

Advisory Notice

Clearing House

04-82

TO: Clearing Member Firms
Chief Financial Officers
Treasury Managers
Back Office Managers

FROM: Clearing House Division

DATE: May 11, 2004

SUBJECT: Expansion of Acceptable Agency Securities as Performance Bond
Collateral and Revised Canadian Sovereign Debt Haircut Schedule

The Clearing House of CME is pleased to announce the expansion of agency securities as acceptable performance bond collateral. This new expansion applies to the direct deposit of agency securities through CME's current custodians and to the IEF3 and IEF4 specialized collateral programs.

The Clearing House recognizes the importance to its member firms of accepting a broad range of securities, especially with agency securities. The Clearing House has completed a review of agency securities and the agency securities described in this memo are now acceptable as performance bond collateral effective immediately.

Via Direct Acceptance

The following list of agencies is available for Direct deposit (i.e. Fed Wire delivery, delivered free and clear) at any of CME's custody banks (Bank of New York, Brown Brothers Harriman, Harris Trust and JP Morgan Chase.)

Agency Debentures

Discount notes up to 12 months from the following agencies:

- Federal Home Loan Bank – (FHLB)
- Federal National Mortgage Association (FNMA)
- Federal Farm Credit Banks (FFCB)
- Federal Home Loan Mortgage Corp. (FHLMC)

Bonds up to 30 years from the following agencies:

- Federal Farm Credit Bank (FFCB) Designated Bonds
- Federal Home Loan Bank (FHLB) Tap Issues

(Note: Freddie Mac Reference Bills, Bonds, and Notes and Fannie Mae Benchmark Bills, Bonds and Notes are currently acceptable)

Allowable Attributes

- Standard European Call Feature **only**.
- “Clean Floaters” (no caps or floors).

Mandatory Criteria for the Direct Acceptance of the Agency Debentures

- Minimum issuance size of \$1 billion.
- Must have an active price as provided by Bloomberg Generic Pricing System.

Haircuts

- 3% for a remaining maturity between 0-5 years
 - 4.5% for a remaining maturity between 5-10 years
 - 6% for a remaining maturity greater than 10 years
- plus .5% if the security is off the run.

Limits

- The existing rule that states a clearing member firm may use agencies and letters of credit for the first \$5 million of its core requirement plus 50% of the remainder also applies to the new acceptable agency debentures combined with mortgage backed securities.

C21 Banking Deposit/Withdrawal Characteristics

- All discount notes utilize the following C21 asset types:
Fannie Mae = **FNMA**, Federal Home Loan Bank = **FHLB**,
Freddie Mac = **FHLMC**, Federal Farm Credit Bank = **FFCB**.
- All agency debentures with a life of one year or longer use **GSEOTH**.
- C21 is available via the internet portal. All firms are required to enter their asset management and banking transactions into C21 to receive performance bond credit.

Mortgage Backed Securities

15 or 30 year maturity types from the following agencies:

- Fannie Mae
 - Mega
 - MBS
- Freddie Mac
 - Gold
 - Giant
- Government National Mortgage Association – Ginnie Mae
 - Ginnie Mae I
 - Ginnie Mae II

Allowable Attributes:

- fixed rate
- conventional
- multi or single family

Mandatory Criteria for the Direct Acceptance of Mortgage Backed Securities

- Must have an active price as carried by Bloomberg Generic Pricing System.
- Must be delivered with repo-tracking code of STRP in field 22F of Fed Wire message to Bank of New York. (*JPMorgan Chase will soon be eligible for mortgage backed securities.*) Please see Federal Reserve Bank Services website at <http://www.frbservices.org/Wholesale/CM-2001/CM-221.pdf> for more information on repo-tracking.

Haircuts

- 10% on the market value of all securities.

Limits

- The existing rule that states a clearing member firm may use agencies and letters of credit for the first \$5 million of its core requirement plus 50% of the remainder also applies to the new acceptable agency debentures combined with mortgage backed securities.

C21 Banking Deposit/Withdrawal Characteristics

- Please use the asset type of **GSEMB**.
- C21 is available via the internet portal. All firms are required to enter their asset management and banking transactions into C21 to receive performance bond credit.

Eligible Agencies for IEF3 or IEF4

Agencies are also eligible for deposit in the IEF3 and IEF4 specialized collateral management programs in conjunction with Bank of New York and/or JP Morgan Chase.

The agencies eligible for IEF3 and IEF4 include all of the agencies eligible for direct deposit in addition to:

Mortgage Backed Securities from the same pool as aforementioned for direct deposit and including those mortgage backed securities with a “clean floater” (no caps or floors) attribute.

Haircuts

- Same haircut schedule as direct deposit.

Limits

- Overall limit will be \$500 million of total amount of IEF3 & IEF4 that a firm may have in both of these programs. Also, IEF3 & IEF4 are applicable toward 25% core requirement, 50% reserve requirement and 100% concentration requirement.

C21 Banking Deposit/Withdrawal Characteristics

- Please use the security type of IEF3 or IEF4. Agreements for IEF3 and IEF4 are available. Please call Dana Ross or Kwong Cheng at 312-207-2594 for more information.

Canadian Sovereign Debt – Revised Haircut Schedule

Finally, the Clearing House has amended its Canadian Sovereign Debt haircut schedule as follows:

- Discount Bills 3%

Canadian Bonds with remaining maturity:

- Between 0-5 years 5.5%
- Between 5-10 years 7.0%
- Between 10-30 years 8.5%
- Greater than 30 years is 10%

Note: For bonds, an additional 0.5 % haircut for off the run securities will be applied.

Collateral Guidelines Available via Bloomberg

If your firm has a subscription to Bloomberg, you can obtain the necessary information to determine eligibility of the security for collateral. Simply enter the 'CUSIP', 'Government', 'Go', and then 'Des' 'GO.' This display of information will give you the price, issuance and description. By reviewing these characteristics, your firm will be able to ascertain the acceptability of the security.

In the near future, CME will also send via separate cover a tool to use in conjunction with your Bloomberg that will allow your firm to run another check on the acceptability of the security.