

Advisory Notice

Clearing House

05-51

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

FROM: Clearing House Department

SUBJECT: Sovereign Debt Procedures and Limits

The Clearing House recognizes the importance of accepting sovereign foreign debt as Performance Bond, and has made several improvements to this program since it was first launched in 2004.

CME has established a sovereign debt custody relationship with Citibank, N.A. This relationship consists of global custody accounts housed both on the local market platforms as well as the Euroclear platform. Please see the following details of CME's program.

Types of Securities

The Clearing House will accept foreign sovereign bills (i.e.: Canadian Bills, French BTF, German Bubils and UK Gilts) and bonds (i.e.: Canadian Bonds, French BTAN, French OATs, German Schatze, German Bobls, German Bunds, UK Gilts) denominated in multiples of 5,000 as performance bond collateral. Bills must have a remaining maturity of less than one year; bonds may have a remaining maturity up to 32 years.

Value of Securities

The value of foreign securities deposited to CME's account is based on the current market value, less any applicable haircuts. The current market value of any foreign sovereign security is calculated with the current bid price as published by Bloomberg L.P.

Haircuts

CME	Discount Bills	0-5 Years	5-10 Years	10-30 Years	>30 Years
Foreign Sovereign Debt (For notes and bonds, there is an additional 0.5% haircut if issued more than 9 months ago)	3%	5.5%	7.0%	8.5%	10%

Security Revaluation

The Clearing House revalues securities held in performance bond safekeeping accounts on a daily basis, with prices provided by Bloomberg L.P. The Clearing 21® (C21) system reports the performance bond value of securities on the daily Trial Balance Report (CAI500).

Maturity

Upon maturity, Citibank will credit the foreign currency par value of securities to the CME's foreign currency customer segregated or house non-segregated bank account as appropriate. The proceeds will **NOT** automatically be released, regardless of excess balances. A C21 transaction must be entered to withdraw the cash. Clearing House will accept a FX withdrawal form on an "as needed" basis.

Coupon Payments

Because of the different time zone and jurisdiction at the local markets, all coupon payments for Canadian, French, German and UK securities are processed by CME on the coupon date on a best efforts basis. However, when a trade settles after record date but prior to ex-date (coupon date-1), the payment will be made on coupon date + 1.

Withdrawal of Securities

It is the responsibility of the firms to ensure new collateral at the Clearing House is posted to cover withdrawal transactions and meet the performance bond requirements on FX settlement date. Any deficit in performance bond requirements as of **9:00 A.M. CST** will result in a debit to the firm's USD settlement account.

Delivery Instructions

It is expected that if your firm delivers through one settlement platform, it will also request the securities back via the same platform. As an example, if your firm delivers a German security into Euroclear, it will receive the security back into Euroclear and *not* Clearstream Frankfurt. Firms interested in delivering foreign sovereign bills or bonds either through Euroclear or via local markets must adhere to the delivery instructions in the Clearing House Manual of Operations.

Please be reminded that all transactions must be entered into C21 on **settlement date, prior to 9:00 A.M. CST. The Clearing House must have all delivery instructions on settlement date for CAD and settlement date (-1) for all European securities at a minimum. Advance notice is required.**

Product Limits

CME Clearing House strives to ensure that each and every clearing member maintains a diversified basket of collateral. The maximum allowable amount for foreign sovereign debt is \$500 million in USD equivalence.

Should you have any questions, please call Dana Ross at 312-466-4438 or Kwong Cheng at 312-634-8399.