



## Special Executive Report

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S-7733

August 22, 2016

### **Eurodollar Options Settlement Methodology**

In order to ensure that the methodology used by Chicago Mercantile Exchange Inc. (CME or Exchange) for establishing settlement prices for Eurodollar options is as transparent as possible to all of our customers, the information below provides an overview of the current process:

- CME Group staff determines the daily settlements for the out of the money options based on market activity occurring throughout the day, on all venues (including, but not limited to, Globex, ClearPort, and the trading floor).
- CME Group staff will be present in the Eurodollar option pit between 13:00-14:00 Central Time (CT) to capture relevant data. CME Group encourages all market participants to enter bona fide orders during the settlement period and reminds market participants that all bids and offers, including those entered into during the settlement period, must be legitimate and bona fide. It is the responsibility of all interested parties to represent all working orders via open outcry and/or on Globex.
- All working orders CME Group staff has observed in the pit between 13:00-14:00 CT will be recorded on a publicly available cloud-based document. If you are interested in obtaining access to that doc, please contact the GCC at [gcc@cmegroup.com](mailto:gcc@cmegroup.com).
- To the greatest extent possible, CME Group staff will observe the following guidelines, which can also be found here:

<http://www.cmegroup.com/confluence/display/EPICSANDBOX/Daily+Option+Settlement+Procedures>

### **EURODOLLAR OPTIONS SETTLEMENT GUIDELINES**

#### **Orders Eligible for Settlement Consideration**

1. Outright orders (OTM only)
2. Straddles (ATM only, no contingent futures)
3. Strangles (equidistant from ATM only)
4. Call and Put Spreads (OTM/ATM only)
5. Butterflies/Iron Butterflies/Ratios (1x2 only)
6. Condors/Christmas Trees
7. Outright option vs. Futures (market delta only)
8. Intermonth Straddles (ATM only) and Call/Put Spreads (OTM only)

**Additional Criteria:**

- Orders not part of the Eurodollar Options Settlement Guidelines will not be considered in the daily settlement process.
  - Globex Markets will be considered for settlement purposes.
  - No spreads with 2 or more legs in-the-money will be considered.
  - No spreads that include a leg that is CAB offer will be considered.
  - Put/Call parity will not be violated nor will cost of carry be adjusted.
  - Traders are reminded that orders must be openly bid or offered at least two minutes prior to the close to be eligible for consideration in the settlement process.
  - Settlements should reflect mid-market prices to the greatest extent possible.
  - In-The-Money options will continue to be settled automatically\*.
  - \*In-The-Money options are settled automatically by the CME in accordance with the put/call parity equation taking into account the appropriate cost of carry.
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- Finally, as stated in Rule 813.9., which can be found here:  
<http://www.cmegroup.com/rulebook/CME/I/8/8.pdf>:
    - 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/strikes during the closing range, or other relevant market information, or if there is no relevant market activity, an Exchange official may establish a settlement price that best reflects the true market valuation at the time of the close.

**If you have further questions please call the GCC in the U.S. at +1 800 438-8616, in Europe at +44 20 7623-4747 or in Asia at +65 6532-5010 or email at [GCC@cmegroup.com](mailto:GCC@cmegroup.com)**

For media inquiries concerning this Special Executive Report, please contact CME Group Corporate Communications at 312.930.3434 or [news@cmegroup.com](mailto:news@cmegroup.com).