



## Advisory Notice

Clearing House

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

312/930.3170 tel  
312/930.3187 fax

05-64

TO: Clearing Member Firms  
Chief Financial Officers  
Back Office Managers

FROM: Clearing House Department

SUBJECT: 2nd Quarter 2005 Eligible Stocks

DATE: April 11, 2005

CME accepts shares of certain equity stocks for customer & house segregated performance bond collateral. The CME's Repo account number at DTC for customer segregated stock activity is 858, while the CME's house non-segregated origin Repo account number is 059. CME implemented its Stock Program to enable clearing members to post shares of selected stock with the Clearing House to satisfy reserve and concentration performance bond requirements.

CME's performance bond requirements consist of three tiered amounts. The core performance bond requirement represents that portion of the total performance bond requirement, which must be satisfied using the most liquid forms of collateral. Core collateral includes all types of collateral currently accepted; recognizing the current restriction on the use of Letters of Credit and U.S. Government Agency securities whereby a clearing member may meet the first five million dollars of its core requirement and 50% of the remainder of the core requirement using Letters of Credit and U.S. Government Agencies. Reserve and concentration performance bond requirements are set from time to time and are equal to that portion of the total performance bond requirement, which may be met using reserve and concentration collateral. Reserve and concentration collateral includes all core collateral plus shares of stock eligible for the Stock Program. There is no limitation on the amount of Letters of Credit or U.S. Government Agencies used to satisfy the reserve and concentration performance bond requirements.

The clearing level performance bond requirements in the Stock Index Futures are displayed below:

	CORE	RESERVE	TOTAL P.B. REQUIREMENT	CONCENTRATION ADDITIONAL	TOTAL P.B. REQUIREMENT WITH CONCENTRATION
S&P 500	\$ 9,450	\$ 6,300	\$ 15,750	\$ 3,958	\$ 19,688
E-Mini S&P 500	\$ 1,890	\$ 1,260	\$ 3,150	\$ 788	\$ 3,938
S&P 500/Barra Growth Index	\$ 4,800	\$ 3,200	\$ 8,000	\$ 2,000	\$ 10,000
S&P 500/Barra Value Index	\$ 4,650	\$ 3,100	\$ 7,750	\$ 1,938	\$ 9,688

	CORE	RESERVE	TOTAL P.B. REQUIREMENT	CONCENTRATION ADDITIONAL	TOTAL P.B. REQUIREMENT WITH CONCENTRATION
S&P Midcap	\$ 8,100	\$ 5,400	\$ 13,500	\$ 3,375	\$ 16,875
E-mini Midcap	\$ 1,620	\$ 1,080	\$ 2,700	\$ 675	\$ 3,375
Russell 2000	\$ 8,100	\$ 5,400	\$ 13,500	\$ 3,375	\$ 16,875
Russell E-Mini	\$ 1,620	\$ 1,080	\$ 2,700	\$ 675	\$ 3,375
Nasdaq	\$ 15,000	\$ 0	\$ 15,000	\$ 3,750	\$ 18,750
Nasdaq E-Mini	\$ 3,000	\$ 0	\$ 3,000	\$ 750	\$ 3,750
Dow	\$ 2,340	\$ 1,560	\$ 3,900	\$ 0	\$ 4,000
Mini Dow	\$ 1,170	\$ 700	\$ 1,950	\$ 0	\$ 2,000
Nikkei	\$ 3,250	\$ 0	\$ 3,250	\$ 813	\$ 4,063

All clearing members with positions in the S&P 500 products will have both core and reserve performance bond requirements and may be subject to concentration performance bond requirement, but clearing members are not required to participate in the Stock Program or to make any other changes in their collateral on deposit to satisfy their reserve and concentration performance bond requirement.

The CME has selected the Depository Trust Company (DTC) as the depository for the Stock Program. In order to participate in the program, clearing members must have an account at DTC. For those firms familiar with the DTC system, the CME's account has "Repo" status. To facilitate transactions in the Stock Program firms must utilize the DTC system.

Clearing members with an account at DTC can originate free pledges of securities to the CME account or request the release of pledged securities from the account of the CME. CME staff has direct access to DTC's system to view clearing member pledges and approve release requests. Release transactions are not finalized until the CME has approved the transactions. Clearing members have the opportunity to pledge securities in the morning to facilitate the release of a.m. cash calls at the intra-day performance bond cycle, or to request the release of pledged securities. The deadline for morning transactions is 10:30 a.m. Clearing members have an additional opportunity to pledge securities in anticipation of increases in their overnight performance bond requirements until approximately 1:30 p.m.

## STOCK ELIGIBILITY

The eligible stocks for the Stock Program include a subset of the stocks in the S&P 500. On a quarterly basis, the CME will review the daily volume statistics for the S&P 500 stocks over the prior calendar quarter. The clearing house has adjusted its guidelines such that limits for less liquid stocks have been reduced, while the maximum limits for the most liquid stocks have been increased. The maximum number of shares accepted for performance bond credit for the most liquid stocks will increase to 5 million from 1 million. The guidelines of the stock qualification process are enumerated below:

- 1) All stocks, which are for parent or affiliate companies of any clearing member, will be automatically excluded from participation in the program.
- 2) All stocks, which had daily trading volume of fewer than 100,000 shares per day on two-thirds of the days in the preceding quarter, will be excluded from that quarter's Stock Program.

- 3) All stocks which had daily trading volume ranging from 100,000 - 199,999 shares per day on two-thirds of the days in the preceding quarter will be accepted in the Stock Program with a limit on the number of shares accepted in any single clearing member origin of 50,000 shares.
- 4) All stocks which had daily trading volume ranging from 200,000 - 499,999 shares per day on two-thirds of the days in the preceding quarter will be accepted in the Stock Program with a limit on the number of shares accepted in any single clearing member origin of 100,000 shares.
- 5) All stocks which had daily trading volume ranging from 500,000 - 999,999 shares per day on two-thirds of the days in the preceding quarter will be accepted in the Stock Program with a limit on the number of shares accepted in any single clearing member origin of 250,000 shares.
- 6) All stocks which had daily trading volume ranging from 1,000,000 – 1,999,999 shares per day on two-thirds of the days in the preceding quarter will be accepted in the Stock Program with a limit on the number of shares accepted in any single clearing member origin of 500,000 shares.
- 7) All stocks which had daily trading volume ranging from 2,000,000 – 4,999,999 shares per day on two-thirds of the days in the preceding quarter will be accepted in the Stock Program with a limit on the number of shares accepted in any single clearing member origin of 1,000,000 shares.
- 8) All stocks which had daily trading volume ranging from 5,000,000 – 9,999,999 shares per day on two-thirds of the days in the preceding quarter will be accepted in the Stock Program with a limit on the number of shares accepted in any single clearing member origin of 2,500,000 shares.
- 9) All stocks which had daily trading volume in excess of 10,000,000 shares per day on two-thirds of the days in the preceding quarter will be accepted in the Stock Program with a limit on the number of shares accepted in any single clearing member origin of 5,000,000 shares.
- 10) At any given time, a stock whose last closing price was less than \$10 per share will be excluded from the program until such time as the stock closes with a price of \$10 or greater.
- 11) Clearing members' stock pledges will be valued at no more than 70% of market value. Stocks pledged to the CME will be priced at least on a daily basis.
- 12) The performance bond value of stocks pledged to the CME will be computed as the lesser of the number of shares on deposit multiplied by the closing price per share multiplied by 70%, or the maximum number of shares eligible to participate in the Stock Program for that stock multiplied by the closing price per share for that stock multiplied by 70%. If a clearing member has shares pledged to the CME in excess of the maximum number of shares allowable for a given stock, the excess shares will receive zero performance bond value. Shares held at zero performance bond value are not included in the CME's computations of a clearing member's excess collateral, and the clearing member may request the release of such shares regardless of its remaining collateral excess position.
- 13) The list of eligible stocks will be made available to clearing members. The list will change at least quarterly but may also change in mid-quarter due to changes in the composition of the S&P 500 index or changes in clearing member ownership.

If you need further information about the Stock Program please contact, Dana Ross, Project Coordinator, at (312) 466-4438, or Kwong Cheng, Financial Analyst at (312) 634-8399.