration of the nearby expiry.</p> <p>2-Year and 5-Year OTR Treasury futures: 2-Year and 5-Year OTR Treasury futures have monthly expiries. The deferred expiry will be listed on the auction announcement date of the underlying reference Treasury note auction announcement date (the beginning of When Issued (WI) trading).</p> <p>10-Year OTR Treasury futures: 10-Year OTR Treasury futures have February, May, August and November quarterly expiries. The deferred expiry will be listed on the business day following the underlying reference Treasury note auction announcement date (the day after the beginning of WI trading).</p>

For more information on OTR Treasury futures, visit www.cmegroup.com/otr.

Last Trading Day	Defined at time of listing as the date of the corresponding new Treasury note auction in the named expiry month, indicated on the most recently published Tentative Auction Schedule of U.S. Treasury Securities. Trading in expiring contract ceases at 10:01 a.m. Chicago Time (CT) on the last trading day.
Final Settlement Price	<p>Cash settlement. The final settlement value, measured in price basis points, will be determined as:</p> <p>2-Year: $100 * [4/r_2 + (1 - 4/r_2) * (1 + r_2/200)^4]$ 5-Year: $100 * [4/r_5 + (1 - 4/r_5) * (1 + r_5/200)^{10}]$ 10-Year: $100 * [4/r_{10} + (1 - 4/r_{10}) * (1 + r_{10}/200)^{20}]$</p> <p>r₂, r₅, and r₁₀ represent, respectively, ISDAFIX Benchmark Rates for the 2-Year, 5-Year, and 10-Year term to maturity minus the ISDAFIX swap spread for that term to maturity, as published at approximately 10:30 a.m., Chicago time, on the last trading day. (For example, if the ISDAFIX Benchmark Rate is 3.966 percent and the ISDAFIX Swap Spread is 0.315 percent, then r equals 3.651 percent.) The final settlement price is final settlement value rounded to nearest one quarter of 1/32 of one point.</p>
Block Minimums	<p>For all OTR Treasury futures:</p> <p>Regular Trading Hours (7:00 a.m. – 4:00 p.m. CT): 2,000 contracts European Trading Hours (12:00 a.m. – 7:00 a.m. CT): 1,000 contracts Asian Trading Hours (4:00 p.m. – 12:00 a.m. CT): 500 contracts</p>
Trading Hours	<p>Open Outcry: 7:20 a.m. – 2:00 p.m., Chicago time, Monday – Friday CME Globex: 5:30 p.m. – 4:00 p.m., Chicago time, Sunday – Friday</p>
Ticker Symbols	<p>Open Outcry: 2-Year: TWO 5-Year: FIV 10-Year: TEN CME Globex: 2-Year: T2 5-Year: T5 10-Year: TN</p>

* ISDA® is a registered trademark, and ISDAFIX™ is a registered service mark, of the International Swaps and Derivatives Association, Inc. ISDA Benchmark mid-market par swap rates are collected at 11 a.m. New York time by Reuters Limited and ICAP plc and published on Reuters page ISDAFIX3 and Bloomberg page ISDAFIX1. Source: Reuters Limited.



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