

Advisory Notice

Clearing House

TO: Back-Office Managers
FROM: Clearing House
DATE: July 21, 2005
ADVISORY #: 05-153
SUBJECT: **Reminder: SLEDs For CME Pit & Electronically-Traded Equities starting this Monday, July 25, 2005**

As previously announced on June 28, 2005 (Clearing Advisory #05-127), **SLEDs (Single Line Entry of Differential Spreads) will be introduced for pit and electronically traded CME equity futures calendar spreads beginning this Monday, July 25, 2005.**

SLEDs represent an operationally-efficient process with respect to pricing and matching for futures calendar spread trades. For trades executed in the pit, SLEDs match on the reported differential price only and not on the individual leg prices. Significant benefits include:

- For pit trades, when the SLED is submitted to clearing, you can choose to omit leg prices. If you do, the clearing system will automatically price the front leg price of the spread to the prior day's settlement price, and then calculate the back month leg price based on the reported spread differential price. The identical logic is applied to electronic trades in the futures calendar-spread instrument.
- For pit trades, customers can choose their own leg prices. And for both pit and electronic SLED trades, the originally-assigned leg prices can be changed at any time until the 7:00p.m. processing deadline, provided that the price differential remains the same.
- For pit trades, reduced number of spread leg-price out-trades, and reduced data entry due to single-line entry and reporting the spread differential price only.

This introduction of SLEDs for pit and electronically traded equity futures calendar spreads represents a first phase launch. This will make SLEDs available for the September quarterly "roll". We will extend the launch as follows:

- **Currency quadrant on Monday, August 1, 2005**

The launch of SLEDs for the currencies will include both pit-trades and electronic executions.

SLEDS Methodology

With SLEDS, the convention is that the **front leg** of spread is always the nearer contract month and the **back leg** is always the farther contract month. Buying or selling the SLED, is always based on whether you are buying or selling the **front leg**.

The SLEDS process will always calculate prices as follows; **front month leg price minus the differential = the back month leg price**. To put it a different way: **the differential is always the front leg price less the back leg price**.

Note that this differs from the convention in use in the equity pits, where the buying or selling of a spread is quoted based on buying or selling the **back month** leg, and the differential is quoted as the back-leg price less the front-leg price. These differences between how things are quoted in the pit versus how they are handled in clearing and bookkeeping is unavoidable, and is necessary to ensure processing consistency for all products from a systems and back-office perspective.

Consistency in SLEDS processing also requires a change to the manner in which a spread trade is recorded on a trading card. Since traders have never had to card differentials before we are suggesting that they card the trade as they trade it. When recording a spread trade, traders must record on their card the contracts in the sequence of what they are buying or selling. For example, if you are buying the spread, put the contract that is being bought first. Then put the opposite information and the differential.

For example, if you are buying the Dec-Mar SP spread at 120 points, the trading card would be recorded as follows:

CARS BOUGHT	MO.	CARS SOLD	OPPOSITE	PRICE	BKT.
3	H/E	456	DEF	120	6

When the card is received in the back office for processing, the keypuncher would then know that the Mar leg is the buy leg. So they must punch the Dec leg as a sell, making the SLED as a whole a sell of the Dec-Mar SLED.

The keypuncher also knows that because this is a SLED in the equity pits, the differential price must be flipped to submit the trade to clearing. The March contract is trading over the Dec contract. In this example the positive differential of 1.20 quoted in the pit, must be flipped to -1.20 to submit the trade to clearing.

For example, if the SLED were submitted without leg prices specified and Dec contract's settlement price on the previous day were 1100.00, then the March contract leg price would be assigned as 1100.00 less a negative 1.20, or 1101.20.

User Interface and Application Programming Interface (API)

The Front-End Clearing user interface for SLEDS, and the TREX and FIXML-based messaging, will work **exactly** the same way for CME products as it does for CBOT products.

If you have any questions, please call Gary George, Associate Director, Clearing Operations, at 648-3774 or Clearing Customer Support at 207-2525.