CME Group

A CME/Chicago Board of Trade/NYMEX Company

Advisory Notice

Clearing House

TO: Clearing Member Firms; Back Office Managers

FROM: CME Clearing

ADVISORY: 09-497

DATE: November 13, 2009

SUBJECT: **Important Update: Clearing and Bookkeeping Processing for CMEGroup's Dow Jones^{SM} UBS Commodity Index Swap Contracts**

On Monday, December 7, 2009, CME Group will launch clearing of Dow Jones^{SM} UBS Commodity Index Swap contracts. The clearing product code will be **DGS**. Privately negotiated deals in this contract will be captured via CME Clearport Clearing and will post in Front End Clearing as transaction type "OPNT" (over-the-counter privately-negotiated trade). Furthermore, this is an OTC contract where the customer protections for these products will initially be provided under the "30.7 Secured" treatment, consistent with CME Rule 8F03 Note, however, that these products are not initially eligible for standard customer segregation treatment.

Clearing and Booking Processing:

The clearing and bookkeeping process will work as follows. Suppose that you are firm number 123, and your normal customer trades post to a normal customer-segregated position account 123 CUST.

For these products, you will have a new "30.7 Secured" position account 123S CUST. Note the use of the "S" appended to the number, to denote this as a 30.7 secured account.

When firm number 123 clears customer trades in these products, provide the origin code on the as C for customer, exactly as normal.

When the trade posts to Positions, it will post to the special 30.7 123S CUST position account, not the normal segregated 123 CUST position account. On the trade register file, for these special positions, the position account will be provided as 123S CUST, and the firm number will also be provided as 123S CUST. For balancing purposes, this will allow these special positions to be kept separate from both normal customer positions, and from proprietary (house) positions.

Performance Bond and settlement Variations Processing:

The variation and performance bond requirements from this position will flow to a special 30.7 Secured 123S CNSEG (customer non-segregated) settlement account, which likewise will hold only 30.7 secured activity. A separate pool of collateral assets must be provided to meet the 30.7 secured performance bond requirements, and firms must provide separate 30.7 secured bank accounts for banking of settlement variation and margin calls/releases.

Collateral Management:

Firm collateral will be held in separate asset accounts which will be identifiable as your normal asset account with an "S" appended. Therefore, if your normal asset account number is 123, the asset account housing the 30.7 collateral will be designated as 123S. Firms will be able to meet performance bond requirements with cash, treasuries, and government agencies. In the near future, IEF5 will also be acceptable to meet requirements for 30.7 activity.

Registration:

Similar to other CME Clearport Clearing products, firms are required to enter their accounts in RAV Manager to qualify to trade these contracts.

Fees Structure:

These contracts are cleared only Swaps contracts but in addition have an embedded fee, equal to 5.0 basis points of the end-of-day position value, paid by holders of both long and short positions.

These money amounts are calculated every night, as part of the end-of-day clearing and bookkeeping cycle. This uses the normal "daily adjustment" methodology, in which two values are provided for each contract, the "daily adjustment rate for long positions" and the "daily adjustment rate for short positions." These daily rates are derived by taking the fee rates (5.0 basis points on the long side and 5.0 basis points on the short side), annualizing, and then multiplying by the end-of-day settlement price for the contract.

<u>For long positions</u>:

> Express the long position as a **positive** number.
> Multiply by the daily adjustment rate for **long** positions.
> Multiply by the $100 contract value multiplier for these contracts.
> Round this result to the nearest penny **up** (away from zero.)
>
> The result is a negative dollar amount, meaning a cash flow **from** the position holder.

<u>For short positions</u>:

> Express the short position as a **negative** number.
> Multiply by the daily adjustment rate for **short** positions.
> Multiply by the $100 contract value multiplier for these contracts.
> Round this result to the nearest penny **up** (away from zero.)
>
> The result is a negative dollar amount, meaning a cash flow **from** the position holder.

For customer positions in firm bookkeeping systems, the position is either long or short. For positions in clearing, which may be simultaneously long and short, the total cash adjustment is the gross sum of the negative cash amount resulting from the long position and the negative cash amount resulting from the short position.

The resulting cash adjustment amount for each position is displayed on the Trade Register Report and provided in electronic form on the FIXML Trade Register file in an **Amt** element with a value of **VADJ** in the **Typ** attribute. These amounts are then included in the total amount of settlement variation to be banked.

The daily adjustment rates can be read from the normal CME Group SPAN® file at ftp.cmegroup.com/pub/span/data/ccl.

In the SPAN file, type "V" records with the current day's long and short daily adjustment rates will be provided for each S&P GSCI Excess Return Index Swap contract eligible for trading. For the layout of the type "V" record see www.cme-ch.com/span/spanl31v.htm.

For more information on this contract, please see:

- CME Group Clearing New Contract Advisory at NP 09-24.

For question or concerns, please contact CME Clearing at 312-207-2525. Or, contact CME Clearport Clearing Facilitation Desk at 866-246-9639.