

## **U.S. Treasury Options and 30-Day Fed Funds Options Electronic Market Maker Program Overview**

**Products:** 2-Year Treasury Note options  
5-Year Treasury Note options  
10-Year Treasury Note options  
30-Year Treasury Bond options  
30-Day Fed Funds options

**Hours:** Electronic and Regular Trading Hours (ETH and RTH)

**Treasury Options:**

An average of 12 market makers will be allowed in each product and each time period.

**Fed Funds Options:**

Up to 10 market makers will be allowed in each time period.

### **BENEFITS**

- **Maximum Order Flow Allocations**

**Treasuries** - Up to five of the top market makers in each Treasury option product and time period may each receive as much as a five percent allocation.

**Fed Funds Options** – Up to three of the top market makers in each time period may each receive as much as a 10 percent allocation.

- **Mass Quote Message:** All market makers will receive use of the Mass Quote Message function. *You must be participating in a market maker program to use Mass Quote Message.*
- **Messaging:** All market makers are exempt from the quote to trade policy and will receive more liberal quote per second governances.
- **Fee Rebate:** Fed Funds Options market makers will receive a fee rebate of \$0.10 a side, capped at \$10,000 per month.

## **PRELIMINARY OBLIGATIONS FOR ALLOCATION CONSIDERATION AND RANKINGS**

- All market makers must use their best efforts to respond to all Requests for Quotes (RFQs) regardless of contract, month or strike(s).
- Treasury option market makers must stream quotes in ATM Straddles, ATM Calls and ATM Puts, and the four Calls and Puts to nearest ATM. The first two serial and the first two quarterly months will be reviewed. This currently applies only to Treasury options market makers. Fed Funds options market makers are not required to stream quotes.
- There will be mini RFQ evaluation periods that will determine allocations for April, May and June.
- Market makers will be ranked on a quarterly basis with benefits going into effect the next month and spanning the entire quarter.

Following is a breakdown of the evaluation and allocation periods:

<b>Evaluated on RFQ Responses only</b>	
<b>Evaluation Period For</b>	<b>Allocation Effective Dates</b>
March 10, 2008 - March 28, 2008	April 7, 2008 - April 30, 2008
March 31, 2008 - April 25, 2008	May 1, 2008 - May 30, 2008
April 28, 2008 - May 23, 2008	June 1, 2008 - June 30, 2008
<b>Evaluated on RFQ Responses, QMM, and Time in Markets</b>	
<b>Evaluation Period For</b>	<b>Allocation Effective Dates</b>
March 16, 2008 - June 15, 2008	July 1, 2008 - September 30, 2008
June 16, 2008 - September 15, 2008	October 1, 2008 - December 31, 2008
September 16, 2008 - December 15, 2008	January 1, 2008 - March 31, 2009*

\*Contingent upon extension of the program

## **SCORING FOR ALLOCATION CONSIDERATION AND RANKINGS**

- ETH market makers will be evaluated on their ETH performance
- RTH market makers will be evaluated on both their RTH and ETH performance.

In the following ranking criteria, Treasury options market makers will be ranked with each of the components weighted equally. Fed Funds Options market makers will be ranked only on their RFQ responses.

## 1. Responses to RFQs

RFQ rankings will be determined by how many points a market maker receives in the specific evaluation period. Points will be awarded by the speed in which a market maker responds to an RFQ, their bid/ask spread, size of their bid and ask, and duration of bid/ask. Additional points will be awarded if the market maker is "On the Book," i.e., has a resting quote when an RFQ comes into the market.

Market makers will be awarded points if they respond to an RFQ within 60 seconds and have a bid and ask in the market for at least five seconds during the following 60 seconds. If these two requirements are met, a time-weighted average will be taken of their bid/ask spreads and quantities. Points will be awarded based on these values.

- Points will be tripled in Asian times between 5:30 p.m. and 1:00 a.m., Central Time.
- Points will be tripled for spread responses.
- RFQ points will be tripled during pre-determined high volatility periods noted below. (This will be modified further, beginning with the June 15, 2008, evaluation period. )
  - Non-Farm Payroll Report
  - CPI
  - PPI
  - FOMC Meetings

### **Beginning with the June 15, 2008, evaluation period**

- Points will be deducted for not responding to an RFQ. This deduction will be equal to one-half of the maximum, regular points for that RFQ. Market makers must have a bid/ask in the market for at least five seconds of a 60 second period to be given credit for a response.
- In addition to pre-determined high volatility periods, there will also be GCC-initiated high volatility periods where notice will be given to market makers alerting them to these market conditions.
- During the high volatility periods, market makers will be held to less stringent requirements in order to earn points. These requirements will result in more points given for responses as noted in the ranking criteria below.

## 2. Quality of Markets Measure (QMM)

**Time-Weighted Average Quote Size / (Time-Weighted Average Bid-Ask Spread)<sup>2</sup>**

The averages in both the numerator and the denominator are computed across the reviewed options—the ATM Straddle, ATM Call and ATM Put, and the four calls and puts nearest to ATM.

### 3. Percentage of Time-Auto Quoting

CME Group will compute the percentage of time during the period of obligation that each market maker is meeting requirements for both a maximum spread and minimum size. The maximum spreads and minimum sizes will be:

Product	Expiratons	Outrights		Straddles	
		Width	Size	Width	Size
OZB	First Two Months	4 Tics	400	4 Tics	100
	Second Two Months	5 Tics	200	5 Tics	50
OZN	First Two Months	3 Tics	400	3 Tics	100
	Second Two Months	4 Tics	200	4 Tics	50
OZF	First Two Months	3 Tics	400	3 Tics	100
	Second Two Months	4 Tics	200	4 Tics	50
OZT	First Two Months	1.5 Tics	250	2 Tics	100
	Second Two Months	2 Tics	150	3 Tics	50

The Call and the Put performance for each month are each computed in the following manner:

Percent time quoting strikes

$$\frac{((-4P) + (-3P) + (-2P) + (-1P) + (ATMP) + (ATMC) + (ATM \text{ Straddle}) + (+1C) + (+2C) + (+3C) + (+4C))}{11}$$

**RFQ Ranking Criteria**

Product	TU	FV, TY, US	FF
<b>Hard Quoting/On the Book:</b>			
High Volatility 6 Points	6 ticks/100 up	6 ticks/100 up	4 bp/100 up
2 points	1.5 ticks/300 up	2 ticks/500 up	.5 bp/500 up
1 point	2 ticks/200 up	3 ticks/250 up	1 bp/250 up

**Response Time:**

Bids and Offers on the book at the time of an RFQ will receive a 0 second response time

High Volatility 9 Points	<=60	<=60	<=60
3 points	0-15 sec	0-15 sec	0-15 sec
2 points	16-30 sec	16-30 sec	16-30 sec
1 point	31-60 sec	31-60 sec	31-60 sec
No points	>60 sec	>60 sec	>60 sec

**Bid/Ask Spread:**

High Volatility 9 Points	<=6 ticks wide	<=6 ticks wide	<=4 bp
6 points	1 tick wide	1 tick wide	.5 bp
3 points	1.5 tick wide	2 ticks wide	1 bp
1 point	2 ticks wide	3 ticks wide	1.5 bp
No points	>2 ticks wide	>3 ticks wide	> 1.5 bp

**Quantity:**

High Volatility 9 Points	>=50	>=50	>=50
5 points	>=750	>=1000	>=500
4 points	500 - 749	750 - 999	250-499
3 points	250 - 499	500 - 749	150 - 249
2 points	150 - 249	250 - 499	100 - 149
1 point	50 - 149	100 - 249	50 - 99
No points	<50	<100	< 50

**Time in Market:**

High Volatility 6 Points	> = 5 Seconds	> = 5 Seconds	> = 5 Seconds
2 points	> 30 seconds	> 30 seconds	> 30 seconds
1 point	15-30 seconds	15-30 seconds	15-30 seconds
No points	< 15 seconds	< 15 seconds	< 15 seconds

### High Volatility Periods

Date	Report	Time
March 7, 2008	Non-Farm Payroll	7:20 AM - 8:00 AM
March 14, 2008	CPI	7:20 AM - 8:00 AM
March 18, 2008	PPI	7:20 AM - 8:00 AM
March 18, 2008	FOMC Meeting	1:00 PM - 2:00 PM
April 4, 2008	Non-Farm Payroll	7:20 AM - 8:00 AM
April 15, 2008	PPI	7:20 AM - 8:00 AM
April 16, 2008	CPI	7:20 AM - 8:00 AM
April 30, 2008	FOMC Meeting	1:00 PM - 2:00 PM
May 2, 2008	Non-Farm Payroll	7:20 AM - 8:00 AM
May 14, 2008	CPI	7:20 AM - 8:00 AM
May 20, 2008	PPI	7:20 AM - 8:00 AM
June 6, 2008	Non-Farm Payroll	7:20 AM - 8:00 AM
June 13, 2008	CPI	7:20 AM - 8:00 AM
June 17, 2008	PPI	7:20 AM - 8:00 AM
June 25, 2008	FOMC Meeting	1:00 PM - 2:00 PM

For additional information on the Interest Option Market Maker programs, contact [David Reif](#), Associate Director, CME Group Interest Rate Products at (312) 648-3839.