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## Advisory Notice

Clearing House

06-169

TO: Clearing Member Firms  
Chief Financial Officers  
Back Office Managers

FROM: Clearing House Department

SUBJECT: 3rd Quarter 2006 Eligible Stocks  
(Data from April 3, 2006 to June 30, 2006)

DATE: July 10, 2006

CME accepts shares of certain equity stocks for customer and house segregated performance bond collateral. CME implemented its Stock Program to enable clearing members to post shares of selected stock with the Clearing House to satisfy reserve and concentration performance bond requirements.

CME's performance bond requirements consist of three tiered amounts. The core performance bond requirement represents that portion of the total performance bond requirement, which must be satisfied using the most liquid forms of collateral. Core collateral includes all types of collateral currently accepted; recognizing the current restriction on the use of Letters of Credit and U.S. Government Agency securities whereby a clearing member may meet the first five million dollars of its core requirement and 50% of the remainder of the core requirement using Letters of Credit and U.S. Government Agencies. Reserve and concentration performance bond requirements are set from time to time and are equal to that portion of the total performance bond requirement, which may be met using reserve and concentration collateral. Reserve and concentration collateral includes all core collateral plus shares of stock eligible for the Stock Program. There is no limitation on the amount of Letters of Credit or U.S. Government Agencies used to satisfy the reserve and concentration performance bond requirements.

The clearing level performance bond requirements in Stock Index Futures are displayed in the table on the following page.

|                                | Core     | Reserve  | Total P.B.<br>Requirement | Concentration<br>Additional | Total P.B.<br>Requirement with<br>Concentration |
|--------------------------------|----------|----------|---------------------------|-----------------------------|-------------------------------------------------|
| S&P 500                        | \$ 6,300 | \$ 9,450 | \$15,750                  | \$ 3,938                    | \$19,688                                        |
| E-Mini S&P 500                 | \$ 1,260 | \$ 1,890 | \$ 3,150                  | \$ 788                      | \$ 3,938                                        |
| S&P 500/ Barra<br>Growth Index | \$ 2,800 | \$ 5,200 | \$ 8,000                  | \$ 2,000                    | \$10,000                                        |
| S&P 500/Barra<br>Value Index   | \$ 3,100 | \$ 4,650 | \$ 7,750                  | \$ 1,938                    | \$ 9,688                                        |
| S&P MidCap 400                 | \$ 6,750 | \$ 6,750 | \$ 13,500                 | \$ 3,375                    | \$16,875                                        |
| E-Mini S&P<br>MidCap 400       | \$ 1,350 | \$ 1,350 | \$ 2,700                  | \$ 675                      | \$ 3,375                                        |
| Russell 2000                   | \$ 7,425 | \$ 6,075 | \$ 13,500                 | \$ 3,375                    | \$16,875                                        |
| E-Mini Russell<br>2000         | \$ 1,485 | \$ 1,215 | \$ 2,700                  | \$ 675                      | \$ 3,375                                        |
| Nasdaq 100                     | \$ 5,250 | \$9,750  | \$ 15,000                 | \$ 3,750                    | \$18,750                                        |
| E-Mini Nasdaq<br>Composite     | \$ 1,050 | \$ 1,950 | \$ 3,000                  | \$ 750                      | \$ 3,750                                        |
| Dow                            | \$ 2,145 | \$ 1,755 | \$ 3,900                  | \$ 0                        | \$ 3,900                                        |
| Mini-Dow                       | \$ 1,073 | \$ 877   | \$ 1,950                  | \$ 0                        | \$ 1,950                                        |
| Nikkei 225 Stock<br>Index      | \$ 2,438 | \$ 812   | \$ 3,250                  | \$ 813                      | \$ 4,063                                        |

All clearing members with positions in the S&P 500 products will have both core and reserve performance bond requirements and may be subject to concentration performance bond requirement. Clearing members are not required to participate in the Stock Program or to make any other changes in their collateral on deposit to satisfy their reserve and concentration performance bond requirement.

CME has selected the Depository Trust Company (DTC) as the depository for the Stock Program. In order to participate in the program, clearing members must have an account at DTC. For those firms familiar with the DTC system, the CME's account has "Repo" status.

Clearing members with an account at DTC can originate free pledges of securities to the CME account or request the release of pledged securities from the account at the CME. CME staff has direct access to DTC's system to view clearing member pledges and approve release requests. Release transactions are not finalized until CME has approved the transactions. Clearing members have the opportunity to pledge securities in the morning to facilitate the release of a.m. cash calls at the intra-day performance bond cycle, or to request the release of pledged securities. The deadline for morning transactions is 10:30 a.m. CST. Clearing members have an additional opportunity to pledge securities in anticipation of increases in their overnight performance bond requirements until approximately 1:30 p.m. CST.

## **STOCK ELIGIBILITY**

The eligible stocks for the Stock Program include a subset of the stocks in the S&P 500. On a quarterly basis, CME will review the daily volume statistics for the S&P 500 stocks over the prior calendar quarter. The guidelines of the stock qualification process are enumerated below:

- 1) All stocks, which are for parent or affiliate companies of any clearing member, will be automatically excluded from participation in the program.
- 2) All stocks, which had daily trading volume of fewer than 100,000 shares per day on two-thirds of the days in the preceding quarter, will be excluded from that quarter's Stock Program.
- 3) All stocks which had daily trading volume ranging from 100,000 - 199,999 shares per day on two-thirds of the days in the preceding quarter will be accepted in the Stock Program with a limit on the number of shares accepted in any single clearing member origin of 50,000 shares.
- 4) All stocks which had daily trading volume ranging from 200,000 - 499,999 shares per day on two-thirds of the days in the preceding quarter will be accepted in the Stock Program with a limit on the number of shares accepted in any single clearing member origin of 100,000 shares.
- 5) All stocks which had daily trading volume ranging from 500,000 - 999,999 shares per day on two-thirds of the days in the preceding quarter will be accepted in the Stock Program with a limit on the number of shares accepted in any single clearing member origin of 250,000 shares.

- 6) All stocks which had daily trading volume ranging from 1,000,000 – 1,999,999 shares per day on two-thirds of the days in the preceding quarter will be accepted in the Stock Program with a limit on the number of shares accepted in any single clearing member origin of 500,000 shares.
- 7) All stocks which had daily trading volume ranging from 2,000,000 – 4,999,999 shares per day on two-thirds of the days in the preceding quarter will be accepted in the Stock Program with a limit on the number of shares accepted in any single clearing member origin of 1,000,000 shares.
- 8) All stocks which had daily trading volume ranging from 5,000,000 – 9,999,999 shares per day on two-thirds of the days in the preceding quarter will be accepted in the Stock Program with a limit on the number of shares accepted in any single clearing member origin of 2,500,000 shares.
- 9) All stocks which had daily trading volume in excess of 10,000,000 shares per day on two-thirds of the days in the preceding quarter will be accepted in the Stock Program with a limit on the number of shares accepted in any single clearing member origin of 5,000,000 shares.
- 10) At any given time, a stock whose last closing price was less than \$10 per share will be excluded from the program until such time as the stock closes with a price of \$10 or greater.
- 11) Clearing members' stock pledges will be valued at no more than 70% of market value. Stocks pledged to the CME will be priced at least on a daily basis.
- 12) The performance bond value of stocks pledged to CME will be computed as the lesser of the number of shares on deposit multiplied by the closing price per share multiplied by 70%, or the maximum number of shares eligible to participate in the Stock Program for that stock multiplied by the closing price per share for that stock multiplied by 70%. If a clearing member has shares pledged to CME in excess of the maximum number of shares allowable for a given stock, the excess shares will receive zero performance bond value. Shares held at zero performance bond value are not included in CME's computations of a clearing member's excess collateral, and the clearing member may request the release of such shares regardless of its remaining collateral excess position.
- 13) The list of eligible stocks will be made available to clearing members. The list will change quarterly or more frequent due to changes in the composition of the S&P 500 index or changes in clearing member ownership.

If you need further information about the Stock Program please contact, Kwong Cheng, Financial Analyst at (312) 634-8399.