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Advisory Notice

Clearing House

TO: Back Office Managers
Date Entry Personnel
FEC Users

FROM: Clearing House Department

DATE: August 28, 2006

ADVISORY #: 06-213

SUBJECT: CBOT Request for Offset Process

Effective Friday, September 1, 2006 CME Clearing House will offer CBOT firms the ability to enter Request for Offset "RFO" against mini-sized and full-sized futures metals contracts through Front End Clearing "FEC".

Clearing members firms will be able to offset opposite positions in the metals within the same contract period. For example, a clearing firm may offset 3 long August Mini-Gold against 1 short August Big-Gold futures. To satisfy the offset process, a firm must submit an RFO to through FEC

One major change in the offset process for metals is the matching process. Firms should not offset metals against existing positions on their books until confirmation is received that the RFO has been accepted. The RFO must be answered by another firm with a contra position willing to participate in the offset process. The actual offset price will be determined at the time of the match. The price will always be against the prior days settlement of the large contract on the day match event takes place.

This is how the offset process for metals will work:

- Ratios are 5,000 oz Silver to Mini-sized Silver: Ratio 1:5; 100 oz Gold to Mini-sized Gold: Ratio 1:3
- Firm enters request for offset in existing fungible entry screen (firm enters either large contract or mini contract and the system create the opposing contract).
- Price are populated (in the event the request is matched top day the prices remain the same, if a request remains in the system for more than 1 day the prices will be determined at the date and time of the match event)
- A firm can, at any point, adjust down or delete an offset request
- Increasing the quantity of the RFO requires a new request and must be added separately.
- At 5:00 p.m. each business day the system will be closed to new entries and updates. Shortly after 5:00 p.m. a match will run and if there are request which can be matched trade confirmations will be sent to the firms detailing quantity and price of the offsets.
- Upon receipt of confirmation firms must go into the delivery system and adjust inventories.

- Requests that are matched are booked and cleared with the trade date of the match event regardless of date the request was entered into the system.

Fungible offset request will remain in FEC until they are matched or 2 days prior to the last day of trading at which time all outstanding requests will be deleted from the system. Partial matching is a possibility. When this occurs requests are automatically reduced by the quantity of the match and the requests retain their original date and timestamp.

Also effective on September 1, 2006, an enhancement will be created for the offset between \$25, \$10 and \$5 Dow futures contracts. When a firm enters an offset the system will return a choice of offset possibilities; a radio button will be available to select which product the originally entered product should be offset against.

If you have any questions please contact Clearing Customer Support by e-mail at ccs@cme.com or by phone at 312.207.2525