

Advisory Notice

Clearing House

TO: Clearing Member Firms
Back Office Managers
FROM: Clearing House Department
DATE: May 24, 2005
ADVISORY #: 05-88
SUBJECT: **Physical Delivery of ETF Contracts**

As previously announced on May 5, 2005 CME will launch futures contracts on Exchange Traded Funds (ETFs). These contracts will have the NASDAQ-100[®] Index Tracking Stock (QQQQ), S&P 500[®] Depositary Receipts (SPDRs) and iShares Russell 2000[®] (IWO) as the underlying for the future. These futures will be physically delivered with the Clearing House as the central counterparty for the delivery. This memo describes the physical delivery procedure for these contracts. The first delivery of these contracts is slated for September 2005.

Prior to trading the contracts, firms must inform the Clearing House of the Depository Trust & Clearing Corporation (DTCC) clearing firm and account number they will use to fulfill the delivery obligations of their firm. CME will utilize a relationship to facilitate the delivery via DTCC of the ETFs. Further details concerning delivery specifications will follow in the coming weeks.

Five business days prior to delivery firms will be provided a delivery forecast report showing what the firm's delivery obligations would be if it were the last trade date for the ETF contracts held by the firm.

The last trading day for the ETF contracts is the third Friday of the contract month. CME will use the firm's final positions at the end of business on this day to determine the firm's final delivery obligation. The Clearing House will produce a delivery report containing the relevant data needed for the delivery: the number of contracts, the number of underlying shares, the final settlement price and the value of the delivery. Here are three examples of hypothetical delivery computations for the three products that would be on the forecast and final reports. The number of equivalent shares of the ETF for the SPDR and the IWM is the number of futures contracts multiplied by 100. For the QQQQ the equivalent number of ETFs is computed by multiplying the number of contracts by 200.

	S&P 500 (SPDR)	iShares Russell 2000 (IWM)	Nasdaq-100 Tracking Stock SM (QQQQ)
Future Contracts	20	100	2
ETF Equivalent	2,000	10,000	400
Final Settlement Price	118.96	120.98	37.32
USD Value of Delivery	\$237,920.00	\$1,209,800.00	\$14,928.00

On the delivery day, delivery-versus-payment transactions will be executed on DTCC where long firms will receive their shares of ETFs in exchange for payment of the ETF and short firms will receive payment in exchange for the requisite shares of ETFs for the delivery.

If you have any questions please contact Morgan Culverhouse, Manager, Delivery and Fulfillment Services, CME Clearing House at 312.930.2892.