



Advisory Notice

Clearing House

20 South Wacker Drive
Chicago, IL 60606-7499
www.cme.com

312/930.3170 tel
312/930.3187 fax

To: Clearing Member Firms
Chief Financial Officers
Treasurers
Back Office Managers

From: CME Clearing House
Financial Management Group

Date: July 2, 2004

Advisory #: 04-121

Re: New Clearing House Collateral Management Program - (IEF@5)

The Clearing House of Chicago Mercantile Exchange Inc. (CME) is proud to announce that its newest collateral management initiative, IEF5, will be launched and available to all clearing members beginning July 19, 2004.

In establishing IEF5, the Clearing House has partnered with JP Morgan Chase Bank (JPM). JPM has established a cash account that sits on the trust ledger of the bank that is able to pay a monthly hard dollar 'benefit'. IEF5 is only eligible for clearing members of CME.

Clearing firm cash that has been designated as IEF5 will reside in CME's account at JPM's Trust Account program, with the 'benefit' accruing to IEF5 participants. The 'benefit' yield will be based off of the daily **fed funds effective rate** as published by the Board of Governors of the Federal Reserve and disseminated through Bloomberg Professional Services on each business day.

Some facts regarding JPM's trust account:

- Is a cash deposit account maintained with the JPM's institutional trust department and recorded on the trust ledger of the bank.
- Funds may be commingled with other funds derived from trust activities and made available to the treasury of the bank for general funding purposes.
- Does not have a regulatory capital charge or Clearing House performance bond haircut.
- Funds are 100% liquid.
- Is not a money market mutual fund or an investment.
- Has met CFTC regulatory approval.
- Is not guaranteed by CME or JPM. In the event of a bank failure, CME clearing members will be general depositors of the bank and entitled to insurance up to \$100,000.
- JPM has also received a legal opinion from outside counsel concluding that a broker-dealer depositing customer funds in the trust account complies with SEC Rule 15c3-3(e).

- Clearing will set per firm limits for all participants and will allow IEF5 to meet the following:
 - 50% of Core requirements
 - 100% of Reserve requirements
 - 100% of Concentration requirements
- A limit will also be set to cap the total amount of the trust account that Clearing will hold at JPM.

Clearing sees an interest bearing cash product as an alternative to investments in securities or money market mutual funds. With the addition of IEF5:

- Clearing has developed a full line of collateral management products that provide unique benefits in any interest rate environment.
- Complements Clearing's line of collateral management products.

Account structure:

The Clearing House has opened two omnibus cash accounts on the books of JPM.

- Customer Segregated Funds.
- House Non-Segregated Funds.

Agreements:

Before a clearing member can begin using the IEF5 program, the firm must complete and return the both the Operations and Notification document and the W-9 form. A copy of this memo along with the Operations and Notification Agreement and the W-9 will be mailed to each clearing member of CME, in the next week. The mailing will provide details on returning the form to CME.

Operational aspects of IEF5:

- Transactions may be entered into CME's Clearing 21® Asset Management application on the web or by calling the Clearing House at 312-207-2594.
 - The asset type of IEF5 will be used and transaction processing will be the same as IEF2.
- Clearing @21 provides real time asset balance reporting and is available throughout the business day.
- Balances will be listed on the Asset Inventory Report (CAI500) along with all other assets. This report is run twice a day, after the close of business and at Intra-day.
- Balances as well as accrued interest for IEF5 are reported on the CAI537 report. This report for IEF5 will run **at 9:00 am CST, on the next business day**, and will calculate the **prior** day's accrued interest.
 - Unlike CME's IEF2 product, the rate is not disseminated until the next business day.
- Clearing @21 provides real time asset balance reporting and is available throughout the business day.
- The CST610 report will display the maximum allowable IEF5 amount per firm. This report is run twice per day, after the close of business and at Intra-day.
- The CAI552 is a month end report that will detail all transactions and accrued interest activity for the prior month. This report is run during the first week of the new month.
- Deposits and withdrawals will be processed by CME until **2:30 pm CST**.

Further information:

For information about the IEF5 product or any other collateral management service, please contact, Timothy Golomb at 312/930-3194. For questions on financial management operations, please contact Dora De La Paz at 312/930-3171.