

April 24, 2007

Notice

Re: Financial Reporting - Ethanol OTC Swap Contract

On December 4, 2006, the Chicago Board of Trade launched two over-the-counter (OTC) Ethanol Calendar Swap contracts. These transactions take place in a non-regulated “off exchange” environment. As a result, the CBOT® has received a number of questions regarding the back office and regulatory reporting treatment for these non-regulated OTC products.

BOOKKEEPING CLASSIFICATION

Since these Ethanol OTC contracts are non-regulated they can **not** be reflected in the customers’ segregated account. The firm can however classify the Ethanol OTC products in either a customer Part 30 or a customer non-regulated account.

CLEARING

Trades in the Ethanol OTC contracts must be cleared in house origin 02. If the firm enters the trades into clearing origin 01 for segregated customers, the CME Clearing House will automatically transfer the trades and clear them in the house origin 02.

PERFORMANCE BOND

Member firms are not required to collect performance bond from their customers for OTC Ethanol Calendar Swap contracts. However, as these contracts are cleared by the CME Clearing House, the CME will collect margin on open positions from the clearing firms.

For those firms calling for performance bond, or as a convenience for monitoring the risk of the positions, SPAN arrays are provided. In order to take advantage of a spread credit between the regulated Ethanol futures product and the Ethanol OTC products, the futures account and the OTC account must have identical ownership interests. Because the ethanol futures position is in a segregated account it will be margined separately from the OTC products; therefore, firms must manually calculate the reduction in the SPAN margin requirement for both contracts as a result of the Ethanol spread credit. The calculation of the reduction should be in writing and retained for audit purposes.

BALANCE SHEET PRESENTATION

Non-Regulated Accounts - Firms that elect to book these products in a non-regulated account should reflect funds owed to Ethanol OTC customers on the 1-FR in Line 27 J. Accounts Payable Accrued Expenses, Other Payables – Other Box 2210. Firms should reflect any non-regulated receivables from Ethanol OTC customers on the 1-FR in Line 13 I. Other Receivables and Advances – Other.

Part 30 Accounts - Firms that elect to book these products in a Part 30 account should reflect a Net Liquidating credit in the Part 30 account on Line 22 B. Equities in Commodity Accounts – Customers Trading on Foreign Exchanges. Firms should reflect a receivable in the Part 30 account on Line 10 A. Receivable from Traders on Foreign Boards of Trade – Customer Debit and Deficit Accounts.

Please review the 1-FR instructions to determine appropriate current/non-current classification.

CAPITAL CHARGES

If the firm chooses to reflect the Ethanol OTC products as part of its 30.7 liability, the firm must also include the amount as part of the total risk margin for 30.7 accounts. As a result, these products will be subject to the 8% minimum capital requirement. Accounts reflected as non-regulated customers would not be subject, at this time, to the 8% charge. As always, the Financial Compliance Committee expects that firms exercise prudent risk management practices and would anticipate that the firms would maintain excess net capital sufficient to cover 8% of the risk in non-regulated customer accounts.

If you have any questions in this regard, please contact the audit manager assigned to your firm or Lori Gialessas at 312-435-7171 to be directed.

Paul J. Draths
Vice President and Secretary