

CME® provides a marketplace where futures and options on futures are traded. The CME Clearing House clears, settles and guarantees all matched transactions in CME contracts occurring through its facilities. In addition, the CME Clearing House establishes and monitors financial requirements for clearing members and conveys certain clearing privileges in conjunction with the relevant exchange markets.

Since January 1, 2004, CME has cleared, settled and guaranteed all matched transactions in Chicago Board of Trade® (CBOT) products. As a result of this common clearing arrangement, clearing members meeting clearing requirements at CME, CBOT and the CME Clearing House will have full clearing privileges at both exchanges. Other clearing members may only have clearing privileges at CME or CBOT.

The Clearing House establishes clearing level performance bonds for all CME and CBOT products. The CME Clearing House also establishes minimum performance bond requirements for customers of CME products, while the CBOT establishes such minimum requirements for customers of CBOT products.

The financial integrity of the CME marketplace is a foremost consideration of the Exchange's Board of Directors, Clearing House Risk Committee and management. CME is vitally aware of its role in international financial markets and believes that its financial safeguard system, designed for the benefit and protection of both clearing members and their customers, is second to none.

I. OVERVIEW OF THE SYSTEM

Risk management and financial surveillance are the two primary functions of CME's financial safeguard system. The system is designed to provide the highest level of safety and the early detection of unsound financial practices on the part of any clearing member. Its purpose is to protect all clearing members and their customers from the consequences of a default by a participant in the clearing process. The system is constantly being updated to reflect the most advanced risk management and financial surveillance techniques. The financial safeguard system is operated by a "Risk Management Team," which is directed by senior management from the Audit, Clearing, Finance, Legal, Market Regulation, Risk Management and Executive areas of CME.

II. FINANCIAL INTEGRITY OF THE CME MARKETPLACE

The accounts of individual members, clearing firms and non-member customers doing business through CME must be carried and guaranteed to the Clearing House by a clearing member. In every matched transaction executed through the Exchange's facilities, the Clearing House is substituted as the buyer to the seller and the seller to the buyer, with a clearing member assuming the opposite side of each transaction. The Clearing House is an operating division of the Exchange, and all rights, obligations and/or liabilities of the Clearing House are rights, obligations and/or liabilities of CME. Clearing members assume full financial and performance responsibility for all transactions executed through them and all positions they carry.

The Clearing House, dealing exclusively with clearing members, holds each clearing member accountable for every position it carries regardless of whether the position is being carried for the account of an individual member, for the account of a non-member customer, or for the clearing member's own account. Conversely, as the contra-side to every position, the Clearing House is held accountable to the clearing members for the net settlement from all transactions on which it has been substituted as provided in the Rules.

The Clearing House does not look to non-member customers for performance or attempt to evaluate their creditworthiness or market qualifications. The Clearing House does monitor clearing members for the adequacy of credit monitoring and risk management of their customers. In addition, although the Exchange has established character and financial standards for its individual members, the Clearing House looks solely to the clearing member carrying and guaranteeing the account to secure all payments and performance bond obligations. Further, when an individual member executes orders for a clearing member, his or her guarantor clearing member is held accountable as principal for the brokered transaction until the transaction has been matched and recorded by the Clearing House as a transaction of the clearing member for whom the individual member had acted.

III. THE SAFEGUARDS

The risk management and financial surveillance techniques employed by CME are comprehensive and specifically designed to:

- Prevent the accumulation of losses
- Ensure that sufficient resources are available to cover future obligations
- Result in the prompt detection of financial and operational weaknesses
- Allow swift and appropriate action to be taken to rectify any financial problems and protect the clearing system

These techniques are consistent with risk management recommendations by the Group of Thirty and other authoritative organizations.

Mark-to-the-Market

CME derives its financial stability in large part by removing debt obligations among market participants as they occur. This is accomplished by determining a settlement price at the close of the market each day for each contract and marking all open positions to that price. Debt obligations from option contracts are also immediately removed, since the purchaser of an option must pay the premium (cost of the option) in full at the time of purchase. Sellers of options post performance bonds as determined by the Board of Directors according to the prevailing risk characteristics of the options sold.

Each business day by 6:40 a.m. Chicago time, based on the mark-to-the-market of all open positions to the previous trading day's settlement price, the Clearing House pays to or collects cash from each clearing member. This cash flow, known as settlement variation, is performed by CME's settlement banks based on instructions issued by the Clearing House. All payments to and collections from clearing members are made in "same-day" funds. In addition to the 6:40 a.m. settlement, a daily intra-day mark-to-the-market of all open positions, including trades executed during the overnight Globex® trading session and the current day's trades matched before 11:15 a.m., is performed using current prices. The resulting cash payments are made intra-day for same day value. In times of extreme price volatility, the Clearing House has the authority to perform additional intra-day mark-to-the-market calculations on open positions and to call for immediate payment of settlement variation. Settlement variation payments through the Clearing House average \$1.4 billion per day and have reached a peak of \$6.4 billion.

CME's mark-to-the-market settlement system stands in direct contrast to the settlement systems implemented by many other financial markets, including the interbank, Treasury securities, over-the-counter foreign exchange and debt, options, and equities markets, where participants regularly assume credit exposure to each other. In those markets, the failure of one participant can have a ripple effect on the solvency of the other participants. Conversely, CME's mark-to-the-market system does not allow losses to accumulate over time or allow a market participant the opportunity to defer losses associated with market positions.

Performance Bonds

CME establishes minimum initial and maintenance performance bond levels for all products traded through its facilities. For CBOT products the CME Clearing House establishes clearing level requirements, while the CBOT establishes minimum customer level requirements. CME bases these requirements on historical price volatilities, current and anticipated market conditions, and other relevant information. Performance bond levels vary by product and are adjusted to reflect changes in price volatility and other factors. Both initial and maintenance performance bonds are good faith deposits to guarantee performance on futures and options contracts. Maintenance performance bond levels represent the minimum amount of protection against potential losses at which the Exchange will allow a clearing member to carry a position or portfolio. Should performance bonds on deposit at the customer level fall below the maintenance level, Exchange rules require that the account be remargined at the required higher initial performance bond level. Clearing members may impose more stringent performance bond requirements than the minimums set by the Exchanges. At the Clearing House level, clearing members must post at least the maintenance performance bonds for all positions carried. This requirement applies to positions of individual members, nonmember customers and the clearing member itself.

In setting performance bond levels, the Clearing House monitors current and historical price movements covering short-term, intermediate and longer-term data using statistical and parametric and non-parametric analysis. The Clearing House and CME Board of Directors then typically set futures maintenance performance bond levels to cover at least the maximum one-day price move on 95% of the days during these time periods. The actual performance bond requirements often exceed this level. Performance bond requirements for options reflect movements in the underlying futures price, volatility, time to expiration and other risk factors, and adjust automatically each day to reflect the unique and changing risk characteristics of each option series. In addition, long options must be paid for in full, and CME mandates stringent minimum performance bonds for short option positions.

CME calculates performance bonds using a system developed and implemented by CME in 1988 called Standard Portfolio Analysis of Risk™ (SPAN®). SPAN bases performance bond requirements on the overall risk of the portfolios using parameters as determined by CME's Board of Directors, and thus represents a significant improvement over other performance bond systems, most notably those that are "strategy-based" or "delta-based." SPAN simulates the effects of changing market conditions and uses standard options pricing models to determine a portfolio's overall risk. It treats futures and options uniformly while recognizing the unique features of options. In standard options pricing models, three factors most strongly affect options values: the underlying

futures price, volatility (variability of futures price) and time to expiration. As these factors change, futures and options may gain or lose value. SPAN constructs scenarios of futures prices and volatility changes to simulate what the entire portfolio might reasonably lose over a one day time horizon. The resulting SPAN performance bond requirement covers this potential loss. CME has licensed SPAN to futures and options exchanges around the world and has successfully established SPAN as the industry's standard performance bond system.

The CME Clearing House requires "gross" performance bonds for customer positions in CME products. The clearing member must deposit performance bonds for each open position (long or short) held at the end of each day's trading, with appropriate allowances for spreads. The Clearing House allows for "net" performance bonds for customer positions in CBOT products as a continuation of the market practices for those products. If a clearing member does not have sufficient performance bond collateral on deposit with the Clearing House, then the clearing member must meet a call for cash performance bond deposits by 6:40 a.m. and/or by 2:00 p.m. Chicago time, which results in a direct debit to the clearing member's account at one of CME's settlement banks. Clearing members' performance bond deposits may only be:

- Cash (Currently U.S. dollars, Japanese yen, Euro currency, Swiss francs, British pounds, Canadian dollars, Australian dollars, Norwegian krone, and Swedish krona)
- U.S. Treasury securities
- Letters of credit issued in the Exchange's name by approved banks
- Stocks selected from among approximately half of those in the Standard Poor's 500® Stock Price Index and depository trust shares based on the Standard & Poor's 500 Stock Price Index
- Selected sovereign debt of Canada, France, Germany, and the UK
- Discount notes issued by the Federal Farm Credit Banks, Federal Home Loan Mortgage Corporation, Federal Home Loan Bank System, or Fannie Mae, provided that the notes have less than six months remaining to maturity
- Fixed rate note and bond securities issued by the Federal Farm Credit Bank, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Fannie Mae or Ginnie Mae
- Interest Earning Facility (IEF®), a CME managed fund program
- IEF2: Money Market Mutual Funds allowable under CFTC Regulation 1.25
- IEF3 and IEF4: Clearing firm self-directed collateral management program, which allows collateral instruments allowable permitted under CFTC Regulation 1.25.

Securities are revalued every day and are subject to prudent haircuts. Additionally, foreign cash is subject to haircuts in selected circumstances. Various forms of collateral are also subject to limits.

Concentration Margining

CME's Clearing House also maintains a Concentration Margining Program, which allows the Clearing House to charge additional performance bond requirements when clearing firms' potential market exposures become large relative to the financial resources available to support those exposures.

Cross-Margining

In recognition of the growing linkages among the markets for exchange-traded equity derivative products, as well as the need to promote efficient clearing procedures and to focus on the true intermarket risk exposure of clearing members, CME, in conjunction with the Options Clearing Corporation (OCC) and the New York Clearing Corporation (NYCC), has developed a cross-margining system with respect to market professionals and proprietary accounts. By combining the positions of joint or affiliated clearing members in certain broad-based equity index futures and options into a single portfolio, and utilizing the sophisticated risk-based systems of each clearing organization, a single performance bond requirement across both markets is determined. The clearing organizations jointly hold a first lien on and security interest in the positions in crossmarginated accounts. All performance bond deposits associated with these accounts are jointly held.

The cross-margining system significantly enhances both the efficiency and financial integrity of the clearing system by treating all positions as being held in the same account, which allows gains accruing to futures or options positions to be immediately available to meet the requirements for funds from losing positions. In the event that a clearing organization suspends a cross-margining member, the positions in the cross-margin accounts would be liquidated and all performance bond collateral would be converted to cash and applied toward each clearing organization's costs of liquidating the cross-margin accounts. CME, the OCC and the NYCC are each entitled to proportional shares of any surplus to apply toward other obligations of the clearing member; if one clearing organization did not need its entire share of the surplus, the excess would be made available to the other clearing

organizations.

CME also maintains cross-margin agreements with the London Clearing House and Fixed Income Clearing Corporation. These programs involve the cross-margining of selected interest rate products. The design of these two cross-margin programs differ from the above mentioned OCC/NYCC program in that performance bond collateral is held separately at each respective clearing organization. In the event that a clearing organization suspends a CME/LCH cross-margining participant, the cross-margined positions would be liquidated and performance bond collateral would be converted to cash at each respective clearing organization. If as a result of the liquidation of crossmargined positions and performance bond there is a resulting cross-margin loss, there will be a cross-margin guarantee payment from one clearing organization to the other to share the loss. A similarly structured cross-margin program is in place between CME and NYMEX for NYMEX energy products versus CME's commodity index complex.

Segregation of Customer Funds

Regulations governing the U.S. futures and options on futures markets require that customer positions and monies be separately accounted for and segregated from the positions and monies of the clearing member. The regulations are designed to protect customers in the event of the insolvency or financial instability of the clearing member through which they conduct business. The requirements of separate accounting and segregation of customer positions and monies extend to the Clearing House. Based on specific written instructions from a clearing member, the Clearing House maintains separate accounting of the aggregate positions and monies of the clearing member's customers. The integrity of the Clearing House segregated accounting system relies on the accuracy and timeliness of the instructions from the clearing member.

CME's Audit Department routinely inspects the books and records of clearing members to ensure, among other things, their compliance with segregation requirements as well as requirements of reporting to the Clearing House. Violations by a clearing member of either its segregation or notification requirements are considered serious infractions and can result in major penalties being imposed by the exchanges.

Capital Requirements for Clearing Members

The Commodity Futures Trading Commission (CFTC) and CME require clearing members to maintain adjusted net capital (ANC) at prescribed levels. The CFTC requirements state that the minimum ANC must be equal to four percent of the customer funds required to be segregated for trading on domestic and foreign exchanges. Additionally, the CFTC has established early warning ANC requirements of six percent of required segregated funds.

If a clearing member's ANC approaches the early warning level, it becomes subject to extra regulatory attention.

ANC is computed based on the following formula: $\text{Current Assets} - \text{Adjusted Liabilities} - \text{Capital Charges} = \text{Adjusted Net Capital}$

- **Current Assets:** Cash and other assets that are reasonably expected to be realized as cash, or sold, during the next twelve months. However, certain assets such as prepaid expenses, deferred charges, and unsecured receivables from customers, non-customers, subsidiaries and affiliates, which would be classified as current under generally accepted accounting principles, are deemed non-current. Exchange memberships and/or shares are also reflected as non-current assets.
- **Adjusted Liabilities:** The clearing member's total liabilities less the liabilities which have been subordinated to the claims of general creditors. **Capital Charges:** Regulatory capital charges primarily encompass percentage deductions ("haircuts") on the following:
 - Speculative proprietary futures and options positions
 - Proprietary inventories, fixed price commitments and forward contracts
 - Under-margined customer, non-customer and omnibus accounts
 - Marketable securities

CME's capital requirements are generally more stringent than those imposed by the CFTC and are monitored by CME's Audit Department. ANC requirements vary to reflect the risk of each clearing member's positions as well as CME's assessment of each clearing member's internal controls, risk management policies and back office operations. Clearing members must maintain adjusted net capital in excess of the greatest of³:

1. \$2,500,000 (effective September 30, 2003); or
2. Eight percent of domestic and foreign domiciled customer and four percent of noncustomer (excluding proprietary) risk maintenance performance bond requirements for all domestic and foreign futures and options on futures contracts excluding the risk performance bond associated with naked long option positions; or
3. CFTC minimum regulatory capital requirements; or

4. SEC minimum regulatory capital requirements.

To obtain clearing privileges for CME products, a clearing member shall have at least two CME Memberships and the coupled Class B-1 Share, at least two IMM memberships and the coupled Class B-2 Share, at least two IOM memberships and the coupled Class B-3 Share, at least one GEM membership and the coupled Class B-4 Share, and at least 72,093 Class A Shares assigned to the clearing member. To obtain clearing privileges for CBOT products, a clearing member must grant to CME a first priority and unencumbered lien on two full CBOT memberships, except in the case of a sole-proprietorship where the requirement is one full CBOT membership.

Finally, CME rules generally require owners of five percent or more of the equity securities of a clearing member to guarantee obligations arising out of house (noncustomer and proprietary) accounts of the clearing member to the extent of their ownership interest. Owners of 50% or more must guarantee 100% of the house obligations. This parent guarantee provides a high level of assurance that obligations arising out of trades made and positions held by owners of clearing members are promptly discharged.

Financial Surveillance

Recognizing the need to monitor the financial condition of clearing members, the Audit Department, in conjunction with other self-regulatory organizations, operates a sophisticated financial surveillance program. The program has several important aspects, as outlined below:

- **Reporting:** Clearing members must submit full financial statements monthly, provide certified financial statements once a year, and make more frequent reports (daily) as directed.
- **Inspection:** Generally each clearing member is subject to a financial/operational review every year. The reviews are tailored to focus on the specific risks of the clearing member. All such inspections are performed on a surprise basis.
- **Information Sharing:** CME participates in formal agreements with other futures and securities clearing organizations and with other self-regulatory organizations, domestic and foreign, regularly exchanging financial information about joint clearing members with other participating markets.

Recognizing that the financial marketplace spans the globe, the Exchange also has taken the lead in promoting greater cooperation and information sharing between exchanges and clearing organizations around the world. CME was instrumental in developing the International Information Sharing Memorandum of Understanding, which established a framework for 65 exchanges and clearing organizations worldwide to share information relevant to managing global market emergencies. CME also seeks broader cooperation between clearing organizations through such industry forums as the Unified Clearing Group.

Intra-Day Monitoring

The Clearing House Division monitors intra-day price movements throughout the trading session. To assess the impact of these price changes on clearing members, an intra-day mark-to-the-market calculation is performed on clearing member futures and options positions and reviewed by the Clearing House and Risk Management Departments several times each day, more frequently if price volatility is high. Large or concentrated positions on the losing side of the market receive special attention. The Audit Department may either contact or visit a clearing firm to determine whether proper performance bonds have been collected for these positions and to determine their impact on the clearing member's capital position and liquidity.

CME conducts stress testing of clearing member positions on a daily basis. Numerous stress scenarios have been modeled to reflect a diverse universe of possible market events. Stress results are evaluated against performance bond on deposit and also with clearing member adjusted net capital. Results of stress tests may lead the Clearing House to request that the clearing member provide additional information about its customer accounts such as whether there are non-CME offsetting positions in other markets. In some cases stress test results may cause the Clearing House to increase a clearing member's performance bond requirement, or reduce or transfer positions.

Market Regulation

Through the Division of Market Regulation at CME and working in conjunction with CBOT's Office of Investigations and Audits (OIA), CME's Risk Management Team has daily access to specific account position information regarding individual members, nonmember customers and clearing members, all of which is maintained on a highly confidential basis. Such critical information allows the identification of concentrated positions as they arise and the aggregation of positions that may be owned by common principals through several different clearing members. Knowledge of concentrated or high-risk positions, coupled with information routinely gathered on the cash and/or related derivative markets, enables CME to respond rapidly to market situations that might adversely affect the clearing system and/or the financial stability of a clearing member.

Clearing Member Risk Reviews

The Exchanges periodically visit their clearing member firms to review their financial, operational and risk management procedures and capabilities. Senior Clearing House staff evaluate how well each firm's procedures and capabilities correspond to its line of business. Senior staff from Audit, Clearing House, Risk Management, and Market Regulation follow up with the clearing member's senior management if there are deficiencies found in their risk management procedures and capabilities.

IV. DEFAULT BY A CLEARING MEMBER

While the risk management and financial surveillance techniques of CME are specifically designed to prevent a clearing member from defaulting on its obligations, the Exchange, by rule and by operational practice, has prepared contingencies to expeditiously deal with such an event. The following summarizes the steps that may be taken in the event a clearing member failed to meet its financial obligations to the Clearing House.

Proprietary Account Default

If a clearing member was unable to meet its financial obligations to the Clearing House and a default occurred in its house (proprietary and non-customer) origin, the Clearing House may act immediately to:

- Attempt to transfer all segregated customer positions and monies to another clearing member
- Take control of or liquidate the positions in the house origin
- Apply the clearing member's security deposit and house performance bond deposits to the failed obligation
- Attach all other assets of the clearing member that are available to the Exchange (e.g., shares and membership interests)
- Invoke the parent guarantee

Customer assets (positions and/or monies) on deposit with or in the control of the Clearing House may not be used or impaired by the Clearing House in the case of a clearing member default resulting from house account activity.

Customer Account Default

If a clearing member was not able to meet its financial obligations to the Clearing House and a default occurred in its customer account, the Clearing House may act immediately to:

- Attempt to transfer non-involved customer positions and monies to another clearing member
- Take control of or liquidate involved customer positions and house positions
- Apply the clearing member's security deposit and house performance bond deposits to the failed obligation
- Attach all other assets of the clearing member that are available to the Exchange (e.g., shares and membership interests)

Although the Clearing House segregates customer performance bond deposits from the clearing member's proprietary performance bond deposits, the customer performance bond deposits for each clearing member are held in the aggregate, without identifying specific ownership of the deposits. If a default occurred in the clearing member's customer account, the Clearing House has the right to apply toward the default all customer performance bond deposits and positions in the defaulting clearing member's customer origin account at the Clearing House. Accordingly, positions and performance bonds deposited by customers not causing the default are potentially at risk if there is a default in the customer origin of their clearing member. Additionally, customer origin positions are held in aggregate without identifying which positions are held by specific customers.

The Clearing House has the right to liquidate all customer positions. Accordingly, positions of customers not causing the default may be liquidated. CME has a \$750,000,000 fully secured, confirmed Line of Credit Agreement with a consortium of domestic and international banks. Under the terms of the Credit Agreement, CME may borrow up to the full amount, by giving notice no later than 3:15 p.m. Chicago time. The Credit may be utilized if there is a temporary problem with the domestic payments system that would delay payments of settlement variation between the Clearing House and clearing members, or in the unlikely event of a clearing member default. The Line of Credit thus provides a high level of assurance that the Clearing House has the capacity to pay settlement variation to all clearing members even if a clearing member may have failed to meet its financial obligations to the Clearing House.

Unsatisfied Obligation

Should the defaulting clearing member's obligation not be fully satisfied by the Clearing House activity previously discussed, CME would next apply its surplus funds and the security deposits of the clearing membership. CME stands out among clearing organizations with regard to this utilization of both internal and external financial resources.

Each month, CME's Chief Financial Officer determines the maximum amount of surplus funds that CME could contribute to satisfy any remaining default obligation, while retaining a prudential amount of working capital for continuing Exchange operations. As of December 31, 2003, such surplus funds amounted to \$85.8 million. CME's rules are designed to maximize the liquidity and safety of the pool of security deposits. In general, each clearing member is required to maintain a security deposit equal to the greater of \$500,000 or the results of a formula under which 85% of the total requirement is based on the clearing member's proportionate contribution to aggregate risk performance bond requirements over the preceding three months and 15% is based on the clearing member's contribution to volume over the preceding three months. Certain clearing members with restricted clearing privileges are subject to lower minimum security deposit requirements. The Clearing House calculates clearing member security deposit requirements at the beginning of each quarter. As of December 31, 2003, the total security deposit requirement totaled \$876.1 million.

If the default continued to remain unsatisfied after the surplus funds and aggregate security deposits were applied, CME would then invoke its right to assess clearing members for any unsatisfied obligations. The balance of the unsatisfied default would then be allocated among the clearing membership up to an amount equal to 275 percent of the aggregate security deposit requirement across all clearing members. The allocation would be based on each clearing member's share of the Security Deposit Pool.

Bankruptcy Law Protections

In the case of a clearing member bankruptcy, the U.S. Bankruptcy Code and CFTC regulations contain a number of provisions that provide preferential treatment to a clearing member's public customers and to the Clearing House. These provisions include special priority rules for distribution of property to customers and certain exceptions to the automatic stay and voidability provisions of the U.S. Bankruptcy Code. Set forth below is a general overview of these provisions.

The Bankruptcy Code offers a number of protections to the Clearing House when a clearing member is bankrupt regardless of whether the bankrupt clearing member holds public customer accounts or only clears proprietary trades. For example, a trustee may not void pre-bankruptcy payments of original performance bond or settlement variation made to the Clearing House (except in the event of a fraudulent transfer). In addition, the filing of a bankruptcy petition will not stay a setoff by the Clearing House of claims for original performance bond or settlement variation payments owed by a clearing member against cash, securities or other property of a clearing member that the Clearing House holds.

These provisions establish a priority for the Clearing House with respect to performance bond deposits. Further, the Bankruptcy Code provides that neither a clearing member's bankruptcy nor any order of a bankruptcy court can prevent the Clearing House from exercising any contractual right it has to liquidate a commodity contract. With respect to distribution of customer property, the CFTC's bankruptcy rules classify a clearing member's customers as either "public" or "non-public." Non-public customers include certain account holders that are affiliated with or related to the clearing member such as the clearing member officers, directors, general partners or ten (10) percent or greater owners. All other customers are considered "public," and their property on deposit with the clearing member is subject to the Commodity Exchange Act ("CEA") and CFTC segregation requirements. Customer classes are further divided by account class as: futures accounts, foreign futures accounts, leverage accounts, or delivery accounts.

The Bankruptcy Code affords claims of public customers the highest priority, subject only to the payment of claims relating to the administration of customer property. First, the customer segregated property of the bankrupt clearing member is to be distributed pro rata among the clearing member's public customers. In determining the pro rata distribution, all property segregated on behalf of, or otherwise traceable to, a particular account class is allocated to that class. Property is distributed pro rata notwithstanding that it can be specifically identifiable to particular customers.

Second, if the segregated assets are insufficient to satisfy all public customer claims in full, the clearing member's remaining assets are to be used to satisfy such claims before they are available for distribution to the clearing member's general creditors. After the claims of public customers are paid in full, the same allocation formula is applied to distribute any remaining property to non-public customers. The applicability of these and other bankruptcy-related provisions will depend on the circumstances of each situation.

V. SUMMARY OF RESOURCES BACKING THE CME CLEARING SYSTEM

Under no circumstances will customer segregated performance bond deposits held by the Clearing House for one clearing member be used to cover either a house or customer default of another clearing member. Customers doing business through a clearing member not involved in a default are insulated from losses incurred by the failure of another clearing member.

In the event of a default, as of December 31, 2003, CME may draw on all or a portion of the following resources to satisfy the outstanding obligation:

Aggregate Performance

Bond Deposits⁴ - \$37,009,877,155

Market Value of Pledged Memberships⁵ - \$612,024,662

Surplus Funds - \$85,833,967

Security Deposit Requirement - \$876,113,961

Assessment Power - \$2,409,313,392

Total⁶ - \$40,993,163,137

VI. CUSTOMER PROTECTION

Futures market customers face credit risk in doing business through any particular clearing member. Consequently, the selection process for a suitable clearing member is important. While the regulations dealing with segregation of customer monies are specifically designed to protect customers from the consequences of a clearing member's failure, they do not always provide complete protection should the default be caused by another customer at that firm.

Protection against a customer-caused default rests primarily with the management of the clearing member and the importance placed on its internal risk management controls. Generally, an exchange's role in the customer protection process is to require all customers to post adequate performance bonds, to administer financial surveillance programs designed to monitor the financial viability of clearing members and, when necessary, to impose specific remedies in an effort to avert the consequences of financial deterioration. CME, however, believing that customer protection is of the highest priority, provides a second tier of protection in the form of the CME Trust, which contains \$60.0 million in net assets as of December 31, 2003. The trustees of the Trust, who are also members of CME's Board of Directors, have discretion to use the assets of the Trust to satisfy customer losses in the event a clearing member fails or is in such severe financial condition that it cannot meet a customer's obligations so long as those customers' losses are related to transactions in CME contracts.

VII. DISASTER RECOVERY AND BUSINESS CONTINUITY

The Exchange maintains and routinely tests a comprehensive Disaster Recovery & Business Continuity Plan designed to provide protection against a broad spectrum of physical disaster types and to guarantee the survivability of core trading and clearing functions. Key components of the plan include:

- Multiply-redundant systems components, maintained at separate, geographically-dispersed facilities
- Multiply-redundant network connectivity between CME clearing firms and the Exchange, into those separate, geographically-dispersed facilities
- Real-time mirroring of data storage between separate facilities
- Increased reliance on the Internet for clearing firm connectivity to on-line applications
- Multiple electricity feeds as well as back-up generator capability
- Redundant voice telecommunications lines with automatic switching to backup facilities.

The plan provides survivability even in the event of complete destruction of CME's primary facility in downtown Chicago. Routinely-tested scenarios include both the completion of the daily clearing cycle on the day of such a physical disaster, and the resumption of normal clearing processing on the following business day.

VIII. SUMMARY

The financial safeguard system of CME provides a unique blend of risk management and financial surveillance techniques designed for the protection of the clearing membership and its customers. The keystones of the system are CME's ability to detect unsound practices, the financial backing of its clearing members and the CME Trust. This combination provides unparalleled safeguards for the protection and benefit of all users of CME markets. In the 105-year history of CME and its predecessor organizations, there has never been a failure by a clearing member to pay settlement variation to the Clearing House; there has never been a failure by a clearing member to meet a performance bond call; there has never been a failure by a clearing member to deliver resulting from the exercise or assignment of an option contract; there has never been a failure by a clearing member to meet its delivery obligations; and, there has never been a failure of a clearing member resulting in a loss of customer funds. This system has been remarkably successful in periods of tremendous volatility in the financial markets. Nonetheless, the Exchange continuously strives to improve and strengthen its financial safeguard system.

CME Clearing Member Firms

ABN AMRO Incorporated
ACG Trading#
Advantage Futures LLC
ADM Investor Services, Inc.
AGE Commodity Clearing Corp.
AIG Clearing Corporation
Alaron Trading Corporation^
ARI Grain Co.#
Banc One Capital Markets, Inc.
Banc of America Futures, Incorporated
Barclays Capital Inc.
Bear, Stearns Securities Corp.
Blue Capital Group LLC*
BNP Paribas Brokerage Services, Inc.
Cadent Financial Services LLC^
Cantor Fitzgerald & Co.
Cargill Investor Services, Inc.
Carr Futures Inc.
CIBC World Markets Corp.^
Citigroup Global Markets Inc.
Commerz Futures, L.L.C.
Credit Lyonnais Rouse (USA) Limited
Credit Suisse First Boston LLC
Crossland LLC#
CTC Holdings, L.L.C.*
Cunningham Commodities, Inc.#
Daiwa Securities America Inc.
Deutsche Bank Securities Inc.
Dorman Trading, L.L.C.
DRW Holdings, LLC*
Enskilda Futures Limited^
Eagle Market Makers, Inc.#
E.M. Combs & Son#
Enriquez Trading#
Equitec Group, LLC*
FC Stone, L.L.C.
FCT Group, L.L.C.^
Feig Grain Company#
FIMAT USA, Inc.
First Options of Chicago, Inc.
Flakus Trading#
Fortis Clearing Chicago LLC
Gator Trading Partners LLC*
Gelber Group, LLC
Getco Holding Company, LLC*
Goldenberg, Hehmeyer & Co.
Goldman, Sachs & Co.
Graham Fed Policy Ltd.*
Greenwich Capital Markets, Inc.
Hagerty Grain Co., Inc.#
Harrison Trading Group, LLC*
HSBC Securities (USA) Inc.
Iowa Grain Company
Jemm Grain#
Jerry Manne d/b/a Alaska Commodities#
Joseph McNealy and Associates#
J.P. Morgan Futures Inc.
Jump Trading, LLC*
KC-CO II, L.L.C.*
Kingstree Trading, LLC*
Kolton Commodities#
Kottke Associates, L.L.C.

Lawrence-Bonfitto Trading Company#
Lehman Brothers Inc.
Longwood Trading#
Man Financial Inc
Marquette Partners, L.P.*
McBride Grain Co.#
Medallion Trading*
Merrill Lynch, Pierce, Fenner & Smith Incorporated
Mitsui & Co. (USA), Inc.#
Mizuho Securities USA Inc.
Morgan Stanley & Co. Incorporated
Nomura Securities International, Inc.
O'Connor & Company L.L.C.
Patrick J. McBride#
Patrick S. Hillegass#
Pax Clearing Corporation
Pennsylvania Trading#
Pioneer Futures, Inc.
Produce Grain, Inc.#
Prudential Equity Group, Inc.
Quiet Light Securities, LLC*
Rand Financial Services Inc.
RBC Dominion Securities Corporation^
Refco, LLC
RB Trading#
RDG Trading#
R.J. O'Brien & Associates, Inc.
Ronin Capital, LLC*
Rosenthal Collins Group, L.L.C.
Schwendener Trading#
Shatkin, Arbor, Karlov & Co.#
SMW Trading Company, Inc.
Sumitomo Mitsui Banking Corporation*
Susquehanna Clearing, LLC*
Swank Trading Co.#
TENCO, Inc.#
Term Commodities Inc.#
Timber Hill LLC
Tokyo-Mitsubishi Futures (USA), Inc.
TradeLink L.L.C.
TransMarket Group L.L.C.
UBS Securities LLC
UFJ Futures L.L.C.
Wachovia Capital Markets, LLC^
W.H. Trading, L.L.C.*
Wolverine Trading, LLC*
Zagotta Grain#

List current as of 12/31/03

* Denotes inactive clearing members

^ Denotes clearing member eligible to clear only CME products

Denotes clearing member eligible to clear only CBOT products

¹ Year to date through December, 2003

² 1/3/01

³ Certain clearing members with restricted clearing privileges are subject to lower capital requirements.

⁴ Only the performance bond deposits of the defaulting firm would be available to CME. Because performance bond deposits reflect position risk, a larger outstanding obligation typically would be met by a larger share of these aggregate deposits

⁵ Only the exchange shares and memberships pledged or owned by the defaulting firm would be available to CME. As of 12/31/03 the market value of a CME clearing firm's standard minimum share requirement was \$6,726,578 and the market value two CBOT full pledged memberships required by non-proprietary clearing members to clear CBOT products was \$1,110,000

⁶ Subsequent to the liquidation of the defaulting firm's performance bond collateral, the following resources would be the minimum

available to satisfy any unmet obligations of a defaulting firm able to clear both CME and CBOT products (Surplus Funds + Security Deposit + Assessment Power + Market Value of Pledged Shares and Memberships of defaulting firm). As of 12/31/03 this was equal to \$3,379,062,898.75

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