



Advisory Notice

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TO: Clearing Member Firms
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FROM: Clearing House Department

SUBJECT: **Clearing and Bookkeeping Processing for Eurodollar 5-Year E-mini Bundle Futures**

DATE: September 12, 2006

On Sunday evening October 8, 2006 (for business day Monday October 9, 2006), trading will begin on CME Globex® in E-mini Eurodollar futures and E-Mini Eurodollar 5-Year Bundle Futures. For contract specifications, please see:

- The news release about CME E-mini Eurodollar 5-Year Bundle futures, at [http://www.cme.com/about/press/cn/06-120E-miniEuro\\$Bundles19732.html](http://www.cme.com/about/press/cn/06-120E-miniEuro$Bundles19732.html)
- CME's web page for the bundle futures, at http://www.cme.com/trading/prd/overview_E5B19636.html
- Clearing New Product Advisory 06-28: CME E-Mini Eurodollar futures, at <http://www.cme.com/files/NP%2006-28.pdf>
- Clearing New Product Advisory 06-30: CME Eurodollar F-Year E-Mini Bundle futures, at <http://www.cme.com/files/NP%2006-30.pdf>
- Market Data Advisories for the E-Mini futures at <http://www.cme.com/trading/dta/dist/19777.html> and for the bundle futures at <http://www.cme.com/trading/dta/dist/19775.html>

The E-Mini Eurodollar future itself is straightforward: a Globex-only Eurodollar future, listed only on the quarterly months (no serials), with a contract size one-tenth that of the standard future. Firms with positions in the E-Mini Eurodollar future may convert these contracts at any time into positions in the corresponding full-sized future, at a 10 to 1 ratio.

The Eurodollar 5-Year E-Mini Bundle Future, however, is something new: a future, the underlying of which is a five-year bundle of the E-mini Eurodollar futures. To understand this, compare the 5-Year E-Mini Bundle future, to a regular 5-Year Bundle:

- If you trade a 5-Year Bundle on CME Globex, this immediately decomposes into the underlying futures legs, and you receive a strip of 20 (five years times four contracts per year) individual full-size Eurodollar futures transactions.
- But if you trade an E-Mini 5-Year Bundle future, you get a single transaction -- the bundle future itself. The resulting position, if not liquidated, remains as a single futures transaction until maturity.

For example, if you trade a December 06 five-year bundle, you get a strip of 20 quarterly Eurodollar futures, starting with December 06. But if you trade a December 06 E-mini five-year bundle future, you get a single transaction -- the Dec 06 five-year bundle future itself.

The last day of trading and final settlement date of the bundle future is the Friday immediately preceding the Monday on which the corresponding Eurodollar future expires. At the close of business on that Friday, the final positions in the bundle future, are decomposed into the underlying strip of E-Mini Eurodollar futures.

Continuing the example, suppose your final position on Friday December 15, 2006 in the Dec 06 E-mini bundle future is long one. That position will be removed, and replaced with a strip of 20 long transactions in E-Mini Eurodollar futures, starting with the Dec 06 E-mini future.

The end-of-day settlement price for the E-mini futures will always be identical to that of the corresponding full-sized Eurodollar future. The end-of-day settlement price for the bundle future, will always be the average of the end-of-day prices for the underlying Eurodollar futures, rounded normally to five decimal places. (Because of the need for greater precision in end-of-day settlement prices for the bundle futures, they will have five implied decimal places, while the Eurodollar future itself only has four.)

Hence, the bundle future behaves like a normal future in all but two respects:

- First, at expiration Friday, positions in the bundle future are converted into a strip of positions in the underlying E-mini Eurodollar futures. The lead future of this strip will expire on the Monday.
- Second, at any time, because the respective contracts are fungible, firms may convert positions in the bundle future, into any equivalent combination of positions in the E-mini futures and/or full-sized futures.

For example, suppose a firm wishes to convert a long position of 27 bundle futures. Using the special "fungible conversion" screen in Front-End Clearing, it would create a "fungible conversion" transaction consisting of a sell of 27 E-mini bundle futures. The opposing buys could consist of (a) a strip of 27 mini futures, (b) a strip of 17 mini futures and a strip of 1 full-sized futures, or (c) a strip of 7 mini futures and a strip of 2 full-sized futures. (The screen will request from the user the number of full-sized futures, and will automatically determine the correct number of mini futures to create.)

Note that these "fungible conversion" transactions will always be created at the previous day's end-of-day settlement prices for the bundle future and the corresponding Eurodollar futures.

The process at expiration of the bundle future, by which it converts into a strip of E-mini Eurodollar futures, is analogous to that for expiration processing for an in-the-money option. On expiration Friday, in the end-of-day clearing cycle:

- First the clearing system will determine the final positions in the expiring bundle future.
- These will then be removed and replaced with futures transactions in the underlying E-mini Eurodollar futures, at that day's settlement price (so that no settlement variation will result.) Firms will see these transactions in their end-of-day FIXML trade register files and the end-of-day Trade Register report.

The contract value multiplier for the E-mini Eurodollar future is \$250, one-tenth the size of the \$2,500 for the full-sized future, and consistent with a value of \$2.50 for each basis point (0.01) price movement. Note that the smallest possible price increment is one-quarter basis point (0.0025), which is worth 62.5 cents. Therefore, firms must ensure when calculating mark-to-market amounts that they calculate the rounded monetary value of one contract at each of the two price points, subtract one value from another, and only then multiply by the quantity. This is analogous to the manner by which mark-to-market is calculated for CBOT treasury products.

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The contract value multiplier for the bundle future is \$5,000, which is twenty times the multiplier for the E-mini future (since the underlying of the bundle future is 20 of the E-mini futures.) Note that although the trade tick for the bundle futures will be one quarter basis point (0.0025), the end-of-day settlement price will tick in thousandth's of a basis point (0.00001), worth five cents.

Both the E-mini Eurodollar future and the 5-Year E-mini bundle future will be available in CME's Globex and Clearing certification environment on Monday, September 25, 2006 one week prior to the Monday, October 9, 2006 launch. Again, note that other than the special "fungible conversion" transaction, the bundle future behaves like any future until expiration, the first of which will occur on Friday, December 15, 2006.

For more information, please contact CME Clearing at 312-207-2525.