



## Special Executive Report

S-5519

December 9, 2010

### **REMINDER ABOUT DECEMBER 2010 E-MICRO FOREX FUTURES PHYSICAL DELIVERY CONTRACTS**

As you were notified in CME Group Special Executive Report S-5311, dated Wednesday, July 21, 2010, as of the listing of the December 2010 E-micro Forex futures contracts on Sunday, July 25, 2010, the E-micro Forex futures became physical delivery futures contracts. Therefore, the December 2010 E-micro EUR/USD, GBP/USD, AUD/USD, USD/JPY and USD/CHF futures contracts terminate trading at 9:16 AM on Monday, December 13, 2010, with physical delivery of all open positions in these contracts occurring on the delivery day, Wednesday, December 15, 2010. Similarly, the December 2010 E-micro USD/CAD futures contract terminates trading at 9:16 AM on Tuesday, December 14, 2010, with physical delivery of all open positions in these contracts occurring also on the delivery day, Wednesday, December 15, 2010.

With the former cash settlement E-micro Forex futures there was no obligation to make or take delivery of currency. At the expiration of trading there was simply one final mark to market. However, now that the E-micro Forex futures contracts are physical delivery there are currency flows at delivery and traders with open positions at termination of trading are required to make and receive deliveries of currencies. However, retail customers are encouraged to be out of the delivery month market (now December 2010) before the contracts terminate trading and the delivery process commences. This can be done either by rolling the long or short position forward into the next deferred contract month (now March 2011), or by liquidating the position by trading an equal size but offsetting position (if short the December 2010 contracts, execute a long December 2010 position of equal size, thus offsetting it; or if long the December 2010 contracts, execute a short December 2010 position of equal size, thus offsetting it). The benefit of physical delivery is that market makers have been able to provide more market liquidity because they are able to scale up their positions allowing them to trade more. This is due to the market makers ability to offset currency flows at delivery to the extent possible with the E-micro Forex futures and the regular-size FX futures contracts.

#### **Offsetting E-Micro Forex Futures Positions**

Three of the E-micro Forex futures contracts (*i.e.*, EUR/USD, GBP/USD, AUD/USD) can be offset with the standard size currency contracts at a ratio of 10 to 1 via CME Rule 855 (text of the rule appears on page 6). This process requires an opposite offset request from another clearing member as noted in CME Rule 855. **OFFSETTING DIFFERENT SIZED FUTURES POSITIONS.** These types of offsets for the E-micro EUR/USD, GBP/USD and AUD/USD futures are possible, because (1) these three E-micro Forex futures contract sizes are exactly 1/10 the size of the regular-sized, corresponding FX futures contracts and (2) these E-micro Forex futures are priced in exactly the same terms as the corresponding FX futures contract and (3) these E-micro Forex futures are physical delivery just like the corresponding regular-sized FX futures contracts and (4) the offsetting E-micro Forex futures positions and the corresponding regular-sized FX futures contracts are held in the same account at the clearing firm.

The switch to physical delivery enabled this simple process, 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 when the E-micro futures specified cash settlement. With the physical delivery E-micro Forex futures, 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 futures, 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 can 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 is 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 vary over time with changes in the exchange rates and need to be managed dynamically. For example, currently, one week before delivery, 15.13 USD/JPY E-micro futures would offset 1 regular size JPY/USD futures, similarly, 12.74 USD/CHF E-micro futures would offset 1 regular size CHF/USD futures and 9.96 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 must be rounded to whole numbers of contracts. Also, these hedge ratios will likely change somewhat over the next several days 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 physical delivery E-micro FX futures contracts follow in Appendix 1. The recent changes in the rules are denoted with additions underlined. Appendix 2 displays the CME Rule 855 – **OFFSETTING DIFFERENT SIZED FUTURES POSITIONS** – where the amended rules 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** was amended recently to include the E-micro U.S. Dollar/Canadian Dollar futures, which have a different delivery netting request form time on the last day of trading. Appendix 3 provides the changes to CME Rule 742.

If you have any questions, please contact either Brian Sayers, Associate Director, Deliveries & Settlement Services, CME Clearing, at 312-634-8887, or Laura Buschnyj, Manager, Deliveries & Settlement Services, CME Clearing, at 312-634-1598.

## Appendix 1

### 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]~~

## Appendix 2

### 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.~~

## Appendix 3

### 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.