

Advisory Notice

Clearing House

TO: Clearing Member Firms, Etc.
FROM: Clearing House Department
ADVISORY #: 06-22
DATE: January 26, 2006
SUBJECT: **Crush Spreads and SPAN Files**

SPAN file change to support CBOT crush spread options, to be introduced on Friday, February 10, 2006.

In anticipation of the upcoming launch of CBOT crush spread options, a change will be introduced in the combined CBOT-CME SPAN® files on Friday, February 10, 2006. (Note that the crush spread options themselves will **not** be launched on that date.)

Crush spread options, which will use clearing product code **31**, are options where the underlying is a combination of futures, rather than a single future. For example, exercising a July crush spread call option, results in buying eleven of the July soy meal future, buying nine of the July soy oil future, and selling ten of the July soybean future.

The SPAN file will contain special records, with record types **X**, **Y** and **Z**, which indicate the underlying futures of each crush spread combination on which options are listed, and which contain data to drive the calculation of leg prices to use when these options are exercised. It will also identify the crush spread options with product type **OOC** -- option on combination -- instead of the simple **OOF** (option on future), with the underlying combination being provided with product type **CMB** rather than **FUT**.

There is currently only one other example of an option on a combination traded at either CBOT or CME, namely, the CME's **Y5** options on 5-year Eurodollar bundles. Until now, these options have always been provided in the SPAN file as if they were simply options on futures, in order to eliminate the possibility that firm bookkeeping systems could have issues with the Y5's being described as options on combinations, and with the presence of the X, Y and Z records in the SPAN files.

With the upcoming launch of crush spread options, it is no longer possible to maintain this limitation. Both the CME's options on 5-year Eurodollar bundles and the CBOT's options on crush spreads, must appear in the SPAN file as product type **OOC**, with the underlying combination having product type **CMB** instead of **FUT**, and with the X, Y, and Z records provided.

To ensure that firm systems are able to process these records in advance of the launch of crush spread options, which is expected in late February, the change will be introduced for the CME's Y5 options on Friday, February 10th.

Please note also that the X, Y and Z record types, and describing options on combinations as OOC's rather than OOF's, have long been present in the SPAN files for both the New York Mercantile Exchange and the New York Board of Trade.

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Full details on clearing processing for crush spread options, including information about these SPAN file changes, were previously described in Clearing Advisory 05-135, published July 1, 2005, and available at <http://www.cme.com/clearing/clr/clradv/13847.html>. See also Clearing Advisory 05-151, published July 21, 2005, and available at <http://www.cme.com/clearing/clr/clradv/14437.html>, which contains information about values on the type **P** record which indicate that when an option on a combination is exercised or assigned, the combination is immediately decomposed into its underlying legs.

Sample CBOT-CME SPAN files containing live production data but showing the Y5 options as options on combinations, and with the X, Y and Z records, have been available for many months at <ftp.cme.com/pub/span/data/ccl/test>. Firms may use these files in advance of Friday February 10th to verify that their systems will process these files properly. That directory also contains **crush.pa2**, a sample SPAN file showing the crush spread options themselves.

We strongly urge firms to verify that their systems will have no problems with these files, in advance of the February 10, 2006 date.