

## **BOARD APPROVES NETTING OF CERTAIN CURRENCY DELIVERY OBLIGATIONS**

At its Regular Meeting on Tuesday, June 3, 2003, the Board of Directors approved the netting of currency delivery obligations using an alternative delivery procedure ("ADP").

Existing procedures require clearing firms to deliver (receive) foreign currency against receipt (payment) of US dollars for standard foreign currency futures. At expiration, the long instructs the Clearing House to credit foreign currency to a specified bank account in the country of domicile. In return, the long will deposit US dollars with a US bank sufficient to meet the equivalent foreign currency delivery obligation. To eliminate settlement risk, CME rules require the buyer of foreign currency (the long) to cover its US dollar obligation the day prior to the delivery date for the foreign currency. Clearing firms generally cover their dollar obligations using Orders to Pay – effectively one-day letter of credit instruments for which the firms must pay the issuing bank.

Clearing firms are required to deliver (receive) foreign currency based on the gross positions at expiration. For example, a clearing firm that is long 10 foreign currency and short 8 of the same foreign currency must facilitate delivery of all 18 final open positions.

The delivery netting procedure approved by the Board allows firms to net their delivery obligations for positions held by the same beneficial owner using an ADP. Different legal entities sharing the same ultimate ownership would qualify as being held by the same beneficial owner.

Clearing firms utilizing ADP must document net positions and the account holder(s) involved. The clearing firms would leave the positions open on the Clearing House books, and the Clearing House would remove the positions via delivery (standard practice for removing positions from the firms' open positions).

This change would only allow for netting of delivery obligations across branches or units of the same beneficial owner. Frequently, various trading desks, branches or affiliated entities operate independent trading strategies which can result in positions on the opposite side of the market in the same currency. This change enables a clearing member or customer in this situation to satisfy its delivery obligations without incurring the costs associated with the normal delivery process.

The Division of Market Regulation will approve the markets eligible for delivery obligation netting via ADP. The markets currently approved include Australian dollars, British pounds, Canadian dollars, Euro, Japanese yen and Swiss francs.

CME Rule 739 (Delivery Netting) allows inter-currency netting for accounts of the same beneficial owner. The rule has been changed to allow for intra-currency netting via ADP for accounts of the same beneficial owner. The change will also be reflected in the Clearing House Manual of Operations.

Set forth below are the proposed rule amendments with additions underlined.

**739. DELIVERY NETTING**

To facilitate spread trading between currency products where positions held to termination create offsetting currency payment obligations, the Clearing House may net to the extent possible physical delivery payment obligations by clearing member customer by currency, in accordance with the procedures outlined in the Clearing House Manual of Operations. Clearing members desiring netting of obligations may only net payment obligations that arise from positions belonging to the same beneficial account owner, and shall be required to submit a Delivery Netting Request, which identifies the final positions and net currency payments of a customer requesting delivery netting, to the Clearing House by 11:00 a.m. on the last day of trading.

Clearing members may also net delivery obligations within a given currency following the last day of trading in such eligible currency product. Clearing members may net delivery obligations across all accounts belonging to the same beneficial account owner.

Clearing members are prohibited from netting open positions across customer accounts while a currency contract remains eligible for trading on the Exchange.

Clearing members shall be required to submit a Delivery Netting Request, which identifies the final positions and net currency delivery obligations to the Clearing House by 11:00 a.m., on the last day of trading, in accordance with the procedures outlined in the Clearing House Manual of Operations.

If you have any questions, please contact Mr. John Broderick, Director, Clearing Operations, at (312) 930-3190