

Advisory Notice

Clearing House

TO: Interest Rate Product Traders
Firm Trading Desks
Firm Back Offices

FROM: Clearing House Department

ADVISORY #: 06-130

DATE: May 24, 2006

SUBJECT: SLEDS for CME Interest Rate Futures to be Launched on Monday, June 19, 2006

On Monday, June 19, 2006 CME will begin processing Single Line Entry of Differential Spreads (SLEDS) for CME Interest Rate Futures products. These products (and their Clearing Product Codes) include:

- Eurodollar Futures (ED)
- LIBOR (EM)
- 10-year Swap Rate (S0)
- 13 Week US T-Bill (T1)
- 2-year Swap Rate (S2)
- 5-year Swap Rate (S5)
- Consumer Price Index (CU)
- Euroyen (EY)
- Euroyen-LIBOR (EL)
- Eurozone Harmonized Index of Consumer Prices (HC)
- Fed Fund Turn Rate (TZ)
- Japanese Government Bond (JB)
- Mexican 28 Day TIIE (MR)
- Mexican 91 Day Cetes (MB)

From June 19, 2006 all standard calendar spreads (i.e. not butterflies, condors, etc.) for these products will be treated as SLEDS, both electronically and for trades done on the floor. This means that calendar spreads entered in FEC or from back office systems should be done using SLEDS trade entry, and that all Globex simple calendar spreads for these products will be treated as SLEDS.

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, a reduced number of spread leg-price out-trades, and reduced data entry due to single-line entry and reporting the spread differential price only.
- For pit trades, when the SLEDS message is submitted to clearing, you can choose to omit leg prices. If you do, the clearing system will automatically base the front leg price of the spread on 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.

SLEDS for CME Interest Rate Futures to be Launched on Monday, June 19, 2006

Clearing House Advisory 06-130

May 24, 2006

Page 2 of 2

- Customers can choose their own leg prices. For both pit and electronic SLEDS trades, the originally-assigned leg prices can be changed at any time before the 7:00 p.m. processing deadline, provided that the price differential remains the same. Keep in mind that rules for spreads done at less than half tick increments for the differential are subject to the same rules that apply to pit-traded calendar spreads. That is, if the spread differential is at a quarter tick increment (a price ending in .0025 or .0075), then the front month of the spread must be priced to the quarter tick. Only spreads that include the lead month (serial or quarterly) as one leg of the spread are eligible to trade at a quarter-tick increment differential. Also, if customers request special prices they must fall within the daily high and low, per CME rule 542.

Interest Rate SLEDS leg prices will be calculated and quoted using the "standard" method. That is, the differential price is represented by the Front Month Price minus the Back Month Price. For example, a Eurodollar differential price of 0.06 could result in leg prices of 94.71 in the front month and 94.65 in the back month.

FEC users will notice that these Interest Rate spreads appear on the Differentials lookup page, rather than the Simple lookup page, where they appear now. This is done to facilitate the changing of leg prices, and to allow legs of the spread to be shown together on screen.

Please note that SLEDS processing will be applied to calendar-spread orders executed on Globex for these products, regardless of whether they matched against other calendar spread orders, or against two outrights (via the "implied spreading" capabilities of Globex.).

Firms that send and receive TREX messages need to know the following:

- As stated above, pit-executed calendar spread trade messages for all of the above-listed products should be sent to clearing in SLEDS format starting June 19, 2006.
- Calendar spread messages will be sent from Clearing to the back office in SLEDS format. If your firm currently processes single-line entries, then single SLEDS messages will replace the two "Type 6" messages you receive now. If your firm processes leg-level SLEDS confirms, you will still receive two messages, but be aware that the Transaction Type will change from "6" to "D". In either case, you will see the SLEDS attributes that you see on other CME SLEDS confirms.

If you have any questions please call Clearing Customer Support (CCS) at 312.207.2525 or E-Mail us at ccs@cme.com.