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Advisory Notice

Clearing House

TO: Clearing Member Firms
Chief Financial Officers
Back Office Managers
Treasury Management

FROM: Clearing House Department

DATE: July 22, 2005

Advisory #: 05-154

SUBJECT: CME Clearing Financial Management update to the changes to
CFTC Regulation 1.25 (The investment of customer funds)

The CFTC has recently enacted a series of changes to its Regulation 1.25 (Reg. 1.25) which pertains to the investment of customer funds. Effective on June 16, 2005, these changes updated the CFTC's position on customer investments.

Although CME is not required to accept all 1.25 eligible securities, CME continues to expand its collateral management programs to accommodate the changing landscape of eligible collateral. CME has collaborated with the CFTC, FCMs and various financial institutions to ensure that policies for its Collateral Management Programs comply with the Reg. 1.25 enhancements while still providing adequate coverage for performance bond requirements. The specifics that CME has addressed include: changes to Money Market Mutual Funds (MMMFs), Acceptable Securities, and modifications to CME's Collateral Management Programs as needed.

Changes to MMMFs

The redemption language requires MMMFs to state that funds will be paid in US dollars, by the day following the redemption.

CME's response:

CME performed a prospectus redemption language audit of the MMMFs that are currently on its IEF2 platform to ensure that all funds were in compliance.

- In performing the audit, CME coordinated efforts with its funds and their legal counsel and with the CFTC.
- At this time, there are three funds that will need to re-sticker their prospectus to ensure CFTC compliance.
- If for any reason a fund is not in compliance, all investors will be immediately notified.
- Depending on business conditions and demand for the product, CME may consider MMMFs that have a rating as designated by a recognized NSRO of "A" or "AA".

Changes to Acceptable Securities

FCMs can invest customer funds in certain securities with variable and floating rate characteristics, Auction Rate Securities (ARS) and Government Sponsored Enterprises (GSE) with embedded derivatives.

CME's response:

CME has already included floating rate callable GSE debentures in its acceptable collateral schedule for pledging directly to CME and will allow variable rate securities in the same manner. CME updated its Securities Administration Program to incorporate certain GSEs with embedded derivatives, which are not eligible for direct pledge. CME will address Auction Rate Securities when sufficient demand for these securities is present.

The following enhancements were made to the Securities Administration Programs (IEF3 and IEF4.)

The GSE CMOs with embedded derivatives that will be supported:

Fannie Mae, Freddie Mac and Ginnie Mae securities

Class Types:

- *Pass Through*
 - *Sequential*
 - *Planned Amortization Class*
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- Acceptable GSE CMOs with embedded derivatives will have a concentration limit, per firm, of \$150 million per Agency.
 - All new acceptable Asset Classes will carry a performance bond haircut of 20% in IEF4 and 10% in IEF3.
 - CME will continue to reserve the right to unilaterally reject any security type or CUSIP should it deem it unacceptable.

For further questions on the changes or on the collateral programs, please contact Timothy Golomb, 312-930-3194.