



Special Executive Report

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E-MICRO FX FUTURES SWITCHING TO PHYSICAL DELIVERY BEGINNING WITH THE DECEMBER 2010 CONTRACT TO BE RELISTED ON JULY 25, 2010

In March 2009, E-micro FX futures were listed for trading. The E-micro FX contracts have been successful, serving a need in the market place for retail customers looking to trade the FX asset class in a transparent, open market place. Initially the E-micro FX contracts were averaging over 5,500 contracts per day (around \$70 million per day). This volume had leveled off at around 3,500 contracts per day (around \$50 million per day) although more recently it has increased to 4,857 contracts per day.

To encourage continued growth in the E-micro FX futures contracts, these contracts will switch from cash settlement to physical delivery. This will allow market makers to provide more liquidity to the market by permitting them to scale up their hedged positions easily between the underlying individual FX futures and the E-micro FX futures contracts as physical delivery facilitates a ready hedge. This allows traders to leverage and build upon the liquidity associated with current CME Group futures on major currencies. The switch to physical delivery for the E-micro FX futures contracts will be effective with the December 2010 contracts.

With cash settlement there is no obligation to make or take delivery of currency. At the expiration of trading there is simply one final mark to market. With physical delivery there are currency flows at delivery and traders make and receive deliveries of currencies. However, retail customers are encouraged to be out of the market before the delivery process commences for the full sized contracts and little activity occurs close to the termination of trading. This will be the case for E-micro FX contracts as well. Prior to expiration, the majority of traders will either roll their position to the next contract month or offset their position (if they are short by buying an equal long position in the same currency and contract month or if they are long by selling an equal short position). Although with cash settlement there is no possibility of delivery, the benefit of physical delivery is that market makers can provide more market liquidity because they are able to scale up their positions allowing them to trade more.

Physical delivery will be on the third Wednesday of the contract month (standard IMM FX futures delivery dates). Currently the Exchange lists the first two contracts months in the "March quarterly cycle" of March, June, September and December for each of the six E-micro FX futures contracts. December 2010 will be the first E-micro FX futures contract month delivered.

OFFSETTING E-MICRO FX FUTURES POSITIONS

Currently three of the E-micro FX (EUR/USD, GBP/USD, AUD/USD) contracts can only be offset with the standard size currency contracts at a ratio of 10 to 1. The process for the Request for Offset procedure is analogous to the process in place for select CBOT grains because the E-micro futures products are cash settled and the standard currency products are physically deliverable. This process requires an opposite offset request from another clearing

member as noted in CME Rule 855. **OFFSETTING DIFFERENT SIZED FUTURES POSITIONS.**

With the switch to physical delivery, a much simpler process could be used where a clearing member may offset and liquidate long (short) E-micro futures positions against short (long) regular futures positions in the same account without requiring an opposite offset request from another clearing member. The positions being offset are transferred to a CME holding account and long and short positions in the same contract and contract month held in the holding account are netted, reducing the number of open positions. This is the same procedure currently in place for the E-mini FX futures contracts.

DELIVERY NETTING AT TERMINATION OF TRADING

For E-micro USD/JPY, USD/CHF, USD/CAD where the quotation mechanism for the E-micros is the reciprocal of the regular FX futures, customers with long (short) E-micro futures positions and long (short) regular FX futures positions that are held to termination and physical delivery could ask clearing firms to request that CME Clearing net currency flows at delivery to the extent possible in order to minimize FX transactions at delivery. This would be appealing to market makers managing their risk with "offsetting" transactions. Note that because of the reciprocal pricing, the ratios of offset at delivery between the USD/JPY, USD/CHF and USD/CAD E-micro futures vs. the regular size JPY/USD, CHF/USD and CAD/USD futures contracts will vary over time with changes in the exchange rates and will need to be managed dynamically. For example, currently, four weeks before delivery, 13.78 USD/JPY E-micro futures would offset 1 regular size JPY/USD futures, similarly, 11.78 USD/CHF E-micro futures would offset 1 regular size CHF/USD futures and 9.8 USD/CAD E-micro futures would offset 1 regular size CAD/USD futures contract. Since market makers cannot trade fractions of E-micro futures, actual hedges will be rounded to whole numbers of contracts. Also, these hedge ratios will likely change somewhat over the next several weeks until termination. All exchange currency futures contracts delivered through the CLS Bank and/or the CME CLS Agent Bank shall be netted according to procedures specified by the Clearing House from time to time under CME Rule 742. **DELIVERY NETTING.**

RULE AMENDMENTS

Amended rules governing the trade of the revised E-micro FX futures contract follow. Changes in the rules are denoted with additions underlined. CME Rule 855 – **OFFSETTING DIFFERENT SIZED FUTURES POSITIONS** – is amended to allow simpler offset and liquidation of selected E-micro futures and regular corresponding FX futures contracts. Also, as a house-cleaning measure, CME Rule 742 **DELIVERY NETTING** is amended to include the E-micro U.S. Dollar/Canadian Dollar which has a different delivery netting request form time on the last day of trading.

Chapter 290 E-micro British Pound Sterling/U.S. Dollar Futures

29002. CASH SETTLEMENT (Effective for the September 2010 contracts month.)

E-micro pound sterling / U.S. dollar futures contracts shall be settled at termination in cash at a Final Settlement Price equivalent to the settlement price of the pound sterling / U.S. dollar futures terminating on the same date as defined in Chapter 251. Open positions on the business day following the termination of trading day will be marked-to-market to the Final Settlement Price. (After expiration of the September 2010 contract month, 29002. CASH SETTLEMENT will be deleted).

29002.B. [Reserved]

29002. PHYSICAL DELIVERY (Effective for the December 2010 and subsequent contract months.)

29002.A. Physical Delivery

1. Procedures

In addition to the procedures and requirements contained in this chapter, delivery procedures shall be governed by the rules set forth in Chapter 7.

2. Delivery Days

Delivery shall be made on the third Wednesday of the contract month. If that day is not a business day in the country of delivery or is a bank holiday in either Chicago or New York City, then delivery shall be made on the next day which is a business day in the country of delivery and is not a bank holiday in Chicago or New York City.

3. Currency Flows at Delivery

A clearing member representing a customer liquidating a net long position shall deliver an amount equal to the net U.S. dollar value of such customer's positions and receive delivery in foreign currency. A clearing member representing a customer liquidating a net short position shall deliver an amount equal to the trading unit in foreign currency and receive delivery in U.S. dollars.

29002.B. [Reserved]

Chapter 291 E-micro Australian Dollar/U.S. Dollar Futures

29102. CASH SETTLEMENT (Effective for the September 2010 contracts month.)

E-micro Australian dollar / U.S. dollar futures contracts shall be settled at termination in cash at a Final Settlement Price equivalent to the settlement price of the Australian dollar / U.S. dollar futures terminating on the same date as defined in Chapter 255. Open positions on the business day following the termination of trading day will be marked-to-market to the Final Settlement Price. (After expiration of the September 2010 contract month, 29102. CASH SETTLEMENT will be deleted).

29102.B. [Reserved]

29102. PHYSICAL DELIVERY (Effective for the December 2010 and subsequent contract months.)

29102.A. Physical Delivery

1. Procedures

In addition to the procedures and requirements contained in this chapter, delivery procedures shall be governed by the rules set forth in Chapter 7.

2. Delivery Days

Delivery shall be made on the third Wednesday of the contract month. If that day is not a business day in the country of delivery or is a bank holiday in either Chicago or New York City, then delivery shall be made on the next day which is a business day in the country of delivery and is not a bank holiday in Chicago or New York City.

3. Currency Flows at Delivery

A clearing member representing a customer liquidating a net long position shall deliver an amount equal to the net U.S. dollar value of such customer's positions and receive delivery in foreign currency. A clearing member representing a customer liquidating a net short position shall deliver an amount equal to the trading unit in foreign currency and receive delivery in U.S. dollars.

29102.B. [Reserved]

Chapter 292 E-micro Euro/U.S. Dollar Futures

29202. CASH SETTLEMENT (Effective for the September 2010 contracts month.)

E-micro Euro / U.S. dollar futures contracts shall be settled at termination in cash at a Final Settlement Price equivalent to the settlement price of the Euro / U.S. dollar futures terminating on the same date as defined in Chapter 261. Open positions on the business day following the termination of trading day will be marked-to-market to the Final Settlement Price. (After expiration of the September 2010 contract month, 29202. CASH SETTLEMENT will be deleted).

29202.B. [Reserved]

29202. PHYSICAL DELIVERY (Effective for the December 2010 and subsequent contract months.)

29202.A. Physical Delivery

1. Procedures

In addition to the procedures and requirements contained in this chapter, delivery procedures shall be governed by the rules set forth in Chapter 7.

2. Delivery Days

Delivery shall be made on the third Wednesday of the contract month. If that day is not a business day in the country of delivery or is a bank holiday in either Chicago or New York City, then delivery shall be made on the next day which is a business day in the country of delivery and is not a bank holiday in Chicago or New York City.

3. Currency Flows at Delivery

A clearing member representing a customer liquidating a net long position shall deliver an amount equal to the net U.S. dollar value of such customer's positions and receive delivery in foreign currency. A clearing member representing a customer liquidating a net short position shall deliver an amount equal to the trading unit in foreign currency and receive delivery in U.S. dollars.

29202.B. [Reserved]

Chapter 340 E-micro U.S. Dollar/Canadian Dollar Futures

34002. CASH SETTLEMENT (Effective for the September 2010 contracts month.)

E-micro U.S. dollar / Canadian dollar futures contracts shall be settled at termination in cash at a Final Settlement Price equivalent to the reciprocal of the settlement price, rounded to four decimal places, of the U.S. dollar / Canadian dollar futures terminating on the same date as defined in Chapter 252. Open positions on the business day following the termination of trading day will be marked-to-market to the Final Settlement Price. (After expiration of the September 2010 contract month, 34002. CASH SETTLEMENT will be deleted).

34002.B. [Reserved]

34002. PHYSICAL DELIVERY (Effective for the December 2010 and subsequent contract months.)

34002.A. Physical Delivery

1. Procedures

In addition to the procedures and requirements contained in this chapter, delivery procedures shall be governed by the rules set forth in Chapter 7.

2. Delivery Days

Delivery shall be made on the third Wednesday of the contract month. If that day is not a business day in the country of delivery or is a bank holiday in either Chicago or New York City, then delivery shall be made on the next day which is a business day in the country of delivery and is not a bank holiday in Chicago or New York City.

3. Currency Flows at Delivery

A clearing member representing a customer liquidating a net long position shall deliver an amount equal to the net foreign currency value of such customer's positions and receive delivery in U.S. dollars. A clearing member representing a customer liquidating a net short position shall deliver an amount equal to the trading unit in U.S. dollars and receive delivery in foreign currency.

34002.B. [Reserved]

Chapter 341 E-micro U.S. Dollar/Japanese Yen Futures

34102. CASH SETTLEMENT (Effective for the September 2010 contracts month.)

E-micro U.S. dollar / Japanese yen futures contracts shall be settled at termination in cash at a Final Settlement Price equivalent to the reciprocal of the settlement price, rounded to two (2) decimal places, of the U.S. dollar / Japanese yen futures terminating on the same date as defined in Chapter 253. Open positions on the business day following the termination of trading day will be marked-to-market to the Final Settlement Price. (After expiration of the September 2010 contract month, 34102. CASH SETTLEMENT will be deleted).

34102.B. [Reserved]

34102. PHYSICAL DELIVERY (Effective for the December 2010 and subsequent contract months.)

34102.A. Physical Delivery

1. Procedures

In addition to the procedures and requirements contained in this chapter, delivery procedures shall be governed by the rules set forth in Chapter 7.

2. Delivery Days

Delivery shall be made on the third Wednesday of the contract month. If that day is not a business day in the country of delivery or is a bank holiday in either Chicago or New York City, then delivery shall be made on the next day which is a business day in the country of delivery and is not a bank holiday in Chicago or New York City.

3. Currency Flows at Delivery

A clearing member representing a customer liquidating a net long position shall deliver an amount equal to the net foreign currency value of such customer's positions and receive delivery in U.S. dollars. A clearing member representing a customer liquidating a net short position shall deliver an amount equal to the trading unit in U.S. dollars and receive delivery in foreign currency.

34102.B. [Reserved]

Chapter 342 E-micro U.S. Dollar/Swiss franc Futures

34202. CASH SETTLEMENT (Effective for the September 2010 contracts month.)

E-micro U.S. dollar / Swiss franc futures contracts shall be settled at termination in cash at a Final Settlement Price equivalent to the reciprocal of the settlement price, rounded to four decimal places, of the U.S. dollar / Swiss franc futures terminating on the same date as defined in Chapter 254. Open positions on the business day following the termination of trading day will be marked-to-market to the Final Settlement Price. (After expiration of the September 2010 contract month, 34202. CASH SETTLEMENT will be deleted).

34202.B. [Reserved]

34202. PHYSICAL DELIVERY (Effective for the December 2010 and subsequent contract months.)

34202.A. Physical Delivery

1. Procedures

In addition to the procedures and requirements contained in this chapter, delivery procedures shall be governed by the rules set forth in Chapter 7.

2. Delivery Days

Delivery shall be made on the third Wednesday of the contract month. If that day is not a business day in the country of delivery or is a bank holiday in either Chicago or New York City, then delivery shall be made on the next day which is a business day in the country of delivery and is not a bank holiday in Chicago or New York City.

3. Currency Flows at Delivery

A clearing member representing a customer liquidating a net long position shall deliver an amount equal to the net foreign currency value of such customer's positions and receive delivery in U.S. dollars. A clearing member representing a customer liquidating a net short position shall deliver an amount equal to the trading unit in U.S. dollars and receive delivery in foreign currency.

34202.B. [Reserved]

855. OFFSETTING DIFFERENT SIZED FUTURES POSITIONS

- A. With the consent of the account controller, a clearing member may offset and liquidate long E-Mini or E-Micro futures positions against short regular futures positions, or short E-Mini or E-Micro futures positions against long regular futures positions, held in the same account in the following ratios of E-Mini or E-Micro to regular futures contracts:

E-Mini S&P 500 to regular S&P 500:	5:1
E-Mini Nasdaq 100 Index to regular Nasdaq 100 Index:	5:1
E-Mini S&P Midcap 400 to regular S&P Midcap 400	5:1
E-Mini Currency to regular Currency:	2:1
E-Micro GBP/USD, EUR/USD, AUD/USD to regular Currency:	10:1

The clearing member shall notify the Clearing House of offsetting positions by submitting reports to the Clearing House in such form and manner as the Clearing House shall specify. The positions shall be offset at the previous day's settlement price.

- B. The positions being offset shall be transferred to a CME holding account. Long and short positions in the same contract and contract month held in the holding account shall be netted, thus reducing the number of open positions in such contract.
- C. With the consent of the account controller, a clearing member may convert Eurodollar and E-Mini Eurodollar futures positions into equivalent E-mini Five-year Eurodollar Bundle positions, or E-mini Five-year Eurodollar Bundle positions into equivalent Eurodollar and E-Mini Eurodollar futures positions, held in the same account in the following ratios of E-Mini to regular futures contracts:

One (1) each of twenty (20) consecutive quarterly expirations of the E-Mini Eurodollar Futures to one (1) E-mini Five-Year Eurodollar Bundle Futures

One (1) each of twenty (20) consecutive quarterly expirations of the Eurodollar Futures to ten (10) E-mini Five-Year Eurodollar Bundle Futures

The positions being converted shall be transferred to a CME holding account. Long and short positions in the same contract and contract month held in the holding account shall be netted, thus reducing the number of open positions in such contract. The clearing member shall notify the Clearing House of the offsetting Eurodollar, E-mini Eurodollar and E-mini Five-Year Eurodollar Bundle positions by submitting reports to the Clearing House in such form and manner as the Clearing House shall specify. The positions shall be offset at the previous day's settlement prices, with any rounding in favor of the CME holding account.

Deletion of Rule 855.D. effective after expiration of the September 2010 E-micro FX futures contracts.

- ~~D. With the consent of the account controller, a clearing member may request to offset and liquidate long (short) E-micro FX futures positions against short (long) regular FX futures positions, held in the same account in the ratio of ten (10) E-micro FX futures contracts to one (1) full-sized FX futures contract.~~

~~The clearing member shall notify the Clearing House of its request to offset positions by submitting reports to the Clearing House in such form and manner as the Clearing House shall specify. If accepted, the positions being offset shall be transferred to a holding account at the Clearing House. The Clearing House shall accept such request or fraction of such request upon receiving an opposite offset request from another clearing member. Such requests shall be processed in the order of oldest request date first.~~

~~No such offset request shall be accepted during the last two trading days.~~

Rule 742. DELIVERY NETTING

742.A. CLS Delivered Currency Futures Contracts

Exchange currency futures contracts delivered through the CLS Bank and/or the CME CLS Agent Bank shall be netted according to procedures specified by the Clearing House from time to time.

742.B. Non-CLS Delivered Currency Futures Contracts

To facilitate spread trading between currency products where positions held to termination create offsetting currency payment obligations, the Clearing House may net to the extent possible physical delivery payment obligations by clearing member customer by currency, in accordance with the procedures outlined in the Clearing House Manual of Operations. Clearing members desiring netting of obligations may only net payment obligations that arise from positions belonging to the same beneficial account owner, and shall be required to submit a Delivery Netting Request form, which identifies the final positions and net currency payments of a customer requesting delivery netting, to the Clearing House by 11:00 a.m. on the last day of trading. For U.S. Dollar/ Canadian Dollar, E-micro U.S. Dollar/Canadian dollar, U.S. Dollar/ Turkish Lira or Euro/ Turkish Lira Contracts only, such Delivery Netting Request form shall be submitted to the Clearing House by 10:00 a.m. on the last day of trading.

Clearing members may also net delivery obligations within a given currency following the last day of trading in such eligible currency product, except for U.S. Dollar/ Canadian Dollar, E-micro U.S. Dollar/Canadian Dollar, U.S. Dollar/ Turkish Lira or Euro/ Turkish Lira Contracts. Clearing members may net delivery obligations across all accounts belonging to the same beneficial account owner.

Clearing members are prohibited from netting open positions across customer accounts while a currency contract remains eligible for trading on the Exchange.

Clearing members shall be required to submit a Delivery Netting Request, which identifies the final positions and net currency delivery obligations to the Clearing House by 11:00 a.m. (10:00 a.m. for U.S. Dollar/ Canadian Dollar, E-micro U.S. Dollar/Canadian Dollar, U.S. Dollar/ Turkish Lira or Euro/ Turkish Lira Contracts), on the last day of trading, in accordance with the procedures outlined in the Clearing House Manual of Operations.