

Capping the Deliverable Basket for T-Bond Futures Frequently Asked Questions

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1. *Why cap the T-Bond futures contract's delivery basket?*

Capping the T-Bond's delivery basket allows CME Group to create two distinct and complementary Treasury bond futures contracts that will appeal to hedgers, speculators, and relative value traders: the T-Bond and the Ultra T-Bond. With a delivery basket calling for the physical delivery of Treasury bonds with remaining terms to maturity of at least 15 years, but less than 25 years, the T-Bond will serve as the principal short-term bond futures contract. The Ultra T-Bond, with a delivery basket calling for the physical delivery of Treasury bonds with a remaining maturity of at least 25 years, will serve as the primary long-term bond futures contract.

2. *Why cap the T-Bond's delivery basket now?*

The introduction of Ultra T-Bond futures on January 11, 2010 ranks as the most successful interest rate futures launch in CME Group history. Through May 21, 2010, average daily volume was 16,338 contracts, with open interest of 133,614 contracts, eclipsing all exchange volume and open interest records for new interest rate futures. In March 2010, moreover, the Ultra T-Bond successfully concluded its first delivery cycle, as 5,309 contracts went through physical delivery. Capping the T-Bond now will provide market participants in both T-Bond and Ultra T-Bond futures with certainty in regard to the standing of these products.

3. *When will the T-Bond be capped?*

This change in contract deliverable grade will apply only to T-Bond futures for delivery in March 2011 and thereafter, and will take effect when contracts for March 2011 delivery are listed for trading on **Tuesday, June 22, 2010**. The change in contract deliverable grade **will not apply** to contracts for delivery in June 2010, September 2010, and December 2010, which are already listed for trading.

4. *What will the delivery basket of the T-Bond look like after it's capped?*

For futures delivery months between March 2011 and December 2012, it is projected that the T-Bond's delivery basket will contain between 9 and 12 different cash Treasury bonds with an aggregate deliverable supply between \$122 and \$150 billion (see Exhibit).

5. Why cap the T-Bond at “less than 25 years” of remaining maturity?

We will cap the T-Bond at less than 25 years of remaining term to maturity, the minimum maturity threshold of the Ultra T-Bond, in order to maximize both the number of cash Treasury bonds and the total dollar amount eligible for delivery. Once a cash bond falls below the Ultra T-Bond’s minimum maturity threshold of 25 years and thus becomes ineligible for delivery into the Ultra T-Bond, it immediately becomes eligible for delivery into the T-Bond. For participants who trade the 2-Year and 3-Year Treasury Note futures, the rolling down of seasoned cash Treasury securities out of the delivery basket of a longer duration futures contract and into the delivery basket of a shorter-duration futures contract, should be familiar.

6. How will the cap on T-Bond futures impact the listing cycle of standard and flexible options on T-Bond and Ultra T-Bond futures?

CME Group will maintain the limitation on the contract listings of both T-Bond and Ultra T-Bond futures to three delivery months in the March, June, September, and December quarterly cycle. As a corollary to the listing cycle for T-Bond and Ultra futures, CME Group will maintain the limitation on the contract listings in standard options on T-Bond and Ultra T-Bond futures to two serial months plus three expiries in the March, June, September, and December quarterly cycle. Standard and flexible options on Ultra T-Bond futures are scheduled to be launched **Monday, June 7, 2010**. At launch, the initial expirations in standard Ultra T-Bond options will be the August 2010, September 2010, and December 2010 contracts. In addition, the exchange will restrict trading in flexible options on T-Bond and Ultra T-Bond futures to flexible option expiries that exercise in no further than the companion underlying December 2010 futures contracts.

T-Bond Futures and Ultra T-Bond Futures Deliverable Basket Comparison

Coupon	Maturity	Issuance (Billions)	Conversion Factors							
			Jun. 2010	Sep. 2010	Dec. 2010	*Mar. 2011	Jun. 2011	Sep. 2011	Dec. 2011	Mar. 2012
6 7/8	08/15/25	\$10.1	1.0858							
6	02/15/26	\$11.9	1.0000	0.9999	1.0000					
6 3/4	08/15/26	\$7.9	1.0765	1.0756	1.0750	1.0741	1.0735			
6 1/2	11/15/26	\$9.4	1.0513	1.0510	1.0504	1.0500	1.0494	1.0490		
6 5/8	02/15/27	\$9.5	1.0649	1.0642	1.0637	1.0630	1.0625	1.0618	1.0613	
6 3/8	08/15/27	\$8.5	1.0396	1.0392	1.0389	1.0385	1.0382	1.0377	1.0375	1.0370
6 1/8	11/15/27	\$19.5	1.0132	1.0132	1.0130	1.0130	1.0127	1.0127	1.0125	1.0125
5 1/2	08/15/28	\$10.0	0.9454	0.9457	0.9463	0.9466	0.9472	0.9475	0.9481	0.9485
5 1/4	11/15/28	\$10.0	0.9174	0.9181	0.9187	0.9194	0.9200	0.9208	0.9213	0.9221
5 1/4	02/15/29	\$10.0	0.9169	0.9174	0.9181	0.9187	0.9194	0.9200	0.9208	0.9213
6 1/8	08/15/29	\$10.0	1.0141	1.0138	1.0139	1.0136	1.0136	1.0134	1.0134	1.0132
6 1/4	05/15/30	\$15.0	1.0286	1.0285	1.0282	1.0281	1.0278	1.0277	1.0274	1.0273
5 3/8	02/15/31	\$15.0	0.9268	0.9272	0.9278	0.9281	0.9287	0.9291	0.9297	0.9301
4 1/2	02/15/36	\$24.0	0.8054	0.8061	0.8070	0.8078	0.8087	0.8095	0.8105	0.8113
4 3/4	02/15/37	\$14.0	0.8352	0.8357	0.8365	0.8370	0.8378	0.8384	0.8392	0.8398
5	05/15/37	\$14.0	0.8675	0.8681	0.8686	0.8692	0.8696	0.8702	0.8707	0.8714
4 3/8	02/15/38	\$15.0	0.7825	0.7832	0.7841	0.7848	0.7857	0.7865	0.7874	0.7882
4 1/2	05/15/38	\$20.0	0.7984	0.7992	0.7998	0.8007	0.8013	0.8022	0.8029	0.8038
3 1/2	02/15/39	\$25.0	0.6606	0.6617	0.6629	0.6641	0.6653	0.6665	0.6678	0.6690
4 1/4	05/15/39	\$36.0	0.7616	0.7624	0.7632	0.7641	0.7648	0.7657	0.7665	0.7674
4 1/2	08/15/39	\$39.0	0.7950	0.7956	0.7964	0.7970	0.7978	0.7984	0.7992	0.7998
4 3/8	11/15/39	\$42.0	0.7771	0.7779	0.7786	0.7794	0.7801	0.7809	0.7816	0.7825
4 5/8	02/15/40	\$42.0	0.8109	0.8114	0.8121	0.8126	0.8133	0.8139	0.8146	0.8152
Classic T-Bon Number of Issue			23	22	22	12	12	11	10	10
Total (\$Billions)			\$417.8	\$407.7	\$407.7	\$148.8	\$148.8	\$140.9	\$131.5	\$136.0
Ultra T-Bond Number of Issue			10	10	10	9	9	9	9	8
Total (\$Billions)			\$271.0	\$271.0	\$271.0	\$247.0	\$247.0	\$247.0	\$247.0	\$233.0
Overlap Number of Issue			10	10	10					
Total (\$Billions)			\$271.0	\$271.0	\$271.0					

*Effective with the March 2011 expiry, the deliverable basket for the classic T-Bond contract will include bonds with remaining terms to maturity of at least 15 years, but less than 25 years.

Futures trading is not suitable for all investors, and involves the risk of loss. Futures are a leveraged investment, and because only a percentage of a contract's value is required to trade, it is possible to lose more than the amount of money deposited for a futures position. Therefore, traders should only use funds that they can afford to lose without affecting their lifestyles. And only a portion of those funds should be devoted to any one trade because they cannot expect to profit on every trade. All references to options refer to options on futures.

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