CME Group

Special Executive Report

S-5251 **May 25, 2010**

CME Group to Modify Contract Grade of CBOT U.S. Treasury Bond ("T-Bond") Futures Beginning with March 2011 Contract Expiration

CME Group (or "Exchange") will modify the delivery grade of the CBOT U.S. Treasury Bond ("T-Bond") futures contract beginning with the March 2011 delivery month that will be listed for trading on **Tuesday, June 22**. Specifically, the Exchange will change the contract grade of T-Bond futures to include only those Treasury bonds with remaining terms to maturity of at least 15 years, but less than 25 years, from the first day of a T-Bond contract's named month of expiration (see Attachment 1).

This change in contract terms will not apply to contracts for delivery in June 2010, September 2010, and December 2010, which are already listed for trading. These currently listed T-Bond futures expiries will continue to have a delivery grade that calls for the physical delivery of Treasury bonds with remaining terms to maturity at least 15 years from the first day of each T-Bond contract's delivery month.

Capping the T-Bond futures deliverable grade at less than 25 years of remaining term to maturity will enable the Exchange to eliminate the existing overlap in deliverable grade between T-Bond futures and the Long-Term U.S. Treasury Bond ("Ultra") futures that were listed for trading on January 11, 2010. By eliminating this overlap, the Exchange will have two distinct yet complementary Treasury bond futures contracts that will appeal to hedgers, speculators, and relative value traders.

With a deliverable grade based on bonds with remaining terms to maturity between 15 and 25 years, T-Bond futures will continue to serve as the Exchange's principal short-term bond futures contract. Ultra futures, with a deliverable grade that references bonds with remaining terms to maturity of 25 years or more, will serve as the Exchange's primary long-term bond futures contract. Over time, as a bond's remaining term to maturity falls below the Ultra contract's minimum maturity threshold of 25 years and thereby becomes ineligible for delivery into Ultra futures, such bond will immediately become eligible for delivery into a T-Bond futures contract.

The Exchange projects that contract grades for T-Bond futures for delivery in 2011 will contain between 10 and 12 different cash Treasury bond issues with an aggregate deliverable supply between $131 billion and $148 billion (see Attachment 2). The Exchange has determined that such deliverable supply should suffice to meet the contract's physical delivery requirements. Given recent large and frequent amounts of issuance of bonds by the U.S. Treasury Department, the contract grade for T-Bond futures is expected to increase above the projected 2011 levels as recent issues age, fall out of the deliverable grade of Ultra Bond futures, and become eligible for delivery into the T-Bond contract.

Attachment 3 provides answers to key issues regarding the changes in the T-Bond contract's delivery grade.

Please refer additional questions to:

Peter Barker, Products & Services	peter.barker@cmegroup.com	312.930.8554
Jonathan Kronstein, Products & Services	jonathan.kronstein@cmegroup.com	312.930.3472
David Reif, Products & Services	david.reif@cmegroup.com	312.648.3839
James Boudreault, Research	james.boudreault@cmegroup.com	312.930.3247
Daniel Grombacher, Research	daniel.grombacher@cmegroup.com	312.634.1583

Attachment 1

U.S. Treasury Bond Futures

(Additions are underlined.)

18101. CONTRACT SPECIFICATIONS

18101.A. Contract Grade

The contract grade for delivery on futures made under these Rules shall be U.S. Treasury fixed-principal bonds which have fixed semi-annual coupon payments, and which:

(a) if not callable, have a remaining term to maturity of at least 15 years but less than 25 years; or
(b) if callable, are not callable for at least 15 years, and have a remaining term to maturity of less than 25 years.

For the purpose of determining a U.S. Treasury bond's eligibility for contract grade, its remaining term to maturity (or, if callable, its remaining term to first call) shall be calculated from the first day of the contract's named month of expiration, and shall be rounded down to the nearest three-month increment (e.g., 15 years 5 months 18 days shall be taken to be 15 years 3 months).

New issues of U.S. Treasury bonds that satisfy the standards in this Rule shall be added to the contract grade as they are issued. Notwithstanding the foregoing, the Exchange shall have the right to exclude any new issue from the contract grade or to further limit outstanding issues from the contract grade.

Attachment 2

U.S. Treasury Bond ("T-Bond") Futures Delivery Basket

This table contains conversion factors for all U.S. Treasury bonds eligible for delivery as of April 8, 2010. (The next auction is tentatively scheduled for May 13, 2010.)
Conversion factors in this document are based on a 6 percent notional coupon.

	Coupon	Issue Date	Maturity Date	Cusip Number	Issuance (Billions)	Mar. 2011	Jun. 2011	Sep. 2011	Dec. 2011
1.)	6 7/8	08/15/95	08/15/25	912810EV6	$10.1	-----	-----	-----	-----
2.)	6	02/15/96	02/15/26	912810EW4	$11.9	-----	-----	-----	-----
3.)	6 3/4	08/15/96	08/15/26	912810EX2	$7.9	**1.0741**	**1.0735**	-----	-----
4.)	6 1/2	11/15/96	11/15/26	912810EY0	$9.4	**1.0500**	**1.0494**	**1.0490**	-----
5.)	6 5/8	02/18/97	02/15/27	912810EZ7	$9.5	**1.0630**	**1.0625**	**1.0618**	**1.0613**
6.)	6 3/8	08/15/97	08/15/27	912810FA1	$8.5	**1.0385**	**1.0382**	**1.0377**	**1.0375**
7.)	6 1/8	11/17/97	11/15/27	912810FB9	$19.5	**1.0130**	**1.0127**	**1.0127**	**1.0125**
8.)	5 1/2	08/17/98	08/15/28	912810FE3	$10.0	**0.9466**	**0.9472**	**0.9475**	**0.9481**
9.)	5 1/4	11/16/98	11/15/28	912810FF0	$10.0	**0.9194**	**0.9200**	**0.9208**	**0.9213**
10.)	5 1/4	02/16/99	02/15/29	912810FG8	$10.0	**0.9187**	**0.9194**	**0.9200**	**0.9208**
11.)	6 1/8	08/16/99	08/15/29	912810FJ2	$10.0	**1.0136**	**1.0136**	**1.0134**	**1.0134**
12.)	6 1/4	02/15/00	05/15/30	912810FM5	$15.0	**1.0281**	**1.0278**	**1.0277**	**1.0274**
13.)	5 3/8	02/15/01	02/15/31	912810FP8	$15.0	**0.9281**	**0.9287**	**0.9291**	**0.9297**
14.)	4 1/2	02/15/06	02/15/36	912810FT0	$24.0	**0.8078**	**0.8087**	**0.8095**	**0.8105**
15.)	4 3/4	02/15/07	02/15/37	912810PT9	$14.0	0.8370	0.8378	0.8384	0.8392
16.)	5	08/15/07	05/15/37	912810PU6	$14.0	0.8692	0.8696	0.8702	0.8707
17.)	4 3/8	02/15/08	02/15/38	912810PW2	$15.0	0.7848	0.7857	0.7865	0.7874
18.)	4 1/2	08/15/08	05/15/38	912810PX0	$20.0	0.8007	0.8013	0.8022	0.8029
19.)	3 1/2	02/17/09	02/15/39	912810QA9	$25.0	0.6641	0.6653	0.6665	0.6678
20.)	4 1/4	05/15/09	05/15/39	912810QB7	$36.0	0.7641	0.7648	0.7657	0.7665
21.)	4 1/2	08/17/09	08/15/39	912810QC5	$39.0	0.7970	0.7978	0.7984	0.7992
22.)	4 3/8	11/16/09	11/15/39	912810QD3	$42.0	0.7794	0.7801	0.7809	0.7816
23.) @	4 5/8	02/16/10	02/15/40	912810QE1	$42.0	0.8126	0.8133	0.8139	0.8146
	T-Bond Delivery Basket before Change				Number of Eligible Issues:	21	21	20	19
					Dollar Amount Eligible for Delivery:	$395.8	$395.8	$387.9	$378.5
	T-Bond Delivery Basket after Change				**Number of Eligible Issues:**	**12**	**12**	**11**	**10**
					Dollar Amount Eligible for Delivery:	**$148.8**	**$148.8**	**$140.9**	**$131.5**
	Ultra Bond Delivery Basket				Number of Eligible Issues:	9	9	9	9
					Dollar Amount Eligible for Delivery:	$247.0	$247.0	$247.0	$247.0

Footnotes: "@" indicates the most recently auctioned U.S. Treasury security eligible for delivery. The information contained in this publication is taken from sources believed to be reliable, but is not guaranteed by the CME Group as to its accuracy or completeness, nor any trading result, and is intended for purposes of information and education only. The Rules and Regulations of the CME Group should be consulted as the authoritative source on all current contract specifications and regulations. To obtain updated conversion factors, please visit the Exchange's website at www.cmegroup.com.

Attachment 3

Capping the Deliverable Basket for T-Bond Futures Frequently Asked Questions

1. Why cap the T-Bond's delivery basket?

Capping the T-Bond's delivery basket allows CME Group to create two distinct and complementary Treasury bond futures contracts that will appeal to hedgers, speculators, and relative value traders: the T-Bond and the Ultra T-Bond. With a delivery basket calling for the physical delivery of Treasury bonds with remaining terms to maturity of at least 15 years, but less than 25 years, the T-Bond will serve as the principal short-term bond futures contract. The Ultra T-Bond, with a delivery basket calling for the physical delivery of Treasury bonds with a remaining maturity of at least 25 years, will serve as the primary long-term bond futures contract.

2. Why cap the T-Bond's delivery basket now?

The introduction of Ultra T-Bond futures on January 11, 2010 ranks as the most successful interest rate futures launch in CME Group history. Through May 21, 2010, average daily volume was 16,338 contracts, with open interest of 133,614 contracts, eclipsing all exchange volume and open interest records for new interest rate futures. In March 2010, moreover, the Ultra T-Bond successfully concluded its first delivery cycle, as 5,309 contracts went through physical delivery. Capping the T-Bond now will provide market participants in both T-Bond and Ultra T-Bond futures with certainty in regard to the standing of these products.

3. When will the T-Bond be capped?

This change in contract deliverable grade will apply only to T-Bond futures for delivery in March 2011 and thereafter, and will take effect when contracts for March 2011 delivery are listed for trading on **Tuesday, June 22, 2010**. The change in contract deliverable grade **will not apply** to contracts for delivery in June 2010, September 2010, and December 2010, which are already listed for trading.

4. What will the delivery basket of the T-Bond look like after it's capped?

For futures delivery months between March 2011 and December 2012, it is projected that the T-Bond's delivery basket will contain between 9 and 12 different cash Treasury bonds with an aggregate deliverable supply between $122 and $150 billion (see Exhibit 1).

5. Why cap the T-Bond at "less than 25 years" of remaining maturity?

We will cap the T-Bond at less than 25 years of remaining term to maturity, the minimum maturity threshold of the Ultra T-Bond, in order to maximize both the number of cash Treasury bonds and the total dollar amount eligible for delivery. Once a cash bond falls below the Ultra T-Bond's minimum maturity threshold of 25 years and thus becomes ineligible for delivery into the Ultra T-Bond, it immediately becomes eligible for delivery into the T-Bond. For participants who trade the 2-Year and 3-Year Treasury Note futures, the rolling down of seasoned cash Treasury securities out of the delivery basket of a longer duration futures contract and into the delivery basket of a shorter-duration futures contract, should be familiar.

6. How will the cap on T-Bond futures impact the listing cycle of standard and flexible options on T-Bond and Ultra T-Bond futures?

CME Group will maintain the limitation on the contract listings of both T-Bond and Ultra T-Bond futures to three delivery months in the March, June, September, and December quarterly cycle. As a corollary to the listing cycle for T-Bond and Ultra futures, CME Group will maintain the limitation on the contract listings in standard options on T-Bond and Ultra T-Bond futures to two serial months plus three expiries in the March, June, September, and December quarterly cycle. Standard and flexible options on Ultra T-Bond futures are scheduled to be launched **Monday, June 7, 2010**. At launch, the initial expirations in standard Ultra T-Bond options will be the August 2010, September 2010, and December 2010 contracts. In addition, the exchange will restrict trading in flexible options on T-Bond and Ultra T-Bond futures to flexible option expiries that exercise in no further than the companion underlying December 2010 futures contracts.