

## Advisory Notice

Clearing House

TO: All CBOT and joint CBOT/CME Clearing Firms

FROM: Clearing House Division – Financial Management Group

DATE: February 5, 2004

ADVISORY #: 04-09

SUBJECT: **Banking Requirements for CBOT Bund, Bobl and Schatz Products**

The CBOT will, in the near future, begin trading interest rate futures contracts based on German Bund, Bobl and Schatz instruments. As the designated and exclusive clearing organization of the CBOT, CME will be settling and clearing these contracts.

These products are denominated in EUR and have different attributes than traditional futures that settle in USD. Attributes of the Euro denominated contracts are:

- Settle only at CME's end of day cycle (RTH).
- Settle on Trade Date+2 ("T+1+1" convention).
- Firm must have specific Euro cash bank accounts.
- Utilize CME's Combined Cash Flow (CCF) processing model.
- Firms may use CME's MoneyChanger service to purchase or sell odd-lot Euro currency.

### **End of Day Processing (RTH)**

CME will treat these products the same as its other current non-USD settled products and will only settle and margin these products at RTH. The mark to mark process for Euro will not be paid or collected at the Intra-day cycle (ITD).

### **(T+1+1)**

Because of the time zone differences, these products will not follow the usual RTH (T+1) methodology. Under the T+1+1 model, there is a one-day additional day lag imposed to the issuance of settlement instructions and the actual transfer of the foreign currency. As an example, if your firm trades a Euro denominated contract on a Monday (T), the Trade Registers (CPM591&CPM593) and the Span Recap Ledgers (CST550-CST660) will record and display this information as clearing level debits and credits will be processed on the morning following the trade and shown in the Clearing 21 Settlement module.

Settlement Banks will confirm settlements for the Euro and for all other products, in accordance with its normal contractual convention of 6:40 a.m. on T+1. However, the money will not be collected from your Euro bank account until the settlement date, Wednesday (two days from the original trade).

### **Bank Accounts**

As the mark to market and the performance bond calculation process are denominated in Euro, your firm must establish a Euro cash account, per origin, at an approved settlement bank, prior to trading these products. The Clearing House must have this information in writing BEFORE your firm executes a trade. The Clearing House Division will be contacting your firm to verify your firm's intentions of trading the new CBOT products, as well as obtaining the bank account information.

The eligible settlement banks are *Harris Trust, JP Morgan Chase and Bank One*.

### **Combined Cash Flow (CCF) Processing**

Consistent with its normal settlement convention for all non-US dollar products, CME will employ its CCF processing model. This model was developed to minimize bank transaction costs.

CCF processing does not automatically release excess Euro performance bond cash margin to the firm. CME retains the cash on deposit for the firm. Because of this internalization feature, bank fees are not assessed until a cash withdrawal is requested, which can occur at any time within CME's foreign currency withdrawal deadline.

All settlement variation 'collects', as a result of the mark to market process, will be credited to the firm's performance bond account at the Clearing House until the firm requests the withdrawal of the cash. This feature also eliminates banking transaction costs.

All settlement variation 'pay' amounts will first be compared to the amount of Euro performance bond cash that the firm has on deposit at the Clearing House. The Clearing House will debit up to the total performance bond amount of the total amount required, which internalizes the settlement. Only when the amount of the variation pay is greater than the Euro cash on deposit, will an external banking transaction take place for the residual amount, resulting in a debit to the firm's Euro bank account.

The CCF process produces a dramatically smaller number of cash transfers in and out of a clearing member's account, which results in transaction cost savings.

### **Acceptable Collateral**

CME does allow the deposit of Euro cash to meet the performance bond requirements of the contracts denominated in Euro and in non-Euro denominated contracts. If the firm is using Euro cash to meet the performance bond requirements of a contract in a currency other than Euro, the CME will haircut the foreign currency performance bond cash by 3%.

### **MoneyChanger**

MoneyChanger is an optional service provided by the Clearing House to assist members in exchanging relatively modest foreign currency amounts for US dollars. Through the MoneyChanger service, Clearing members may place orders to buy or sell specified quantities of certain foreign currencies for USD, or specified quantities of USD for foreign currency.

### **Access to MoneyChanger**

A Web-based user interface is utilized to process MoneyChanger transactions.

### **Security**

The Web-based user interface for MoneyChanger uses the same secure-server technology now widely used for e-commerce.

### **Signing up for MoneyChanger**

Member firms wishing to become MoneyChanger users sign up for the service by contacting Marc Garcia at (312)930-2327 for all legal documents, account set up forms and the user instructions for the web based MoneyChanger.

### **Fund Transfer Account Set-Ups**

The MoneyChanger Service only processes orders with pre-authorized funds transfer account set-up codes. Clearing members must complete and submit a signed Foreign Currency Funds Transfer/Account Set-Up Form to the Clearing House.

### **MoneyChanger Exchange Rates**

The exchange rates effective for a given day's MoneyChanger orders are posted on the Web at approximately 3:00 p.m. Chicago time on that day. CME posts a rolling five-day history of all MoneyChanger Exchange rates.

### **MoneyChanger Procedures**

At 1:55 p.m., CME aggregates Clearing members' orders and purchases or sells the net foreign currency amount required to satisfy all orders. By 3:00 p.m., CME posts transactions for confidential review by the Clearing member on the Web at the Member Net section. At that time, CME instructs a Clearing member's USD settlement bank to debit its house or customer account at 6:40 a.m. on the following business day for all currency purchases and credit CME's MoneyChanger account at that bank.

Should you have questions on foreign currency cash or banking arrangements, please contact Tim Golomb at 312-930-3194.